

# Task Force on Climate-related Financial Disclosures – 2021

The Task Force on Climate-related Financial Disclosures (TCFD) was established to improve and increase reporting of consistent and comparable climate-related financial risk disclosures in the private sector.

We are committed to aligning with the TCFD recommendations, understanding the risks and opportunities posed by climate change on our business and providing transparent disclosures of our progress. Hydro One, like most organizations, is at the beginning phase of alignment and plans to continue its journey toward the full implementation of the TCFD recommendations. We recognize that implementing the TCFD recommendations within our company is a journey and we are committed to the continuous improvement of our TCFD reporting. In 2021, we undertook additional scenario analysis to begin to understand the quantitative financial impacts of climate change on our business.

A summary of our alignment with the TCFD recommendations is as follows:

Summary of Alignment with TCFD Recommendations	Location
<p><b>Governance – Hydro One’s Board of Directors (“Board”) and management acknowledge the importance of good governance practices in management of climate-related issues.</b></p>	
<p><b>Board oversight</b></p> <ul style="list-style-type: none"> <li>Hydro One’s Board of Directors oversees the company’s approach to environmental, social and governance matters relating to the long-term health and sustainability of the company. This includes overseeing, reviewing and, where applicable, approving the company’s strategies and approach relating to sustainability matters and approving the annual sustainability report.</li> <li>The Board’s Indigenous Peoples, Safety &amp; Operations Committee (the “IPSO Committee”) oversees environmental strategies, policies and programs, including climate change.</li> <li>The IPSO Committee is mandated to review material climate and environment events or developments and our progress regarding our sustainability objectives including climate change and other environmental issues. The Committee is expected to assess the company’s programs and approaches, including the standards against which the company reports in the areas of climate change.</li> <li>The Enterprise Risk Management (ERM) function delivers quarterly updates to the Board and its committees for the risks relevant to their respective mandates, including ESG and climate-related risks.</li> </ul>	<ul style="list-style-type: none"> <li><b>Our Approach</b> section of the Sustainability Report</li> <li>Board of Directors Mandate</li> <li>IPSO Committee Mandate</li> <li><b>Management Information Circular</b></li> </ul>
<p><b>Management oversight</b></p> <ul style="list-style-type: none"> <li>Climate change is overseen by our Chief Safety Officer (CSO) who manages our climate change mitigation and adaptation program. Our CSO works closely with other executives such as our Chief Operating Officer (COO) who manages our climate change adaptation program.</li> <li>Due to the cross-functional nature of ESG, it is managed by various management committees. The Chief Corporate Affairs and Customer Care Officer chairs Hydro One’s leadership-level sustainability committee, which provides strategic advice and perspectives on current, emerging, and key sustainability issues, including climate change.</li> <li>Hydro One also has leadership-level committees on environment and on climate change, led by the CSO, that meet quarterly and focus on the implementation of our climate change program.</li> <li>The climate change committee is also supported by working groups on sulfur hexafluoride (SF<sub>6</sub>) use and management; and climate change management in fleet and facility operations. These groups meet regularly to focus on strategies and approaches to mitigate climate change impacts associated with the use of fossil fuels and SF<sub>6</sub> within the context of continually providing safe, cost effective and efficient electricity supply to Hydro One’s customers and the people of Ontario.</li> <li>A key metric of our corporate scorecard for all of our management team is reliability, which is impacted by climate-related events.</li> </ul>	
<p><b>Strategy – Hydro One is committed to the ongoing assessment and understanding of climate change risks and opportunities and the impacts on Hydro One’s strategies and business operations.</b></p>	

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<ul style="list-style-type: none"> <li>Climate-related risks and opportunities are assessed across Hydro One’s business, and material risks and opportunities are integrated within Hydro One’s long-term business planning and strategy.</li> <li>Hydro One’s corporate strategy takes into account the risks of climate change through our “Plan, Design and Build a Grid for the Future” strategic priority. We are pursuing various strategic initiatives to build a grid for our customers that is reliable, resilient and flexible while balancing our environmental responsibility.</li> </ul> <p><b>Climate-related risks</b></p> <ul style="list-style-type: none"> <li>In 2020, we conducted a corporate-wide dedicated climate-related risk assessment process to identify climate-related risks and opportunities, led by our ERM team with input from cross-functional teams. Our material climate-related risks are detailed in our annual and interim management’s discussion and analysis.</li> <li><b>Physical:</b> Significant climate-related impacts to Hydro One’s business are physical risks to our assets. Our facilities are exposed to the effects of severe weather conditions and natural disasters. The company recognizes the risks associated with potential climate change and has developed plans to respond as appropriate. Climate change may have the effect of shifting weather patterns and increasing the severity and frequency of extreme weather events and natural disasters, which could impact Hydro One’s business. The company’s facilities may not withstand occurrences of these types in all circumstances. Notwithstanding Hydro One’s efforts to adapt and increase grid resilience, the company’s facilities are exposed to risks which may have an adverse effect on grid resilience.</li> <li>The company could also be subject to claims for damages from events which may be proximately connected with the company’s assets (for example, forest fires), claims for damages caused by its failure to transmit or distribute electricity or costs related to ensuring its continued ability to transmit or distribute electricity. The company does not have insurance for damage to its transmission and distribution wires, poles and towers located outside its transmission and distribution stations resulting from these or other events. Where insurance is available for the company’s other assets and for damage claims, such insurance coverage may have deductibles, limits and/or exclusions that may still expose the company to material losses. Losses from lost revenues and repair costs could be substantial, especially for many of the company’s facilities that are located in remote areas. In the event that the company is unable to recover such costs, this could have a material adverse effect on the company.</li> <li>Hydro One’s corporate strategy considers these risks, through our “Plan, Design and Build a Grid for the Future” strategic priority.</li> </ul>	<ul style="list-style-type: none"> <li>Planet section of the Sustainability Report</li> <li>Customers for Life section of the Sustainability Report</li> <li>2021 Annual Report</li> </ul>
<ul style="list-style-type: none"> <li><b>Policy:</b> We regularly monitor climate change policy developments and assess their potential impact on our business. While we are not a large emitter of GHG, we do seek to minimize our GHG emissions as part of our strategy to limit our environmental impact. We have developed internal programs to monitor and mitigate, to the extent reasonable, the impacts of GHG emissions, including emissions from SF<sub>6</sub> leaks, and operational fuel use. In addition, we engage in proactive policy development to support greater electrification in Ontario. Policy and legal-related risks and opportunities are managed by our leadership-level Strategic Policy Committee and our Regulatory and Policy teams.</li> <li><b>Regulatory:</b> Our efforts to build a grid for the future and enhance the resilience of the Ontario grid exist within a regulated context. We continually assess, and advocate, where appropriate, changes to the regulatory environment that may impact our ability to implement our strategy, and we seek to identify regulatory barriers and/or changes needed to enhance the grid’s resilience. We also regularly review and support development standards, including our distribution material specifications, to account for changes in national standards to ensure we are ordering the proper equipment to address climate change.</li> <li><b>Market:</b> Hydro One aims to increase the resilience of the grid and also support Ontario in unlocking the electrification potential of our economy to mitigate climate change. To realize the electrification and decarbonization potential of the grid, while also ensuring electricity security, Ontario’s grid requires significant investments in efficient, smart and flexible system infrastructure.</li> </ul>	

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<p><b>Climate-related opportunities</b></p> <ul style="list-style-type: none"> <li>• There is a potential opportunity for growth in electricity demand as Ontario increases the electrification of transportation, buildings and industry to mitigate climate change. For Hydro One this offers us an opportunity, including but not limited to, providing an expanded set of services including provision of greener solutions and products to manage energy efficiency and usage.</li> <li>• We provide new products and services to customers to help mitigate climate change impacts. This includes helping to build the electric vehicle charging network infrastructure across the province. We have invested in the Ivy™ Charging Network (“Ivy”), Ontario’s largest, most connected EV fast-charger network. Once complete, Ivy will be Ontario’s largest fast-charger network, connecting the north to the south and the east to the west.</li> <li>• We introduce new innovations through our grid resiliency strategy and through our “Innovate and Grow” strategic priority. These are intended to address the impacts of climate change, improve grid reliability and potentially reduce costs.</li> </ul>	

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### Summary of Alignment with TCFD Recommendations

### Location

#### Scenario analysis outcomes

- In 2021, Hydro One conducted a scenario analysis to capture potential financial implications of climate change. Three scenarios were selected – high, intermediate, and low warming scenarios. We used each of the scenarios to perform a high-level, top-down quantitative analysis.
- A high warming scenario was characterized by a warming of 2.7–3.7 degrees Celsius from baseline<sup>51</sup> by 2100, with minimal changes in global climate policies such as carbon prices or incentives for electrification. A low warming scenario assumed policies were implemented sufficient to meet the goal of net-zero emissions by 2050, limiting warming to below 2 degrees. An intermediate scenario was also developed where there is incremental change in policy to incentivize decarbonization, but policy is insufficient to meet global targets. The scenarios collectively explore a range of plausible climate and policy outcomes.
- Financial quantification was developed by combining relevant climate and energy scenario modelling data from leading groups such as the Intergovernmental Panel on Climate Change and the IESO.<sup>52</sup> Impact functions<sup>53</sup> were developed that connected the scenario modelling data to a potential financial impact for Hydro One. The impact functions were adapted specifically to Hydro One, by drawing on internal and external stakeholder input as well as leveraging the current body of research for how climate change may impact electricity transmission and distribution utility assets.
- The results of the quantitative scenario analysis find that Hydro One is exposed to increasing physical climate risks, with the greatest impacts coming in the high warming scenario. Acute impacts of climate change pose a risk to Hydro One through increasing extreme weather, flooding, wildfires, and potential increases in freezing rain. The analysis also suggests that rising temperatures, more days of high heat and more heavy precipitation events may lead to accelerated degradation of infrastructure as well as increased operating costs for activities such as vegetation management. The analysis finds that, while physical impacts are highest in the high warming scenario, risks may be present in all scenarios.
- The quantitative analysis also illustrated the opportunities of a low-carbon transition by providing greater clarity as to the scale of electricity demand under different scenarios. There is high potential for significant demand increase in all scenarios, but particularly in the low and intermediate warming scenarios. Under a low warming/high carbon transition scenario, the entire electricity industry in Ontario can play an enabling role in providing reliable electricity needed to facilitate a low-carbon transition. To capitalize on this expected increase in demand, Hydro One will need to continue to invest in the grid.
- The scenario analysis process also revealed significant uncertainties in how we may be impacted by climate change. We plan to continuously assess emerging developments in climate risks and to participate in national and international adaptation forums to keep up to date on the developments in the field.
- Hydro One's strategic priority to "Plan, Design and Build a Grid for the Future" aligns with the risks and opportunities posed by climate change. Through our adaptation program, we are continually investing in grid resilience.

<sup>51</sup> The reference for all scenarios is a baseline of 1980–2010.

<sup>52</sup> Climate data used for the quantitative analysis was also sourced from the IPCC's AR5 report and accessed through the Copernicus Climate Data Store, and the Climate Atlas of Canada. Energy and policy data was sourced from the IESO, the IEA, the Network for Greening the Financial System (NGFS), and other modelling sources relevant to Ontario and Canada.

<sup>53</sup> Impact functions are quantitative relationships connecting exposure variables – that capture exposure of Hydro One assets and business to a changing climate – to asset values or TWh demand.

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<p><b>Risk Management – Hydro One has an ERM (Enterprise Risk Management) process to identify, assess and manage risks across the business, including climate-related risks and opportunities.</b></p> <ul style="list-style-type: none"> <li>• The Board of Directors is responsible for oversight of the principal risks of the business, which includes ESG. The Board ensures that management has an effective risk management framework, programs, and risk mitigation strategies in place, with a view to achieving an appropriate balance between the risks incurred as well as the potential returns and the long-term sustainability of the company.</li> <li>• The Board oversees and assesses the adequacy and effectiveness of programs and processes for identifying, assessing, and managing or mitigating the company’s principal risks and ensuring that primary oversight responsibility for each of the key risks identified in the ERM framework is assigned to the Board or one of its committees.</li> <li>• The ERM team provides an annual corporate risk profile report and quarterly updates on the company’s risk profile to the Board of Directors and its committees, consistent with the risk management oversight accountabilities of their mandates and as allocated by the Board. These reports chronicle the most “critical” risks to the achievement of the corporate strategy, including new and emerging risks, and are a key mechanism to integrating climate and other sustainability-related risks into Hydro One’s overall risk management process.</li> <li>• The identification, assessment and management of climate-related risks are integrated within management’s risk accountabilities and Hydro One’s ERM process. The ERM process enables Hydro One to proactively consider the critical and emerging enterprise risks essential to the achievement of our strategic objectives in an integrated, systematic and transparent manner. Climate-related risks and opportunities are monitored regularly by management and our ERM team.</li> <li>• Climate-related risks and opportunities are identified and assessed through multiple channels within the ERM process as well as through internal audit. This includes project risk assessments, enterprise-wide climate-related scenario planning assessments, and executive leadership team risk workshops conducted by Hydro One’s ERM team.</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Management Information Circular</a></li> </ul>
<p><b>Metrics and Targets – Hydro One reports year-over-year performance across many areas, including GHG emissions, capital investments and reliability.</b></p> <ul style="list-style-type: none"> <li>• As an electricity transmission and distribution company, Hydro One does not emit a material amount of GHG. However, we recognize that GHG emissions are important to many of our stakeholders and we disclose our annual GHG emissions.</li> <li>• Hydro One has committed to net-zero GHG emissions by 2050. We have set a climate change goal of reducing these emissions by 30% by 2030.</li> <li>• For reliability, we report on metrics such as our System Average Interruption Duration Index (SAIDI) and our System Average Interruption Frequency Index (SAIFI) for our distribution and transmission business.</li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Planet</a> section of the Sustainability Report</li> <li>• <a href="#">GHG Auditor Letter</a></li> <li>• <a href="#">ESG Performance Overview</a></li> </ul>