Hydro One Positive First Quarter with an Increase in Shareholder Dividend by 5%

Leadership's commitment to driving execution excellence in customer service, company-wide productivity initiatives and storm restoration continues to deliver strong performance in first quarter of 2018

TORONTO, May 15, 2018 - Hydro One Limited (Hydro One or the Company), the parent company of Ontario's largest electricity transmission and distribution utility, today announced its financial and operating results for the first quarter ended March 31, 2018.

- Earnings per share (EPS) of $0.37 and adjusted EPS of $0.35, compared to $0.28 in the prior year, reflecting the Ontario Energy Board's (OEB) decision on transmission rates, seasonal weather, and controlled operating costs
- Quarterly dividend increased 5% to $0.23 per share, payable June 29, 2018
- Management's focus on delivering industry-leading customer service has resulted in a six percentage point increase year-over-year in distribution customer satisfaction
- A number of milestones reached in the regulatory approval for the Avista Corporation (Avista) transaction with settlement agreements filed in Washington, Alaska, and Idaho, as well as a settlement in principle in Oregon, all of which remain subject to approval by the respective commissions. In addition, the transaction also received U.S. Hart-Scott-Rodino antitrust clearance, U.S. Federal Energy Regulatory Commission approval, and U.S. Federal Communications Commission consent
- Tentative deal with the Power Workers' Union (PWU) demonstrates management's commitment to building relationships with union leadership through alignment of business goals in agreement negotiations
- New methodology and proactive approach to storm restoration efforts results in all-time Company record for speed of service restoration after nearly 500,000 customers lost power in mid-April ice storm
- Senior management further strengthened by the announcements of accomplished leaders in the Chief Financial Officer and Chief Corporate Development Officer roles

"The first quarter demonstrated Hydro One's true potential through strong execution and an unwavering determination to succeed," said Mayo Schmidt, President and Chief Executive Officer, Hydro One. "The Company's growing list of achievements is a result of our leadership team's uncompromising commitment to customer service and storm restoration, as well as their resolve in driving excellence to deliver cost savings through productivity improvement plans that will flow back to customers and shareholders. Finally, our all-party, all-issues settlement agreements in three states and anti-trust clearance show significant progress in achieving milestones to combine with Avista."

Selected Consolidated Financial and Operating Highlights

(amounts throughout in millions of Canadian dollars, except as otherwise noted)	Three months ended March 31, 2018	2017
Revenues	1,576	1,658
Purchased power	751	889
Revenues, net of purchased power[1]	825	769
Net income attributable to common shareholders	222	167
Income related to acquisition of Avista	(12)	—
Adjusted net income attributable to common shareholders[1]	210	167
Basic earnings per common share (EPS)	$0.37	$0.28
Diluted EPS	$0.37	$0.28
Adjusted basic EPS[1]	$0.35	$0.28
Adjusted diluted EPS[1]	$0.35	$0.28
Net cash from operating activities	376	471
Capital investments	305	350
Assets placed in-service	145	228
Transmission: Average monthly Ontario 60-minute peak demand (MW)	19,815	19,795
Distribution: Electricity distributed to Hydro One customers (GWh)	7,406	6,967

[1] **Non-GAAP Measures -** Hydro One uses financial measures that do not have a standardized meaning under generally accepted accounting principles in the United States of America (US GAAP) and may not be comparable to similar measures presented by other entities. Hydro One calculated the non-GAAP measures by adjusting certain US GAAP measures for specific items that impact comparability but which the Company does not consider part of normal, ongoing operations. Refer to the Non-GAAP Measures section of the Company's Management's Discussion and Analysis for further discussion of these items.

Key Financial Highlights

In the first quarter of 2018, the Company reported net income attributable to common shareholders of $222 million (2017 - $167 million), a 32.9% increase from last year, and EPS of $0.37 (2017 - $0.28). Adjusted EPS, which exclude the impact of $12 million income related to the Avista acquisition, was $0.35 for the quarter.

Revenues, net of purchased power, for the first quarter were higher than last year by 7.3%. This increase reflects higher transmission revenues driven by the OEB's decision on the 2017-2018 transmission rates filing, and increased transmission and distribution revenues due to higher energy consumption resulting from seasonal weather.

The comparability of first quarter earnings was positively impacted by higher transmission revenues driven by the timing of OEB's decision on the 2017-2018 transmission rate filing, lower corporate support costs, which were partially offset by costs relating to Hydro One's response to the Northeastern storms; and lower financing charges primarily due to revaluation of the deal-contingent foreign exchange forward contract, partially offset by interest on the Convertible Debentures issued in August 2017.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems, address aging power system infrastructure, facilitate connectivity to new generation sources, and improve service to customers. The Company made capital investments of $305 million during the first quarter, and placed $145 million worth of new assets in-service.

Selected Operating Highlights

Management's focus on delivering industry-leading customer service further contributed to the rising trend of distribution customer satisfaction, now up six percentage points to 74% over the same period last year.

On March 1, the Company successfully completed the integration of 400 contact centre employees, who were previously contracted out, to advance Hydro One's renewed customer-centric service culture. Critically, contact centre performance metrics rose during the transition. When compared with the end of 2017, first quarter results for overall customer satisfaction with calls rose by four points to 94%, customer issues resolved on the first call jumped four points to 89%, and billing accuracy reached 99.7%.

The Company was also recognized with two Achieving Communications Excellence awards from the Canadian Public Relations Society for its meaningful community engagement projects.

Hydro One and Avista have achieved numerous key milestones in the regulatory approval process for the proposed merger, including all-party, all-issues settlement agreements filed in Washington in March, and Alaska and Idaho in April. A settlement in principle with all parties in the Oregon proceeding was reached in May. The settlement agreements remain subject to approval by the respective commissions. The companies also achieved approval from the U.S. Federal Energy Regulatory Commission in January, antitrust clearance under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976 in April, and consent from the U.S. Federal Communications Commission in May. Hydro One and Avista continue to anticipate closing the transaction in the second half of 2018.

The Company continues to drive a company-wide productivity improvement initiative resulting in additional cost savings in the first quarter, with a significant portion of savings culminating from more competitive procurement practices. Adopting industry best practices and streamlined processes, the Company is sourcing materials and services at lower costs compared to previous years.

Hydro One and PWU reached a tentative settlement of a two-year collective agreement covering approximately 4,000 employees in critical front line roles. This agreement recognizes the significant contributions employees make in maintaining the supply of power across the province while delivering value to customers and shareholders. Union members will now vote on this tentative agreement with the outcome anticipated by the end of the second quarter of 2018.

The Company continued to build its reputation at home and abroad for storm relief and operational excellence. In January, the Company received an Emergency Assistance Award from the Edison Electric Institute for support efforts following Hurricane Irma in Florida last September. In March, it mobilized nearly 175 employees to help restore power following a storm in Boston and Baltimore that left approximately one million people without power. Following a severe rain, ice and wind storm that hit Ontario in mid-April, the Company restored power to nearly 500,000 customers in four days. Through a new approach to storm planning and response execution, this set a new Company record for restoration time by surpassing the previous six-day effort from the last, large scale ice storm in March 2016.

The Company further strengthened its leadership team by adding proven, experienced, highly-regarded executives.

Patrick Meneley joined Hydro One as Executive Vice President and Chief Corporate Development Officer on March 1. Meneley was most recently EVP, Wholesale Banking at TD Bank Group and Vice Chair and Head of Global Corporate and Investment Banking for TD Securities. At Hydro One, he assumes responsibility for leading strategy, innovation and mergers and acquisitions.

The Company also welcomed Paul Dobson as Chief Financial Officer March 1. Dobson was most recently CFO for Direct Energy Ltd. in Houston, Texas, where he was responsible for overall financial leadership of a $15 billion revenue business with three million customers in Canada and the U.S. Dobson took over the finance, treasury, controller, audit, technology and regulation functions.

Common Share Dividends

Following the conclusion of the first quarter, on May 14, 2018, the Company declared a quarterly cash dividend to common shareholders of $0.23 per share to be paid on June 29, 2018 to shareholders of record on June 12, 2018. This represents a dividend increase of 5% since the last increase in May 2017. This second annual consecutive increase reflects the Company’s expectation of continued long-term earnings growth and demonstrates the true potential of Hydro One through strong management.

Supplemental Segment Information

(millions of dollars)	Three Months Ended March 31, 2018	2017
Revenues		
Transmission	421	367
Distribution	1,145	1,279
Other	10	12
Total revenues	**1,576**	**1,658**
Revenues, net of purchased power		
Transmission	421	367
Distribution	394	390
Other	10	12
Total revenues, net of purchased power	**825**	**769**
Income (loss) before financing charges and taxes		
Transmission	213	164
Distribution	157	153
Other	(12)	(14)
Total income before financing charges and taxes	**358**	**303**
Capital investments		
Transmission	190	209
Distribution	114	138
Other	1	3
Total capital investments	**305**	**350**
Assets placed in-service		
Transmission	38	82
Distribution	105	146
Other	2	0
Total assets placed in-service	**145**	**228**

This press release should be read in conjunction with the Company's first quarter 2018 Consolidated Financial Statements and Management's Discussion and Analysis (MD&A). These statements and MD&A together with additional information about Hydro One, including the full year 2017 Consolidated Financial Statements and Management's Discussion and Analysis, can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's first quarter 2018 results teleconference with the investment community will be held on May 15, 2018 at 8 a.m. ET, a webcast of which will be available at www.HydroOne.com/Investors. Members of the financial community wishing to ask questions during the call should dial 1-855-716-2690 prior to the scheduled start time and request access to Hydro One's first quarter 2018 results call, conference ID 4548189 (international callers may dial 1-440-996-5689). Media and other interested parties are welcome to participate on a listen-only basis. A webcast of the teleconference will be available at the same link following the call. Additionally, investors should note that from time to time Hydro One management presents at brokerage sponsored investor conferences. Most often, but not always, these conferences are webcast by the hosting brokerage firm, and when they are webcast, links are made available on Hydro One's website at www.HydroOne.com/Investors and are posted generally at least two days before the conference.

About Hydro One Limited

We are Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, over C$25 billion in assets and 2017 annual revenues of nearly C$6 billion. Our team of over 7,400 skilled and dedicated regular and non-regular employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km of high-voltage transmission and 123,000 circuit km of primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only five utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fibre optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

For More Information

For more information about everything Hydro One, please visit www.HydroOne.com where you can find additional information including links to securities filings, historical financial reports, and information about the Company's governance practices, corporate social responsibility, customer solutions, and further information about its business.

Forward-Looking Statements and Information

This press release may contain "forward-looking information" within the meaning of applicable securities laws. Such information includes, but is not limited to, statements related to: growth; customer service; cost savings; performance; efficiencies; reliability; productivity; improvement plans; operational excellence; storm restoration; ongoing and planned investments, projects and initiatives; the OEB's transmission rates decision and its anticipated impacts; collective agreements; dividends; continued long-term earnings growth; the deal-contingent foreign exchange forward contract; and the acquisition of Avista. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "can", "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on SEDAR at www.sedar.com. Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations should be read together with the condensed interim unaudited consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three months ended March 31, 2018, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2017. 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. This MD&A provides information for the three months ended March 31, 2018, based on information available to management as of May 14, 2018.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	**2018**	**2017**	**Change**
Revenues	1,576	1,658	(4.9%)
Purchased power	751	889	(15.5%)
Revenues, net of purchased power[1]	825	769	7.3%
Operation, maintenance and administration costs	270	271	(0.4%)
Depreciation and amortization	197	195	1.0%
Financing charges	88	103	(14.6%)
Income tax expense	42	27	55.6%
Net income attributable to common shareholders of Hydro One	**222**	**167**	**32.9%**
Basic earnings per common share (EPS)	$0.37	$0.28	32.1%
Diluted EPS	$0.37	$0.28	32.1%
Basic adjusted non-GAAP EPS (Adjusted EPS)[1]	$0.35	$0.28	25.0%
Diluted Adjusted EPS[1]	$0.35	$0.28	25.0%
Net cash from operating activities	376	471	(20.2%)
Funds from operations (FFO)[1]	414	389	6.4%
Capital investments	305	350	(12.9%)
Assets placed in-service	145	228	(36.4%)
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,815	19,795	0.1%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	7,406	6,967	6.3%

	2018	**2017**
Debt to capitalization ratio[2]	52.8%	52.9%

[1] See section "Non-GAAP Measures" for description and reconciliation of basic and diluted Adjusted EPS, FFO and Revenues, net of purchased power.

[2] Debt to capitalization ratio has been presented at March 31, 2018 and December 31, 2017, and has been calculated as total debt (includes total long-term debt, convertible debentures and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, including preferred shares but excluding any amounts related to noncontrolling interest.

OVERVIEW

For the three months ended March 31, 2018, Hydro One's business segments accounted for the Company's total revenues, net of purchased power, as follows:

	Transmission	**Distribution**	**Other**
Percentage of Company's total revenues, net of purchased power	51%	48%	1%

At March 31, 2018, Hydro One's business segments accounted for the Company's total assets as follows:

	Transmission	**Distribution**	**Other**
Percentage of Company's total assets	53%	36%	11%

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended March 31, 2018 of $222 million is an increase of $55 million or 32.9% from the prior year. Significant influences on net income included:

- increase in transmission and distribution revenues due to higher energy consumption resulting from colder winter in 2018;
- higher transmission revenues driven by timing of the Ontario Energy Board (OEB)'s decision on the 2017-2018 transmission rate filing and increased OEB-approved transmission rates for 2018;
- lower operation, maintenance and administration (OM&A) costs primarily resulting from lower corporate support costs, which were partially offset by costs relating to Hydro One's response to the Northeastern storms; and
- lower financing charges primarily due to revaluation of the deal-contingent foreign exchange forward contract and a decrease in interest expense on long-term debt, partially offset by interest incurred on the Convertible Debentures issued in August 2017.

EPS and Adjusted EPS

EPS was $0.37 in the first quarter of 2018, compared to $0.28 in the first quarter of 2017. The increase in EPS was driven by higher net income for the first quarter of 2018, as discussed above. Adjusted EPS, which adjusts for income related to Avista Corporation acquisition, was $0.35 in the first quarter of 2018, compared to $0.28 in the first quarter of 2017. The increase in Adjusted EPS was driven by higher net income for the first quarter of 2018, as discussed above, but exclude the impact of items related to Avista Corporation acquisition. See section "Non-GAAP Measures" for description of Adjusted EPS.

Revenues

Three months ended March 31 *(millions of dollars, except as otherwise noted)*	2018	2017	Change
Transmission	421	367	14.7%
Distribution	1,145	1,279	(10.5%)
Other	10	12	(16.7%)
Total revenues	1,576	1,658	(4.9%)
Transmission	421	367	14.7%
Distribution, net of purchased power	394	390	1.0%
Other	10	12	(16.7%)
Total revenues, net of purchased power	825	769	7.3%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	19,815	19,795	0.1%
Distribution: Electricity distributed to Hydro One customers *(GWh)*	7,406	6,967	6.3%

Transmission Revenues

Transmission revenues increased by 14.7% during the quarter ended March 31, 2018 primarily due to the following:

- higher revenues driven by timing of the OEB's decision on the 2017-2018 transmission rate filing and increased OEB-approved transmission rates for 2018;
- higher average monthly Ontario 60-minute peak demand primarily due to colder winter in 2018; and
- increased 2018 allowed return on equity (ROE) for the transmission business.

Distribution Revenues, Net of Purchased Power

Distribution revenues, net of purchased power, increased by 1.0% during the quarter ended March 31, 2018 primarily due to the following:

- higher energy consumption resulting from colder winter in 2018; partially offset by
- lower deferred regulatory adjustments.

OM&A Costs

Three months ended March 31 *(millions of dollars)*	2018	2017	Change
Transmission	105	102	2.9%
Distribution	145	145	—%
Other	20	24	(16.7%)
	270	271	(0.4%)

Transmission OM&A Costs

The increase of 2.9% in transmission OM&A costs for the quarter ended March 31, 2018 was primarily due to:

- higher volume of maintenance work for operation facilities and real estate; and
- higher rights payments associated with transmission occupations as a result of recent rent reviews.

Distribution OM&A Costs

Distribution OM&A costs for the quarter ended March 31, 2018 were consistent with prior year. Main factors included the following:

- lower corporate support costs;
- lower emergency power and storm restoration costs;
- lower spend on vegetation management as a result of hiring delays of temporary trade resources;
- increased costs as a result of Nova Scotia, Baltimore and Boston storm restoration efforts. These restoration efforts had no impact on the Company's net income, as related revenues were recorded in distribution revenues during the quarter; and
- project and inventory write-offs due to revision of asset replacement strategies, alternatives not pursued, and obsolete inventory and technology.

Other OM&A Costs

The decrease in other OM&A costs for the quarter ended March 31, 2018 was primarily due to lower costs related to strategy development.

Financing Charges

The decrease of $15 million or 14.6% in financing charges for the quarter ended March 31, 2018 was primarily due to the following:

- an unrealized gain recorded in the first quarter of 2018 due to revaluation of the deal-contingent foreign exchange forward contract related to the Avista Corporation merger; and
- a decrease in interest expense on long-term debt driven by a lower weighted average long-term debt portfolio during the first quarter of 2018; partially offset by
- an increase in interest expense related to the Convertible Debentures issued in August 2017.

Income Tax Expense

Income tax expense for the quarter ended March 31, 2018 increased by $15 million compared to the first quarter in 2017, and the Company realized an effective tax rate of approximately 15.6% in the quarter, compared to approximately 13.5% realized in the same period last year. The higher tax expense and the effective tax rate are attributable to higher income before taxes in the first quarter of 2018.

Common Share Dividends

In 2018, the Company declared and paid cash dividends to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
February 12, 2018	March 13, 2018	March 29, 2018	$0.22	131

Following the conclusion of the first quarter of 2018, the Company declared a cash dividend to common shareholders reflecting an increase of 5% as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
May 14, 2018	June 12, 2018	June 29, 2018	$0.23	137

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of dollars, except EPS)*	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Revenues	1,576	1,439	1,522	1,371	1,658	1,614	1,706	1,546
Purchased power	751	662	675	649	889	858	870	803
Revenues, net of purchased power	825	777	847	722	769	756	836	743
Net income to common shareholders	222	155	219	117	167	128	233	152
Basic EPS	$0.37	$0.26	$0.37	$0.20	$0.28	$0.22	$0.39	$0.26
Diluted EPS	$0.37	$0.26	$0.37	$0.20	$0.28	$0.21	$0.39	$0.25
Basic Adjusted EPS[1]	$0.35	$0.29	$0.40	$0.20	$0.28	$0.22	$0.39	$0.26
Diluted Adjusted EPS[1]	$0.35	$0.28	$0.40	$0.20	$0.28	$0.21	$0.39	$0.25

[1] See section "Non-GAAP Measures" for description of Adjusted EPS.

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.

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 months ended March 31, 2018 and 2017:

Three months ended March 31 *(millions of dollars)*	2018	2017	Change
Transmission	38	82	(53.7%)
Distribution	105	146	(28.1%)
Other	2	—	100.0%
Total assets placed in-service	145	228	(36.4%)

Transmission Assets Placed In-Service

Transmission assets placed in-service decreased by $44 million or 53.7% during the first quarter of 2018 primarily due to the following:

- timing of assets placed in-service for the station sustainment investments, primarily at the Richview, Nepean, Bruce A and Birch transmission stations; and the Hinchinbrooke switching station;
- a major local area supply project, 115kV switchyard upgrade at Manby transmission station, that was placed in-service in the first quarter of 2017; and
- lower volume of spare transformer purchases; partially offset by
- cumulative investments that were placed in-service for the Source-to-Order Transformation project, which aims to modernize the Company's sourcing and procurement capabilities.

Distribution Assets Placed In-Service

Distribution assets placed in-service decreased by $41 million or 28.1% during the first quarter of 2018 primarily due to the following:

- the completion of an operation center in Bolton in February 2017;
- higher volume of lines large sustainment carryover work in the first quarter of 2017;
- lower volume of distribution station refurbishments and spare transformer purchases; and
- lower volume of emergency power and storm restorations work; partially offset by
- increased assets placed in-service for the Advanced Distribution System project; and
- cumulative investments that were placed in-service for the Source-to-Order Transformation project, which aims to modernize the Company's sourcing and procurement capabilities.

Capital Investments

The following table presents Hydro One's capital investments during the three months ended March 31, 2018 and 2017:

Three months ended March 31 *(millions of dollars)*	2018	2017	Change
Transmission			
Sustaining	155	162	(4.3%)
Development	23	37	(37.8%)
Other	12	10	20.0%
	190	209	(9.1%)
Distribution			
Sustaining	59	72	(18.1%)
Development	46	47	(2.1%)
Other	9	19	(52.6%)
	114	138	(17.4%)
Other	1	3	(66.7%)
Total capital investments	305	350	(12.9%)

Transmission Capital Investments

Transmission capital investments decreased by $19 million or 9.1% during the first quarter of 2018. Principal impacts on the levels of capital investments included:

- timing of project activities on major development projects;
- lower volume of transmission station refurbishments and replacements work; and
- lower volume of wood pole replacements; partially offset by
- higher volume of overhead lines refurbishments and replacements; and
- timing of work on load customer connections.

Distribution Capital Investments

Distribution capital investments decreased by $24 million or 17.4% during the first quarter of 2018. Principal impacts on the levels of capital investments included:

- lower volume of lines and station refurbishments and replacements work; and
- lower volume of emergency power and storm restorations work.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at March 31, 2018:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
Development Projects:					
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	$57 million	$53 million
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	$252 million	$228 million
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2021	$157 million	$9 million
Northwest Bulk Transmission Line	Thunder Bay-Atikokan Northwestern Ontario	New transmission line	2024	$350 million	$1 million
Niagara Reinforcement Project	Niagara area Southwestern Ontario	New transmission line	2019	$119 million	$102 million
Sustainment Projects:					
Bruce A Transmission Station	Tiverton Southwestern Ontario	Station sustainment	2020	$109 million[1]	$109 million
Richview Transmission Station Circuit Breaker Replacement	Toronto Southwestern Ontario	Station sustainment	2019	$103 million	$88 million
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2022	$93 million	$54 million
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2023	$95 million	$48 million

[1] The estimated cost to complete the Bruce A Transmission Station project is currently under review.

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.

Three months ended March 31 *(millions of dollars)*	2018	2017
Cash provided by operating activities	376	471
Cash used in financing activities	(76)	(148)
Cash used in investing activities	(297)	(350)
Increase (decrease) in cash and cash equivalents	3	(27)

Cash provided by operating activities

Cash from Operating Activities for the first quarter of 2018 decreased by $95 million compared to the first quarter of 2017, primarily due to lower payables to the Independent Electricity System Operator (IESO) for energy purchases which decreased as a result of milder weather in March 2018, as well as lower commodity rates.

Cash provided by financing activities

Sources of cash

- The Company received proceeds of $1,172 million from the issuance of short-term notes in the first quarter of 2018, compared to $572 million received in the prior year.

Uses of cash

- Dividends paid in the first quarter of 2018 were $136 million, consisting of $131 million common share dividends and $5 million of preferred share dividends, compared to dividends of $130 million paid in the prior year, consisting of $125 million common share dividends and $5 million of preferred share dividends.
- The Company repaid $1,109 million of short-term notes in the first quarter of 2018, compared to $590 million repaid in the prior year.

Cash used in investing activities

Uses of cash

- Capital expenditures were $49 million lower in the first quarter of 2018, primarily due to lower volume and timing of capital investment work.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through funds from operations, Hydro One Inc.'s commercial paper program, and the Company's consolidated bank credit facilities. Under the commercial paper program, Hydro One Inc. is authorized to issue up to $1.5 billion in short-term notes with a term to maturity of up to 365 days. At March 31, 2018, Hydro One Inc. had $989 million in commercial paper borrowings outstanding, compared to $926 million outstanding at December 31, 2017. In addition, the Company has revolving bank credit facilities totalling $2,550 million maturing in 2021 and 2022. The Company may use the credit facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the credit facilities and anticipated levels of funds from operations are expected to be sufficient to fund the Company's normal operating requirements.

At March 31, 2018, the Company's long-term debt in the principal amount of $10,069 million included $9,923 million of long-term debt, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program, and long-term debt in the principal amount of $146 million held by Hydro One Sault Ste. Marie LP (HOSSM). At March 31, 2018, the maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 was $4.0 billion, with the entire amount remaining available for issuance until April 2020. The long-term debt consists of notes and debentures that mature between 2018 and 2064, and at March 31, 2018, had an average term to maturity of approximately 15.5 years and a weighted average coupon rate of 4.2%.

Hydro One's universal short form shelf prospectus (Universal Base Shelf Prospectus) filed in March 2016, which allowed the Company to offer, from time to time in one or more public offerings, up to $8.0 billion of debt, equity or other securities, or any combination thereof, expired on April 30, 2018. The Company plans to file a new Universal Base Shelf Prospectus in the second quarter of 2018.

To mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed by the issuance of Convertible Debentures, in October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert $1.4 billion Canadian to US dollars. For the three months ended March 31, 2018, a fair value gain of $27 million was recorded related to this contract, compared to a fair value loss of $3 million recorded for the year ended December 31, 2017. At March 31, 2018, the corresponding derivative asset was $24 million, compared to a derivative liability of $3 million at December 31, 2017.

At March 31, 2018, 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.

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:

March 31, 2018 *(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	10,069	981	1,656	606	6,826
Long-term debt – interest payments	7,629	427	785	711	5,706
Convertible debentures - principal repayments[1]	513	—	—	—	513
Convertible debentures - interest payments	586	62	123	123	278
Short-term notes payable	989	989	—	—	—
Pension contributions[2]	130	71	59	—	—
Environmental and asset retirement obligations	211	30	61	57	63
Outsourcing agreements	351	145	196	5	5
Operating lease commitments	36	12	16	5	3
Long-term software/meter agreement	52	17	30	2	3
Total contractual obligations	20,566	2,734	2,926	1,509	13,397
Other commercial commitments *(by year of expiry)*					
Credit facilities	2,550	—	—	2,550	—
Letters of credit[3]	173	173	—	—	—
Guarantees[4]	325	325	—	—	—
Total other commercial commitments	3,048	498	—	2,550	—

[1] The Company expects that the Convertible Debentures will be converted to common shares upon closing of the Avista Corporation acquisition.

[2] Contributions to the Hydro One Pension Fund are generally made one month in arrears. The 2018 and 2019 minimum pension contributions are based on an actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings.

[3] Letters of credit consist of a $154 million letter of credit related to retirement compensation arrangements, a $12 million letter of credit provided to the IESO for prudential support, $6 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.

[4] Guarantees consist of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries.

REGULATION

The OEB approves both the revenue requirements of 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.

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

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

[1] In October 2017, the Company filed a Motion to Review and Vary the OEB's decision and filed an appeal with the Divisional Court of Ontario.

[2] In May 2018, Hydro One and Orillia Power Distribution Corporation both filed a Motion to Review and Vary the OEB's decision.

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	2018	9.00% (A)	$11,148 million (A)	Approved in September 2017	Approved in December 2017
B2M LP	2018	9.00% (A)	$502 million (A)	Approved in December 2015	Filed in December 2017
	2019	9.00% (F)	$496 million (A)	Approved in December 2015	To be filed in 2018 Q4
HOSSM	2018	9.19% (A)	$218 million (A)	Approved in September 2017	n/a
Distribution					
Hydro One Networks	2018	9.00% (A)	$7,666 million (F)	Filed in March 2017[1]	To be filed in 2018 Q4
	2019	9.00% (F)	$8,027 million (F)	Filed in March 2017[1]	To be filed in 2018 Q4
	2020	9.00% (F)	$8,430 million (F)	Filed in March 2017[1]	To be filed in 2019 Q4
	2021	9.00% (F)	$8,960 million (F)	Filed in March 2017[1]	To be filed in 2020 Q4
	2022	9.00% (F)	$9,327 million (F)	Filed in March 2017[1]	To be filed in 2021 Q4

[1] On June 7 and December 21, 2017, Hydro One Networks filed updates to the application reflecting recent financial results and other adjustments.

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 (Decision), with 2017 rates effective January 1, 2017. Key changes to the application as filed included reductions in planned capital expenditures of $126 million and $122 million for 2017 and 2018, respectively, in OM&A expenses related to compensation by $15 million for each year, and in estimated tax savings from the IPO by $24 million and $26 million for 2017 and 2018, respectively. On October 10, 2017, Hydro One Networks filed a Draft Rate Order reflecting the changes outlined in the Decision.

In its 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* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's 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 Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately $515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately $370 million related to Hydro One Networks' distribution deferred income tax regulatory asset.

In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately $885 million, resulting in an annual decrease to FFO in the range of $50 million to $60 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company's Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders. An OEB hearing of the merits of the Motion was held on February 12, 2018.

In October 2017, the intervenor Anwaatin Inc. also filed a Motion to Review and Vary the OEB Decision (Anwaatin Motion) alleging that the OEB breached its duty of procedural fairness, failed to respond to certain evidence, and failed to provide reasons on the capital budget as it related to reliability issues impacting Anwaatin Inc.'s constituents. The Anwaatin Motion was heard by the OEB on February 13, 2018.

On November 23, 2017, the OEB approved the 2017 rates revenue requirement of $1,438 million. On December 20, 2017, the OEB approved the 2018 rates revenue requirement of $1,511 million, which included a $25 million increase from the approved amount, as a result of the OEB-updated cost of capital parameters. Uniform Transmission Rates (UTRs), reflecting these approved amounts, were approved by the OEB on February 1, 2018 to be effective as of January 1, 2018.

In March 2017, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) 2017-07, which limits capitalization of post-employment benefit related costs to the service cost component. Hydro One filed an application requesting the OEB to approve a deferral account, to record the amounts no longer permitted for capitalization under the new standard, effective January 1, 2018. In May 2018, the OEB approved the deferral account.

On March 16, 2018, the OEB issued a letter requesting Hydro One to file the transmission revenue requirement application for a four-year test period from 2019 to 2022, rather than the minimum 5-year period allowed under existing OEB policy. The OEB indicated that it is more appropriate to consider rates for Hydro One's distribution and transmission businesses in a single application, and stated that it expected Hydro One to file a single application for distribution rates (including Hydro One Remote Communities Inc.) and transmission revenue requirement for the period from 2023 to 2027.

Hydro One plans to file an application with the OEB for 2019-2022 transmission rates in mid-2018.

Hydro One Networks - Distribution

On March 9, 2018, the OEB issued a procedural order stating that the oral hearing related to Hydro One Networks' application for 2018-2022 distribution rates will commence on June 4, 2018.

B2M LP

On May 10, 2018, the OEB issued its Decision and Rate Order on B2M LP's 2018 transmission application reflecting revenue requirement of $36 million, effective January 1, 2018.

Hydro One Remote Communities Inc.

On March 19, 2018, the OEB approved the settlement agreement related to the 2018 rates application reached by Hydro One Remote Communities Inc. and the intervenors in the rate proceeding. On March 26, 2018, a draft rate order was filed with the OEB for 2018 rates. The OEB approved the draft rate order on April 12, 2018, and the new rates were implemented effective May 1, 2018.

MAAD Application

Orillia Power MAAD Application

On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power Distribution Corporation from the City of Orillia, Ontario. On May 2, 2018, Hydro One and Orillia Power Distribution Corporation both filed a Motion to Review and Vary the OEB's decision.

Other Applications

Lake Superior Link Project

On February 15, 2018, Hydro One filed a Leave to Construct application with the OEB to construct the east-west tie line in northwestern Ontario (Lake Superior Link Project), which will compete with an application filed by NextBridge Infrastructure to construct this line.

OTHER DEVELOPMENTS

Collective Agreements

On March 1, 2018, Hydro One insourced its customer service operations, which had been previously outsourced to Inergi LP and Vertex Customer Management (Canada) Limited since 2002. The insourcing was facilitated through labour agreements reached with the Power Workers' Union (PWU) and The Society of Energy Professionals (now known as the Society of United Professionals) in 2017.

The current collective agreement with the PWU expired on March 31, 2018. On March 26, 2018, Hydro One and the PWU reached a tentative agreement that is now subject to ratification by the PWU.

US GAAP - Exemptive Relief

On March 27, 2018, Hydro One was granted exemptive relief by securities regulators in each province and territory of Canada which allows Hydro One to continue to report its financial results in accordance with US GAAP (Exemptive Relief). The Exemptive Relief will remain in effect until the earlier of: (i) January 1, 2024; (ii) the first day of Hydro One's financial year that commences after Hydro One ceases to have activities subject to rate regulation; and (iii) the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within International Financial Reporting Standards specific to entities with activities subject to rate regulation.

Avista Corporation Merger

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger). The following table summarizes the status of the Merger approval process:

Approval Required	Status
Alaska[1]	Settlement agreement filed on April 3, 2018[5]
Washington[1]	Settlement agreement filed on March 27, 2018[4]
Idaho[1]	Settlement agreement filed on April 13, 2018[8]
Oregon[1]	Evidentiary hearing scheduled for June 21, 2018[10]
Montana[1]	Evidentiary hearing scheduled for May 17, 2018
Federal Communications Commission	Consent received on May 4, 2018[9]
Committee on Foreign Investment in the United States	Filed for clearance on April 10, 2018[7]
Hart-Scott-Rodino Antitrust	Clearance received on April 5, 2018[6]
Federal Energy Regulatory Commission	Approval received on January 16, 2018[3]
Avista shareholders	Approval received on November 21, 2017[2]

[1] On September 14, 2017, Hydro One and Avista Corporation filed applications with the state utility commissions in Alaska, Washington, Idaho, Oregon, and Montana, requesting regulatory approval of the Merger on or before August 14, 2018.

[2] On November 21, 2017, the Merger was approved by the shareholders of Avista Corporation.

[3] On January 16, 2018, the Federal Energy Regulatory Commission approved the Merger application.

[4] On March 27, 2018, an all-parties, all-issues settlement agreement was filed with the Washington Utilities and Transportation Commission.

[5] On April 3, 2018, an all-parties, all-issues settlement agreement was filed with the Regulatory Commission of Alaska.

[6] On April 5, 2018, the 30-day waiting period under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976*, as amended, for the Merger expired. This expiration of the waiting period means that the parties have received antitrust clearance for the Merger and satisfies one of the closing conditions of the transaction.

[7] On April 10, 2018, Hydro One and Avista Corporation filed for clearance of the Merger with the Committee on Foreign Investment in the United States (CFIUS). Hydro One and Avista Corporation had previously pre-filed with the CFIUS on February 9, 2018.

[8] On April 13, 2018, an all-parties, all-issues settlement agreement was filed with the Idaho Public Utilities Commission.

[9] On May 4, 2018, consent for the transfer of control of the wireless licences held by Avista Corporation and one of its subsidiaries to Hydro One as a result of the Merger was received from the Federal Communications Commission.

[10] On May 8, 2018, a settlement in principle with all parties in the Oregon proceeding was reached. The parties intend to file the full settlement agreement with the Oregon Public Utility Commission for review.

Applications for regulatory approval of the Merger are pending with utility commissions in Alaska, Washington, Idaho, Oregon, and Montana. The settlement agreements remain subject to approval by the respective commissions. Also required is clearance by the Committee on Foreign Investment in the United States and the satisfaction of customary closing conditions. Hydro One anticipates closing the Merger in the second half of 2018.

Litigation

Class Action Lawsuit

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal is scheduled to be heard on October 16, 2018, and it is possible that no decision will be rendered by the appeal court until the first quarter of 2019. At this time, an estimate of a possible loss related to this claim cannot be made.

Litigation Relating to the Merger

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al., Samuel v. Avista Corp., et al., and Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß, Samuel, and Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

Appointment of Chief Financial Officer

On January 28, 2018, Mr. Paul Dobson was appointed to the position of Chief Financial Officer of Hydro One, effective March 1, 2018. Mr. Dobson was most recently the Chief Financial Officer at Direct Energy Ltd. in Houston, Texas.

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 March 31 *(millions of dollars)*	2018	2017
Net cash from operating activities	376	471
Changes in non-cash balances related to operations	46	(77)
Preferred share dividends	(5)	(5)
Distributions to noncontrolling interest	(3)	—
FFO	414	389

Adjusted Net Income and Adjusted EPS

The following basic and diluted Adjusted EPS has been calculated by management on a supplementary basis which excludes income related to the Avista Corporation acquisition from net income. Adjusted EPS is used internally by management to assess the Company's performance and is considered useful because it excludes the impact of acquisition-related costs and provides users with a comparative basis to evaluate the current ongoing operations of the Company compared to prior year.

Three months ended March 31	2018	2017
Net income attributable to common shareholders *(millions of dollars)*	222	167
Income related to acquisition of Avista Corporation *(millions of dollars)*	(12)	—
Adjusted net income attributable to common shareholders *(millions of dollars)*	210	167
Weighted average number of shares		
Basic	595,386,711	595,000,000
Effect of dilutive stock-based compensation plans	2,322,393	2,257,005
Diluted	597,709,104	597,257,005
Adjusted EPS		
Basic	$0.35	$0.28
Diluted	$0.35	$0.28

Revenues, Net of Purchased Power

Revenues, net of purchased power is defined as revenues less 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.

Three months ended March 31 *(millions of dollars)*	2018	2017
Revenues	1,576	1,658
Less: Purchased power	751	889
Revenues, net of purchased power	825	769

Three months ended March 31 *(millions of dollars)*	2018	2017
Distribution revenues	1,145	1,279
Less: Purchased power	751	889
Distribution revenues, net of purchased power	394	390

FFO, basic and diluted Adjusted EPS, Adjusted Net Income, and 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

The Province is a shareholder of Hydro One with approximately 47.4% ownership at March 31, 2018. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province. The following is a summary of the Company's related party transactions during the three months ended March 31, 2018 and 2017:

Three months ended March 31 *(millions of dollars)*

Related Party	Transaction	2018	2017
Province	Dividends paid	67	92
IESO	Power purchased	513	651
	Revenues for transmission services	405	369
	Amounts related to electricity rebates	137	77
	Distribution revenues related to rural rate protection	57	61
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	12	16
OPG	Power purchased	4	4
	Revenues related to provision of construction and equipment maintenance services	2	—
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	2	2

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.

Paul Dobson assumed the role of Chief Financial Officer on March 1, 2018. However, there were no changes in the Company's internal control over financial reporting in the first quarter of 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

The following tables present ASUs and Accounting Standards Codification (ASC) guidance issued by the FASB that are applicable to Hydro One:

Recently Adopted Accounting Guidance

ASU	Date issued	Description	Effective date	Impact on Hydro One
ASC Topic 606	May 2014 – November 2017	ASC Topic 606 *Revenue from Contracts with Customers* replaced ASC Topic 605 *Revenue Recognition*. ASC Topic 606 provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.	January 1, 2018	Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption.
ASU 2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Hydro One applied for a regulatory deferral account to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02 2018-01	February 2016 – January 2018	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. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC Topic 842 land easements that exist or expired before the entity's adoption of ASC Topic 842 and that were not previously accounted for as leases under ASC Topic 840.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

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 standby credit facilities; expectations regarding the Company's financing activities; the Company's maturing debt; ongoing and planned projects, including expected results and completion dates; expected future capital investments, including expected timing and investment plans; contractual obligations and other commercial commitments; the OEB; the Motion and the Appeal; the Anwaatin Motion; the Lake Superior Link Project and related regulatory application; collective agreements; the pension plan, future pension contributions, valuations and expected impacts; impacts of OEB treatment of post-employment benefit costs; dividends; non-GAAP measures; internal control over financial reporting; recent accounting-related guidance; a new Universal Base Shelf Prospectus; the Convertible Debentures; the Exemptive Relief; the Company's acquisitions and mergers, including Orillia Power and Avista Corporation; the Company's financing strategy and foreign currency hedging relating to the acquisition of Avista Corporation; and class action litigation, including litigation relating to the Merger. 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; 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; 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 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;
- 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;
- risks relating to the Merger, including (i) the risk that Hydro One may fail to complete the Merger, (ii) uncertainty regarding the length of time required to complete the Merger, (iii) the risk that the purchase price for Avista Corporation could increase, and (iv) the risk that the anticipated benefits of the Merger may not materialize or may not occur within the time periods contemplated by Hydro One;
- 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 information technology system infrastructure;
- the risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- the risk of labour disputes and inability to negotiate appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- risks related to the financing of the Merger;
- 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;
- 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; and
- the impact of the ownership by the Province of lands underlying the Company's transmission system.

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 2017 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 and the Company's website at www.HydroOne.com/Investors.

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three months ended March 31, 2018 and 2017

Three months ended March 31 *(millions of Canadian dollars, except per share amounts)*	**2018**	**2017**
Revenues		
Distribution (includes $67 related party revenues; 2017 – $69) *(Note 22)*	1,145	1,279
Transmission (includes $405 related party revenues; 2017 – $369) *(Note 22)*	421	367
Other	10	12
	1,576	1,658
Costs		
Purchased power (includes $518 related party costs; 2017 – $656) *(Note 22)*	751	889
Operation, maintenance and administration *(Note 22)*	270	271
Depreciation and amortization *(Note 5)*	197	195
	1,218	1,355
Income before financing charges and income taxes	**358**	**303**
Financing charges	88	103
Income before income taxes	**270**	**200**
Income taxes *(Note 6)*	42	27
Net income	**228**	**173**
Other comprehensive income	—	1
Comprehensive income	**228**	**174**
Net income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	5
Common shareholders	222	167
	228	**173**
Comprehensive income attributable to:		
Noncontrolling interest	1	1
Preferred shareholders	5	5
Common shareholders	222	168
	228	**174**
Earnings per common share *(Note 20)*		
Basic	$0.37	$0.28
Diluted	$0.37	$0.28
Dividends per common share declared *(Note 19)*	$0.22	$0.21

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At March 31, 2018 and December 31, 2017

(millions of Canadian dollars)	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	28	25
Accounts receivable *(Note 7)*	588	636
Due from related parties	243	253
Other current assets *(Note 8)*	143	105
	1,002	1,019
Property, plant and equipment *(Note 9)*	20,069	19,947
Other long-term assets:		
Regulatory assets	3,105	3,049
Deferred income tax assets	918	987
Intangible assets (net of accumulated amortization – $392; 2017 – $375)	365	369
Goodwill	325	325
Other assets	5	5
	4,718	4,735
Total assets	**25,789**	**25,701**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 13)*	989	926
Long-term debt payable within one year *(Notes 13, 15)*	981	752
Accounts payable and other current liabilities *(Note 11)*	911	905
Due to related parties	37	157
	2,918	2,740
Long-term liabilities:		
Long-term debt (includes $541 measured at fair value; 2017 – $541) *(Notes 13, 15)*	9,085	9,315
Convertible debentures *(Note 14, 15)*	488	487
Regulatory liabilities	160	128
Deferred income tax liabilities	72	71
Other long-term liabilities *(Note 12)*	2,718	2,707
	12,523	12,708
Total liabilities	**15,441**	**15,448**
Contingencies and Commitments (Notes 24, 25)		
Subsequent Events (Note 27)		
Noncontrolling interest subject to redemption	21	22
Equity		
Common shares *(Note 18)*	5,631	5,631
Preferred shares *(Note 18)*	418	418
Additional paid-in capital	55	49
Retained earnings	4,181	4,090
Accumulated other comprehensive loss	(7)	(7)
Hydro One shareholders' equity	10,278	10,181
Noncontrolling interest	49	50
Total equity	**10,327**	**10,231**
	25,789	**25,701**

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the three months ended March 31, 2018 and 2017

Three months ended March 31, 2018 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2018	5,631	418	49	4,090	(7)	10,181	50	10,231
Net income	—	—	—	227	—	227	1	228
Distributions to noncontrolling interest	—	—	—	—	—	—	(2)	(2)
Dividends on preferred shares	—	—	—	(5)	—	(5)	—	(5)
Dividends on common shares	—	—	—	(131)	—	(131)	—	(131)
Stock-based compensation	—	—	6	—	—	6	—	6
March 31, 2018	**5,631**	**418**	**55**	**4,181**	**(7)**	**10,278**	**49**	**10,327**

Three months ended March 31, 2017 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2017	5,623	418	34	3,950	(8)	10,017	50	10,067
Net income	—	—	—	172	—	172	1	173
Other comprehensive income	—	—	—	—	1	1	—	1
Dividends on preferred shares	—	—	—	(5)	—	(5)	—	(5)
Dividends on common shares	—	—	—	(125)	—	(125)	—	(125)
Stock-based compensation	—	—	6	—	—	6	—	6
March 31, 2017	**5,623**	**418**	**40**	**3,992**	**(7)**	**10,066**	**51**	**10,117**

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three months ended March 31, 2018 and 2017

Three months ended March 31 *(millions of Canadian dollars)*	**2018**	**2017**
Operating activities		
Net income	228	173
Environmental expenditures	(4)	(4)
Adjustments for non-cash items:		
Depreciation and amortization (excluding asset removal costs)	179	174
Regulatory assets and liabilities	8	31
Deferred income taxes	35	20
Unrealized gain on foreign exchange contract	(27)	—
Other	3	—
Changes in non-cash balances related to operations *(Note 23)*	(46)	77
Net cash from operating activities	**376**	**471**
Financing activities		
Short-term notes issued	1,172	572
Short-term notes repaid	(1,109)	(590)
Dividends paid	(136)	(130)
Distributions paid to noncontrolling interest	(3)	—
Net cash used in financing activities	**(76)**	**(148)**
Investing activities		
Capital expenditures *(Note 23)*		
Property, plant and equipment	(286)	(335)
Intangible assets	(14)	(14)
Capital contributions received	—	7
Other	3	(8)
Net cash used in investing activities	**(297)**	**(350)**
Net change in cash and cash equivalents	3	(27)
Cash and cash equivalents, beginning of period	25	50
Cash and cash equivalents, end of period	**28**	**23**

See accompanying notes to Condensed Interim Consolidated Financial Statements (unaudited).

1. DESCRIPTION OF THE BUSINESS

Hydro One Limited (Hydro One or the Company) was incorporated on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 31, 2015, the Company acquired Hydro One Inc., a company previously wholly-owned by the Province of Ontario (Province). The acquisition of Hydro One Inc. by Hydro One was accounted for as a common control transaction and Hydro One is a continuation of business operations of Hydro One Inc. At March 31, 2018, the Province held approximately 47.4% (December 31, 2017 - 47.4%) of the common shares of Hydro One. The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario.

Earnings for interim periods may not be indicative of results for the year due to the impact of seasonal weather conditions on customer demand and market pricing.

Rate Setting

Transmission

In December 2017, the Ontario Energy Board (OEB) approved Hydro One Networks Inc.'s (Hydro One Networks) 2018 rates revenue requirement of $1,511 million. See Note 10 - Regulatory Assets and Liabilities for additional information.

On May 10, 2018, the OEB issued its Decision and Rate Order on B2M LP's 2018 transmission application reflecting revenue requirement of $36 million, effective January 1, 2018.

Distribution

In March 2017, Hydro One Networks filed an application with the OEB for 2018-2022 distribution rates, requesting revenue requirements of $1,517 million for 2018, $1,564 million for 2019, $1,611 million for 2020, $1,684 million for 2021, and $1,726 million for 2022. The OEB approval is pending.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These unaudited condensed interim Consolidated Financial Statements (Consolidated Financial Statements) include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated.

Basis of Accounting

These Consolidated Financial Statements are prepared and presented in accordance with United States (US) Generally Accepted Accounting Principles (GAAP) for interim financial statements and in Canadian dollars.

The accounting policies applied are consistent with those outlined in Hydro One's annual audited consolidated financial statements for the year ended December 31, 2017, with the exception of the adoption of new accounting standards as described below and in Note 3. These Consolidated Financial Statements reflect adjustments, that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2017 annual audited consolidated financial statements.

Revenue Recognition

The Company adopted Accounting Standard Codification (ASC) 606 - *Revenue from Contracts with Customers* on January 1, 2018 using the retrospective method, without the election of any practical expedients. There was no material impact to the Company's revenue recognition policy as a result of adopting ASC 606.

Nature of Revenues

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as electricity is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized on an accrual basis and include billed and unbilled revenues. Billed revenues are based on electricity delivered as measured from customer meters. At the end of each month, electricity delivered to customers since the date of the last billed meter reading is estimated, and the corresponding unbilled revenue is recorded. The unbilled revenue estimate is affected by energy consumption, weather, and changes in the composition of customer classes.

Distribution revenue also includes an amount relating to rate protection for rural, residential, and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB.

Revenues also include amounts related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered. Revenues are recorded net of indirect taxes.

Employee Future Benefits

The Company adopted Accounting Standard Update (ASU) 2017-07 on January 1, 2018. The Company used the retrospective method for guidance relating to the presentation of the service cost component and the other components of net periodic pension and post-retirement benefit costs in the Statement of Operations and Comprehensive Income. There was no change in presentation in the Statement of Operations and Comprehensive Income. The Company used the prospective method for guidance relating to the capitalization of the service cost component of net periodic pension and post-retirement and post-employment benefit costs in assets. Upon adoption of ASU 2017-07, the Company recognized the Post-Retirement and Post-Employment Benefits Non-Service Costs Regulatory Asset. See Note 10 - Regulatory Assets and Liabilities for additional information.

Defined Benefit Pension

Defined benefit pension costs are recorded on an accrual basis for financial reporting purposes. Hydro One records a regulatory asset equal to the net underfunded projected benefit obligation for its defined benefit pension plan. Defined benefit pension costs are attributed to labour and a portion not exceeding the service cost component of accrual basis defined benefit pension costs is capitalized as part of the cost of property, plant and equipment and intangible assets. The remaining defined benefit pension costs are charged to results of operations (operation, maintenance and administration costs).

Post-Retirement and Post-Employment Benefits

All post-retirement and post-employment benefit costs are attributed to labour and are either charged to results of operations (operation, maintenance and administration costs) or capitalized as part of the cost of property, plant and equipment and intangible assets for service cost component and to regulatory assets for all other components of the benefit costs, consistent with their inclusion in OEB-approved rates.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present ASUs and ASC guidance issued by the Financial Accounting Standards Board that are applicable to Hydro One:

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASC Topic 606	May 2014 – November 2017	ASC Topic 606 *Revenue from Contracts with Customers* replaced ASC Topic 605 *Revenue Recognition*. ASC Topic 606 provides guidance on revenue recognition relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.	January 1, 2018	Hydro One adopted ASC 606 on January 1, 2018 using the retrospective method, without the election of any practical expedients. The Company has included the disclosure requirements of ASC 606 for interim periods in the year of adoption.
ASU 2017-07	March 2017	Service cost components of net benefit cost associated with defined benefit plans are required to be reported in the same line as other compensation costs arising from services rendered by the Company's employees. All other components of net benefit cost are to be presented in the income statement separately from the service cost component. Only the service cost component is eligible for capitalization where applicable.	January 1, 2018	Hydro One applied for a regulatory deferral account to maintain the capitalization of post-employment benefit related costs and as such, there is no material impact upon adoption.

Recently Issued Accounting Guidance Not Yet Adopted

ASU	Date issued	Description	Effective date	Anticipated impact on Hydro One
2016-02 2018-01	February 2016 – January 2018	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. ASU 2018-01 permits an entity to elect an optional practical expedient to not evaluate under ASC Topic 842 land easements that exist or expired before the entity's adoption of ASC Topic 842 and that were not previously accounted for as leases under ASC Topic 840.	January 1, 2019	An initial assessment is currently underway encompassing a review of existing leases, which will be followed by a review of relevant contracts. No quantitative determination has been made at this time. The Company is on track for implementation of this standard by the effective date.

4. BUSINESS COMBINATIONS

Avista Corporation Purchase Agreement

In July 2017, Hydro One reached an agreement to acquire Avista Corporation (Merger) for approximately $6.7 billion in an all-cash transaction. Avista Corporation is an investor-owned utility providing electric generation, transmission, and distribution services. It is headquartered in Spokane, Washington, with service areas in Washington, Idaho, Oregon, Montana and Alaska. The closing of the Merger is subject to receipt of certain regulatory and government approvals, and the satisfaction of customary closing conditions. See Note 14 - Convertible Debentures and Note 15 - Fair Value of Financial Instruments and Risk Management for details of convertible debentures and foreign exchange contract, respectively, related to financing of the Merger.

5. DEPRECIATION AND AMORTIZATION

Three months ended March 31 *(millions of dollars)*	2018	2017
Depreciation of property, plant and equipment	158	155
Asset removal costs	18	21
Amortization of intangible assets	17	15
Amortization of regulatory assets	4	4
	197	195

6. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rate. The reconciliation between the statutory and the effective tax rates is provided as follows:

Three months ended March 31 *(millions of dollars)*	2018	2017
Income before income taxes	270	200
Income taxes at statutory rate of 26.5% (2017 - 26.5%)	72	53
Increase (decrease) resulting from:		
Net temporary differences recoverable in future rates charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(12)	(11)
Overheads capitalized for accounting but deducted for tax purposes	(5)	(4)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)
Pension contributions in excess of pension expense	(3)	(5)
Environmental expenditures	(2)	(3)
Other	(1)	—
Net temporary differences	(27)	(27)
Net permanent differences	(3)	1
Total income taxes	42	27
Effective income tax rate	15.6%	13.5%

7. ACCOUNTS RECEIVABLE

(millions of dollars)	March 31, 2018	December 31, 2017
Accounts receivable – billed	307	298
Accounts receivable – unbilled	307	367
Accounts receivable, gross	614	665
Allowance for doubtful accounts	(26)	(29)
Accounts receivable, net	588	636

The following table shows the movements in the allowance for doubtful accounts for the three months ended March 31, 2018 and the year ended December 31, 2017:

(millions of dollars)	Three months ended March 31, 2018	Year ended December 31, 2017
Allowance for doubtful accounts – beginning	(29)	(35)
Write-offs	8	25
Additions to allowance for doubtful accounts	(5)	(19)
Allowance for doubtful accounts – ending	(26)	(29)

8. OTHER CURRENT ASSETS

(millions of dollars)	March 31, 2018	December 31, 2017
Regulatory assets	49	46
Materials and supplies	20	18
Prepaid expenses and other assets	50	41
Derivative instrument - foreign exchange contract	24	—
	143	105

9. PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	March 31, 2018	December 31, 2017
Property, plant and equipment	29,025	29,025
Less: accumulated depreciation	(10,490)	(10,455)
	18,535	18,570
Construction in progress	1,372	1,215
Future use land, components and spares	162	162
	20,069	19,947

10. REGULATORY ASSETS AND LIABILITIES

Deferred Income Tax Regulatory Asset

On September 28, 2017, the OEB issued its Decision and Order on Hydro One Networks' 2017 and 2018 transmission rates revenue requirements (Decision). In its 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* (Ontario) to tax payments under the federal and provincial tax regime should not accrue entirely to Hydro One's 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 Hydro One Networks' transmission deferred income tax regulatory asset of up to approximately $515 million. If the OEB were to apply the same calculation for sharing in Hydro One Networks' 2018-2022 distribution rates, for which a decision is currently outstanding, it would result in an additional impairment of up to approximately $370 million related to Hydro One Networks' distribution deferred income tax regulatory asset. In October 2017, the Company filed a Motion to Review and Vary (Motion) the Decision and filed an appeal with the Divisional Court of Ontario (Appeal). On December 19, 2017, the OEB granted a hearing of the merits of the Motion which was held on February 12, 2018. In both cases, the Company's position is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. The Appeal is being held in abeyance pending the outcome of the Motion. If the Decision is upheld, based on the facts known at this time, the exposure from the potential impairments would be a one-time decrease in net income of up to approximately $885 million. Based on the assumptions that the OEB applies established rate making principles in a manner consistent with its past practice and does not exercise its discretion to take other policy considerations into account, management is of the view that it is likely that the Company’s Motion will be granted and the aforementioned tax savings will be allocated to the benefit of Hydro One shareholders.

Foregone Revenue Deferral

As part of its September 2017 decision on Hydro One Networks’ transmission rate application for 2017 and 2018 rates, the OEB approved the foregone revenue account to record the difference between revenue earned under the rates approved as part of the decision, effective January 1, 2017, and revenue earned under the interim rates until the approved 2017 rates were implemented. The OEB approved a similar account for B2M LP in June 2017 to record the difference between revenue earned under the newly approved rates, effective January 1, 2017, and the revenue recorded under the interim 2017 rates. The balances of these accounts are being returned to or recovered from ratepayers, respectively, over a one-year period ending December 31, 2018. The draft rate order submitted by Hydro One Networks was approved by the OEB in November 2017. This draft rate order reflects the September 2017 decision, including a reduction of the amount of cash taxes approved for recovery in transmission rates due to the OEB’s basis to share the savings resulting from a deferred tax asset with ratepayers. The Company’s position in the aforementioned Motion is that the OEB made errors of fact and law in its determination of allocation of the tax savings between the shareholders and ratepayers. Therefore, the Company has also reflected the impact of the Company’s position with respect to the Motion in the Foregone Revenue Deferral account. The timing for recovery of this impact will be determined as part of the outcome of the Motion.

Post-Retirement and Post-Employment Benefits Non-Service Cost Regulatory Asset

Hydro One applied to the OEB for a deferral account to record the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets prior to adoption of ASU 2017-07. In May 2018, the OEB approved the deferral account for Hydro One Networks' Transmission Business.

It is expected that the deferral account application for Hydro One Networks' Distribution business will be considered as part of Hydro One Networks' application for 2018-2022 distribution rates, OEB approval of which is currently pending. Hydro One has recorded the components other than service costs relating to its post-retirement and post-employment benefits that would have been capitalized to property, plant and equipment and intangible assets in the Post-Retirement and Post-Employment Benefits Non-Service Cost Regulatory Asset.

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(millions of dollars)	March 31, 2018	December 31, 2017
Accounts payable	143	177
Accrued liabilities	606	572
Accrued interest	116	99
Regulatory liabilities	46	57
	911	905

12. OTHER LONG-TERM LIABILITIES

(millions of dollars)	March 31, 2018	December 31, 2017
Post-retirement and post-employment benefit liability	1,534	1,519
Pension benefit liability	982	981
Environmental liabilities *(Note 17)*	162	168
Asset retirement obligations	9	9
Long-term accounts payable and other liabilities	31	30
	2,718	2,707

13. DEBT AND CREDIT AGREEMENTS

Short-Term Notes and Credit Facilities

Hydro One meets its short-term liquidity requirements in part through the issuance of commercial paper under Hydro One Inc.'s Commercial Paper Program which has a maximum authorized amount of $1.5 billion. These short-term notes are denominated in Canadian dollars with varying maturities up to 365 days. The Commercial Paper Program is supported by Hydro One Inc.'s committed revolving credit facilities totalling $2.3 billion.

At March 31, 2018, Hydro One's consolidated committed, unsecured and undrawn credit facilities totalling $2,550 million included Hydro One's credit facilities of $250 million and Hydro One Inc.'s credit facilities of $2.3 billion.

Long-Term Debt

The following table presents long-term debt outstanding at March 31, 2018 and December 31, 2017:

(millions of dollars)	March 31, 2018	December 31, 2017
Hydro One Inc. long-term debt *(a)*	9,923	9,923
HOSSM long-term debt *(b)*	175	176
	10,098	10,099
Add: Net unamortized debt premiums	14	14
Add: Unrealized mark-to-market gain[1]	(9)	(9)
Less: Unamortized deferred debt issuance costs	(37)	(37)
Total long-term debt	10,066	10,067
Less: Long-term debt payable within one year	(981)	(752)
	9,085	9,315

[1] The unrealized mark-to-market net gain relates to $50 million of the Series 33 notes due 2020 and $500 million Series 37 notes due 2019. The unrealized mark-to-market net gain is offset by a $9 million (December 31, 2017 - $9 million) unrealized mark-to-market net loss on the related fixed-to-floating interest-rate swap agreements, which are accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At March 31, 2018, long-term debt of $9,923 million (December 31, 2017 - $9,923 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. The maximum authorized principal amount of notes issuable under the current MTN Program prospectus filed in March 2018 is $4.0 billion. At March 31, 2018, the entire amount remained available for issuance until April 2020. During the three months ended March 31, 2018 and 2017, no long-term debt was issued or repaid.

(b) Hydro One Sault Ste. Marie LP (HOSSM) long-term debt

At March 31, 2018, long-term debt of $175 million (December 31, 2017 - $176 million), with a face value of $146 million (December 31, 2017 - $146 million) was held by HOSSM. During the three months ended March 31, 2018 and 2017, no long-term debt was issued or repaid.

Principal and Interest Payments

Principal repayments and related weighted average interest rates are summarized by the number of years to maturity in the following table:

Years to Maturity	Long-term Debt Principal Repayments (millions of dollars)	Weighted Average Interest Rate (%)
1 year	981	2.6
2 years	503	1.5
3 years	1,153	2.5
4 years	603	3.2
5 years	3	6.6
	3,243	2.5
6 – 10 years	631	3.5
Over 10 years	6,195	5.2
	10,069	4.2

Interest payment obligations related to long-term debt are summarized by year in the following table:

Year	Interest Payments (millions of dollars)
Remainder of 2018	365
2019	402
2020	384
2021	370
2022	355
	1,876
2023-2027	1,672
2028+	4,081
	7,629

14. CONVERTIBLE DEBENTURES

On August 9, 2017, in connection with the acquisition of Avista Corporation, the Company completed the sale of $1,540 million aggregate principal amount of convertible unsecured subordinated debentures (Convertible Debentures). The Convertible Debentures were sold on an instalment basis at a price of $1,000 per Convertible Debenture, of which $333 (Initial Instalment) was paid on closing of the Debenture Offering and the remaining $667 (Final Instalment) is payable on a date (Final Instalment Date) to be fixed by the Company following satisfaction of conditions precedent to the closing of the acquisition of Avista Corporation. The gross proceeds received from the Initial Instalment were $513 million. The Convertible Debentures will mature on September 30, 2027. A coupon rate of 4% is paid on the $1,540 million aggregate principal amount of the Convertible Debentures, and based on the carrying value of the Initial Instalment, this translates into an effective annual yield of 12%. After the Final Instalment Date, the interest rate will be 0%. The interest expense recorded during the three months ended March 31, 2018 was $15 million (2017 - $nil). At the option of the holders and provided that payment of the Final Instalment has been made, each Convertible Debenture will be convertible into common shares of the Company at any time on or after the Final Instalment Date, but prior to the earlier of maturity or redemption by the Company, at a conversion price of $21.40 per common share.

The following table shows the movements in convertible debentures during the three months ended March 31, 2018 and the year ended December 31, 2017:

(millions of dollars)	Three months ended March 31, 2018	Year ended December 31, 2017
Carrying value - beginning	487	—
Receipt of Initial Instalment, net of deferred financing costs	—	486
Amortization of deferred financing costs	1	1
Carrying value - ending	488	487
Face value - ending	513	513

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At March 31, 2018 and December 31, 2017, the Company's carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, short-term notes payable, accounts payable, and due to related parties are representative of fair value due to the short-term nature of these instruments.

Fair Value Measurements of Long-Term Debt

The fair values and carrying values of the Company's long-term debt at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018		December 31, 2017	
(millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
$50 million of MTN Series 33 notes	49	49	49	49
$500 million MTN Series 37 notes	492	492	492	492
Other notes and debentures	9,525	10,906	9,526	11,027
Long-term debt, including current portion	10,066	11,447	10,067	11,568

Fair Value Measurements of Derivative Instruments

At March 31, 2018, Hydro One Inc. had interest-rate swaps in the amount of $550 million (December 31, 2017 – $550 million) that were used to convert fixed-rate debt to floating-rate debt. These swaps are classified as fair value hedges. Hydro One Inc.'s fair value hedge exposure was approximately 6% (December 31, 2017 – 6%) of its total long-term debt. At March 31, 2018, Hydro One Inc. had the following interest-rate swaps designated as fair value hedges:

- a $50 million fixed-to-floating interest-rate swap agreement to convert $50 million of the $350 million MTN Series 33 notes maturing April 30, 2020 into three-month variable rate debt; and
- two $125 million and one $250 million fixed-to-floating interest-rate swap agreements to convert the $500 million MTN Series 37 notes maturing November 18, 2019 into three-month variable rate debt.

At March 31, 2018 and December 31, 2017, the Company had no interest-rate swaps classified as undesignated contracts.

In October 2017, the Company entered into a deal-contingent foreign exchange forward contract to convert $1.4 billion Canadian to US dollars at an initial forward rate of 1.27486 Canadian per 1.00 US dollars, and a range up to 1.28735 Canadian per 1.00 US dollars based on the settlement date. The contract is contingent on the Company closing the proposed Avista Corporation acquisition and is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures. If the acquisition does not close, the contract would not be completed and no amounts would be exchanged. The contract can be executed upon approval of the acquisition up to March 31, 2019. This contract is an economic hedge and does not qualify for hedge accounting. It has been accounted for as an undesignated contract.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at March 31, 2018 and December 31, 2017 is as follows:

March 31, 2018 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	28	28	28	—	—
Derivative instrument					
Foreign exchange contract	24	24	—	—	24
	52	52	28	—	24
Liabilities:					
Short-term notes payable	989	989	989	—	—
Long-term debt, including current portion	10,066	11,447	—	11,447	—
Convertible debentures	488	491	491	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	9	—	—
	11,552	12,936	1,489	11,447	—

December 31, 2017 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	25	25	25	—	—
	25	25	25	—	—
Liabilities:					
Short-term notes payable	926	926	926	—	—
Long-term debt, including current portion	10,067	11,568	—	11,568	—
Convertible debentures	487	574	574	—	—
Derivative instruments					
Fair value hedges – interest-rate swaps	9	9	9	—	—
Foreign exchange contract	3	3	—	—	3
	11,492	13,080	1,509	11,568	3

Cash and cash equivalents include cash and short-term investments. The carrying values are representative of fair value because of the short-term nature of these instruments.

The fair value of the hedged portion of the long-term debt is primarily based on the present value of future cash flows using a swap yield curve to determine the assumption for interest rates. The fair value of the unhedged portion of the long-term debt is based on unadjusted period-end market prices for the same or similar debt of the same remaining maturities.

The fair value of the convertible debentures is based on their closing price on March 29, 2018 (last business day in March 2018), as posted on the Toronto Stock Exchange.

The Company uses derivative instruments as an economic hedge for foreign exchange risk. The value of the foreign exchange contract is derived using valuation models commonly used for derivatives. These valuation models require a variety of inputs, including contractual terms, forward price yield curves, probability of closing the Avista Corporation acquisition, and the contract settlement date. The Company's valuation models also reflect measurements for credit risk. The fair value of the foreign exchange contract includes significant unobservable inputs, and therefore has been classified accordingly as Level 3. The significant unobservable inputs used in the fair value measurement of the foreign exchange contract relates to the assessment of probability of closing the Avista Corporation acquisition and the contract settlement date.

<u>Changes in the Fair Value of Financial Instruments Classified in Level 3</u>

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the three months ended March 31, 2018 and the year ended December 31, 2017:

(millions of dollars)	Three months ended March 31, 2018	Year ended December 31, 2017
Fair value of asset (liability) - beginning	(3)	—
Unrealized gain (loss) on foreign exchange contract included in financing charges	27	(3)
Fair value of asset (liability) - ending	24	(3)

There were no transfers between any of the fair value levels during the three months ended March 31, 2018 and the year ended December 31, 2017.

Risk Management

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

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

The Company uses a combination of fixed and variable-rate debt to manage the mix of its debt portfolio. The Company also uses derivative financial instruments to manage interest-rate risk. The Company utilizes interest-rate swaps, which are typically designated as fair value hedges, as a means to manage its interest rate exposure to achieve a lower cost of debt. The Company may also utilize interest-rate derivative instruments to lock in interest-rate levels in anticipation of future financing.

A hypothetical 100 basis points increase in interest rates associated with variable-rate debt would not have resulted in a significant decrease in Hydro One's net income for the three months ended March 31, 2018 and 2017.

The Company is exposed to foreign exchange fluctuations as a result of entering into a deal-contingent foreign exchange forward agreement. This agreement is intended to mitigate the foreign currency risk related to the portion of the Avista Corporation acquisition purchase price financed with the issuance of Convertible Debentures.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations and Comprehensive Income. The net unrealized loss (gain) on the hedged debt and the related interest-rate swaps for the three months ended March 31, 2018 and 2017 was not material.

Credit Risk

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At March 31, 2018 and December 31, 2017, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a material amount of revenue from any single customer. At March 31, 2018 and December 31, 2017, there was no material accounts receivable balance due from any single customer.

At March 31, 2018, the Company's provision for bad debts was $26 million (December 31, 2017 – $29 million). Adjustments and write-offs are determined on the basis of a review of overdue accounts, taking into consideration historical experience. At March 31, 2018, approximately 5% (December 31, 2017 – 5%) of the Company's net accounts receivable were outstanding for more than 60 days.

Hydro One manages its counterparty credit risk through various techniques including: entering into transactions with highly rated counterparties; limiting total exposure levels with individual counterparties; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties both on an individual and an aggregate basis. The Company's credit risk for accounts receivable is limited to the carrying amounts on the Consolidated Balance Sheets.

Derivative financial instruments result in exposure to credit risk since there is a risk of counterparty default. The credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At March 31, 2018 and December 31, 2017, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At March 31, 2018, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, had a credit rating of investment grade, with four financial institutions as the counterparties.

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the revolving standby credit facilities. The short-term liquidity under the Commercial Paper Program, revolving standby credit facilities, and anticipated levels of funds from operations are expected to be sufficient to fund normal operating requirements.

16. PENSION AND POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS

Estimated annual defined benefit pension plan contributions for 2018 and 2019 are approximately $71 million for each year based on an actuarial valuation as at December 31, 2016 and projected levels of pensionable earnings. Employer contributions made during the three months ended March 31, 2018 were $18 million (2017 – $28 million).

The following table provides the components of the net periodic benefit costs for the three months ended March 31, 2018 and 2017:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended March 31 *(millions of dollars)*	2018	2017	2018	2017
Current service cost	44	36	12	12
Interest cost	71	76	14	17
Expected return on plan assets, net of expenses[1]	(117)	(110)	—	—
Amortization of actuarial losses	21	20	1	2
Net periodic benefit costs	19	22	27	31
Charged to results of operations[2]	9	13	12	14

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2018 is 6.5% (2017 – 6.5%).

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three months ended March 31, 2018, pension costs of $21 million (2017 – $30 million) were attributed to labour, of which $9 million (2017 – $13 million) was charged to operations, and $12 million (2017 – $17 million) was capitalized as part of the cost of property, plant and equipment and intangible assets.

17. ENVIRONMENTAL LIABILITIES

The following table shows the movements in environmental liabilities for the three months ended March 31, 2018 and the year ended December 31, 2017:

(millions of dollars)	Three months ended March 31, 2018	Year ended December 31, 2017
Environmental liabilities – beginning	196	204
Interest accretion	2	8
Expenditures	(4)	(24)
Revaluation adjustment	—	8
Environmental liabilities – ending	194	196
Less: current portion	(32)	(28)
	162	168

The following table shows the reconciliation between the undiscounted basis of environmental liabilities and the amount recognized on the Consolidated Balance Sheets after factoring in the discount rate:

(millions of dollars)	March 31, 2018	December 31, 2017
Undiscounted environmental liabilities	202	206
Less: discounting environmental liabilities to present value	(8)	(10)
Discounted environmental liabilities	194	196

At March 31, 2018, the estimated future environmental expenditures were as follows:

(millions of dollars)	
Remainder of 2018	24
2019	27
2020	32
2021	34
2022	31
Thereafter	54
	202

18. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At March 31, 2018, the Company had 595,386,711 common shares issued and outstanding (December 31, 2017 - 595,386,711).

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At March 31, 2018 and December 31, 2017, two series of preferred shares are authorized for issuance: the Series 1 preferred shares and the Series 2 preferred shares.

At March 31, 2018 and December 31, 2017, the Company had 16,720,000 Series 1 preferred shares and no Series 2 preferred shares issued and outstanding.

19. DIVIDENDS

During the three months ended March 31, 2018, preferred share dividends in the amount of $5 million (2017 - $5 million) and common share dividends in the amount of $131 million (2017 - $125 million) were declared and paid.

20. EARNINGS PER COMMON SHARE

Basic earnings per common share (EPS) is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted average number of common shares outstanding.

Diluted EPS is calculated by dividing net income attributable to common shareholders of Hydro One by the weighted average number of common shares outstanding adjusted for the effects of potentially dilutive stock-based compensation plans, including the share grant plans and the Long-term Incentive Plan (LTIP), which are calculated using the treasury stock method.

Three months ended March 31	2018	2017
Net income attributable to common shareholders *(millions of dollars)*	222	167
Weighted average number of shares		
Basic	595,386,711	595,000,000
Effect of dilutive stock-based compensation plans	2,322,393	2,257,005
Diluted	597,709,104	597,257,005
EPS		
Basic	$0.37	$0.28
Diluted	$0.37	$0.28

The common shares contingently issuable as a result of the Convertible Debentures are not included in diluted EPS until conditions for closing the Avista Corporation acquisition are met.

21. STOCK-BASED COMPENSATION

Share Grant Plans

There were no changes in share grants under the Share Grant Plans during the three months ended March 31, 2018 and 2017.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSUs activity under the Directors' DSU Plan during the three months ended March 31, 2018 and 2017 is presented below:

Three months ended March 31 *(number of DSUs)*	2018	2017
DSUs outstanding - beginning	187,090	99,083
Granted	27,753	20,680
DSUs outstanding - ending	214,843	119,763

At March 31, 2018, a liability of $4 million (December 31, 2017 - $4 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $20.92 (December 31, 2017 - $22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

Management DSU Plan

A summary of DSUs activity under the Management DSU Plan during the three months ended March 31, 2018 and 2017 is presented below:

Three months ended March 31 *(number of DSUs)*	2018	2017
DSUs outstanding - beginning	67,829	—
Granted	36,809	66,952
DSUs outstanding - ending	104,638	66,952

At March 31, 2018, a liability of $2 million (December 31, 2017 - $2 million) related to outstanding DSUs has been recorded at the closing price of the Company's common shares of $20.92 (December 31, 2017 - $22.40) and is included in long-term accounts payable and other liabilities on the Consolidated Balance Sheets.

LTIP

Performance Share Units (PSU) and Restricted Share Units (RSU)

A summary of PSU and RSU awards activity under the LTIP during the three months ended March 31, 2018 and 2017 is presented below:

	PSUs		RSUs	
Three months ended March 31 *(number of units)*	2018	2017	2018	2017
Units outstanding - beginning	429,980	230,600	393,430	254,150
Granted	427,940	267,450	332,440	218,950
Forfeited	(13,220)	(14,435)	(9,880)	(15,885)
Units outstanding - ending	844,700	483,615	715,990	457,215

The grant date total fair value of the awards granted during the three months ended March 31, 2018 was $16 million (2017 - $12 million). The compensation expense related to these awards recognized by the Company during the three months ended March 31, 2018 was $2 million (2017 - $1 million).

Stock Options

The Company is authorized to grant stock options under its LTIP to certain eligible employees. During the three months ended March 31, 2018, the Company granted 1,450,880 stock options (2017 - nil). The stock options granted are exercisable for a period not to exceed seven years from the date of grant and vest evenly over a three-year period on each anniversary of the date of grant.

The Company uses the fair value based method to measure compensation expense related to stock options and recognizes the expense over the vesting period on a straight-line basis. The fair value of the stock option awards granted was estimated on the date of grant using a Black-Scholes valuation model.

Stock options granted and the weighted average assumptions used in the valuation model for options granted during the three months ended March 31, 2018 are as follows:

Exercise price[1]	$ 20.70
Grant date fair value per option	$ 1.66
Valuation assumptions:	
Expected dividend yield[2]	3.78%
Expected volatility[3]	15.01%
Risk-free interest rate[4]	2.00%
Expected option term[5]	4.5 years

[1] Hydro One common share price on the date of the grant.
[2] Based on dividend and Hydro One common share price on the date of the grant.
[3] Based on average daily volatility of peer entities for a 4.5-year term.
[4] Based on bond yield for an equivalent Canadian government bond.
[5] Determined using the option term and the vesting period.

A summary of stock options activity during the three months ended March 31, 2018 is presented below:

Three months ended March 31 *(number of stock options)*	2018
Stock options outstanding - beginning	—
Granted[1]	1,450,880
Stock options outstanding - ending[1]	1,450,880

[1] All stock options granted and outstanding at March 31, 2018 are non-vested.

The compensation expense related to stock options recognized by the Company during the three months ended March 31, 2018 was not material. At March 31, 2018, there was $2 million of unrecognized compensation expense related to stock options not yet vested, which is expected to be recognized over a weighted average period of approximately three years.

22. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.4% ownership at March 31, 2018. The IESO, Ontario Power Generation Inc. (OPG), Ontario Electricity Financial Corporation (OEFC), and the OEB, are related parties to Hydro One because they are controlled or significantly influenced by the Province.

Three months ended March 31 *(millions of dollars)*

Related Party	Transaction	2018	2017
Province	Dividends paid	67	92
IESO	Power purchased	513	651
	Revenues for transmission services	405	369
	Amounts related to electricity rebates	137	77
	Distribution revenues related to rural rate protection	57	61
	Distribution revenues related to the supply of electricity to remote northern communities	8	8
	Funding received related to Conservation and Demand Management programs	12	16
OPG	Power purchased	4	4
	Revenues related to provision of construction and equipment maintenance services	2	—
OEFC	Power purchased from power contracts administered by the OEFC	1	1
OEB	OEB fees	2	2

Sales to and purchases from related parties are based on the requirements of the OEB's Affiliate Relationships Code. Outstanding balances at period end are interest-free and settled in cash.

23. CONSOLIDATED STATEMENTS OF CASH FLOWS

The changes in non-cash balances related to operations consist of the following:

Three months ended March 31 *(millions of dollars)*	2018	2017
Accounts receivable	48	91
Due from related parties	10	(45)
Materials and supplies	(2)	—
Prepaid expenses and other assets	(9)	—
Accounts payable	(31)	(3)
Accrued liabilities	33	20
Due to related parties	(120)	(36)
Accrued interest	17	25
Long-term accounts payable and other liabilities	1	2
Post-retirement and post-employment benefit liability	7	23
	(46)	77

Capital Expenditures

The following tables reconcile investments in property, plant and equipment, intangible assets and regulatory assets and the amounts presented in the Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017:

Three months ended March 31, 2018 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(293)	(12)	(305)
Net change in accruals included in capital investments[1]	7	(2)	5
Cash outflow for capital expenditures	(286)	(14)	(300)

[1] For property, plant and equipment, the amount also includes capitalized depreciation.

Three months ended March 31, 2017 *(millions of dollars)*	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(337)	(13)	(350)
Net change in accruals included in capital investments[1]	2	(1)	1
Cash outflow for capital expenditures	(335)	(14)	(349)

[1] For property, plant and equipment, the amount also includes capitalized depreciation.

Supplementary Information

Three months ended March 31 *(millions of dollars)*	2018	2017
Net interest paid	105	88
Income taxes paid	6	4

24. CONTINGENCIES

Hydro One is involved in various lawsuits and claims in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Hydro One Inc., Hydro One Networks, Hydro One Remote Communities Inc., and Norfolk Power Distribution Inc. are defendants in a class action suit in which the representative plaintiff is seeking up to $125 million in damages related to allegations of improper billing practices. The plaintiff's motion for certification was dismissed by the court on November 28, 2017, but the plaintiff has appealed the court's decision. The appeal is scheduled to be heard on October 16, 2018, and it is possible that no decision will be rendered by the appeal court until the first quarter of 2019. At this time, an estimate of a possible loss related to this claim cannot be made.

To date, four putative class action lawsuits were filed by purported Avista Corporation shareholders in relation to the Merger. First, *Fink v. Morris, et al.*, was filed in Washington state court and the amended complaint names as defendants Avista Corporation's directors, Hydro One, Olympus Holding Corp., Olympus Corp., and Bank of America Merrill Lynch. The suit alleges that Avista Corporation's directors breached their fiduciary duties in relation to the Merger, aided and abetted by Hydro One, Olympus Holding Corp., Olympus Corp. and Bank of America Merrill Lynch. The Washington state court issued an order staying the litigation until after the plaintiffs file an amended complaint, which must be no later than 30 days after Avista Corporation or Hydro One publicly announces that the Merger has closed. Second, *Jenß v. Avista Corp., et al., Samuel v. Avista Corp., et al., and Sharpenter v. Avista Corp., et al.*, were each filed in the US District Court for the Eastern District of Washington and named as defendants Avista Corporation and its directors; *Sharpenter* also named Hydro One, Olympus Holding Corp., and Olympus Corp. The lawsuits alleged that the preliminary proxy statement omitted material facts necessary to make the statements therein not false or misleading. *Jenß, Samuel, and Sharpenter* were all voluntarily dismissed by the respective plaintiffs with no consideration paid by any of the defendants. The one remaining class action is consistent with expectations for US merger transactions and, while there is no certainty as to outcome, Hydro One believes that the lawsuit is not material to Hydro One.

25. COMMITMENTS

The following table presents a summary of Hydro One's commitments under leases, outsourcing and other agreements due in the next 5 years and thereafter:

March 31, 2018 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing agreements	145	112	84	2	3	5
Long-term software/meter agreement	17	17	13	1	1	3
Operating lease commitments	12	7	9	4	1	3

The following table presents a summary of Hydro One's other commercial commitments by year of expiry in the next 5 years and thereafter:

March 31, 2018 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Credit facilities	—	—	—	250	2,300	—
Letters of credit[1]	173	—	—	—	—	—
Guarantees[2]	325	—	—	—	—	—

[1] Letters of credit consist of a $154 million letter of credit related to retirement compensation arrangements, a $12 million letter of credit provided to the IESO for prudential support, $6 million in letters of credit to satisfy debt service reserve requirements, and $1 million in letters of credit for various operating purposes.
[2] Guarantees consist of prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries.

26. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting more than 70 local distribution companies and certain large directly connected industrial customers throughout the Ontario electricity grid;

- The Distribution Segment, which comprises the delivery of electricity to end customers and certain other municipal electricity distributors; and
- Other Segment, which includes certain corporate activities and the operations of the Company's telecommunications business.

The designation of segments has been based on a combination of regulatory status and the nature of the services provided. Operating segments of the Company are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance of each of the segments. The Company evaluates segment performance based on income before financing charges and income taxes from continuing operations (excluding certain allocated corporate governance costs).

Three months ended March 31, 2018 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	421	1,145	10	1,576
Purchased power	—	751	—	751
Operation, maintenance and administration	105	145	20	270
Depreciation and amortization	103	92	2	197
Income (loss) before financing charges and income taxes	213	157	(12)	358
Capital investments	190	114	1	305

Three months ended March 31, 2017 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	367	1,279	12	1,658
Purchased power	—	889	—	889
Operation, maintenance and administration	102	145	24	271
Depreciation and amortization	101	92	2	195
Income (loss) before financing charges and income taxes	164	153	(14)	303
Capital investments	209	138	3	350

Total Assets by Segment:

(millions of dollars)	March 31, 2018	December 31, 2017
Transmission	13,698	13,608
Distribution	9,253	9,259
Other	2,838	2,834
Total assets	25,789	25,701

Total Goodwill by Segment:

(millions of dollars)	March 31, 2018	December 31, 2017
Transmission	157	157
Distribution	168	168
Total goodwill	325	325

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

27. SUBSEQUENT EVENTS

Dividends

On May 14, 2018, preferred share dividends in the amount of $4 million and common share dividends in the amount of $137 million ($0.23 per common share) were declared.

Share Grant Plans

On April 1, 2018, Hydro One issued from treasury 481,227 common shares to eligible employees in accordance with provisions of the Power Workers' Union and the Society of Energy Professionals Share Grant Plans.

Agreement to Purchase Orillia Power

In 2016, the Company reached an agreement to acquire Orillia Power Distribution Corporation (Orillia Power), an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia, subject to regulatory approval by the OEB. On April 12, 2018, the OEB issued a decision denying Hydro One's proposed acquisition of Orillia Power. In May 2018, Hydro One filed a Motion to Review and Vary the OEB's decision.