Hydro One Reports Third Quarter Results

The Company continues to support its customers and economic growth in the province, while building a grid for the future

TORONTO, November 9, 2021 - Hydro One Limited (Hydro One or the Company) today announced its financial and operating results for the third quarter ended September 30, 2021.

Third Quarter Highlights

- Third quarter earnings per share (EPS) was $0.50, compared to EPS of $0.47 for the same period in 2020. The increase in EPS was primarily due to approved rates for the transmission and distribution segments as well as the redemption of preferred shares in the prior year, partially offset by lower transmission peak demand and higher depreciation, amortization and asset removal costs.
- Hydro One quickly restored power to more than 84,000 customers in northern and central Ontario as well as over 70,000 customers in southern and central Ontario following severe weather across the Province. Hydro One prioritizes restoration in a way that brings power back to the greatest number of customers in the shortest period of time.
- Hydro One has partnered with Feed Ontario in the fight against hunger by providing the equivalent of 450,000 meals to those in need.
- The Canadian Council of Aboriginal Business (CCAB) has partnered with Hydro One to support Indigenous-owned businesses through two types of grants. This partnership is part of Hydro One's commitment to ensuring that 20 per cent of its community investments are directed to Indigenous communities.
- The Company recently partnered with PowerFlex, a division of EDF Renewables North America, to provide distributed energy resources for our commercial and industrial customers.
- Demonstrating its financial stability and flexibility, the Company's wholly-owned subsidiary, Hydro One Inc. successfully issued $900 million of Medium Term Notes (MTN) at competitive rates.
- The Company's capital investments and in-service additions for the quarter were $513 million and $514 million, respectively, compared to $500 million and $371 million in 2020.
- Quarterly dividend declared at $0.2663 per share, payable December 31, 2021.

"Hydro One continues to energize life in Ontario, by meeting the needs of our customers and communities," said Mark Poweska, President and CEO of Hydro One. “Hydro One strives to improve customer experience through innovation and by building a smarter, more sustainable and resilient grid."

Selected Consolidated Financial and Operating Highlights

(millions of Canadian dollars, except as otherwise noted)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Revenues	1,913	1,903	5,446	5,423
Purchased power	933	993	2,665	2,808
Revenues, net of purchased power[1]	980	910	2,781	2,615
Net income attributable to common shareholders	300	281	806	1,609
Adjusting items	—	—	—	(867)
Adjusted net income attributable to common shareholders[1]	300	281	806	742
Basic EPS	$0.50	$0.47	$1.35	$2.69
Diluted EPS	$0.50	$0.47	$1.34	$2.68
Basic Adjusted EPS[1]	$0.50	$0.47	$1.35	$1.24
Diluted Adjusted EPS[1]	$0.50	$0.47	$1.34	$1.24
Net cash from operating activities	550	680	1,479	1,603
Capital investments	513	500	1,593	1,301
Assets placed in-service	514	371	971	761
Transmission: Average monthly Ontario 60-minute peak demand (MW)	21,137	22,831	20,174	20,392
Distribution: Electricity distributed to Hydro One customers (GWh)	7,329	7,132	22,235	20,829

[1] **Non-GAAP Measures -** Hydro One uses financial measures that do not have a standardized meaning under the United States (US) generally accepted accounting principles (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 (MD&A) for further discussion of these items.

Key Financial Highlights

<u>2021 Third Quarter Highlights</u>

The Company reported net income attributable to common shareholders of $300 million during the quarter, compared to $281 million in the same period of 2020. This resulted in EPS of $0.50, compared to EPS of $0.47 in the prior year.

Revenues, net of purchased power, for the third quarter were $70 million higher than last year, mainly due to higher distribution and transmission revenues resulting from Ontario Energy Board (OEB) approved 2021 rates as well as the recovery of deferred tax asset amounts (DTA Recovery Amounts) pursuant to the April 2021 OEB decision (DTA Implementation Decision). This has been partially offset by lower energy demand in the quarter.

OM&A costs were consistent year-over-year as work program expenditures were largely in line with the prior year.

Depreciation, amortization and asset removal costs for the third quarter were higher than last year, mainly due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program, and higher environmental spend.

Financing charges for the third quarter were higher year-over-year primarily due to higher debt levels incurred to finance the growth in capital assets.

Income tax expense for the third quarter of 2021 was higher than the prior year primarily due to tax expense relating to the DTA Recovery Amounts as well as lower net deductible timing differences and higher pre-tax earnings.

Further contributing to the year-over-year increase in net income attributable to common shareholders was the redemption of the Series 1 Preferred Shares announced in the third quarter of the prior year.

Hydro One continues to invest in the reliability and performance of Ontario's electricity transmission and distribution systems by addressing aging power system infrastructure, facilitating connectivity to new load customers and generation sources, and improving service to customers. The Company made capital investments of $513 million during the third quarter of 2021, and placed $514 million of new assets in-service.

<u>COVID-19</u>

Throughout the COVID-19 pandemic, the Company's decisions and actions have continuously been guided by two priorities: to protect Hydro One's employees and to maintain the safe and reliable supply of electricity to Hydro One's customers. To date, Hydro One has been successful in achieving these priorities as the Company continues to operate-in-line with the evolving safety procedures and practices implemented since the start of the pandemic. As a result, Hydro One has experienced very few cases of workplace transmission of the COVID-19 virus.

The Company continues to monitor and adhere to guidance provided by the Province of Ontario and public health experts in an effort to ensure employee, customer and public safety.

In keeping with the Company's ongoing commitment to customers, and to assist those customers significantly impacted by the pandemic, the Company continues to offer a number of customer relief measures including the Pandemic Relief Fund, increased payment flexibility to residential and small business customers, and assistance in securing other financial assistance.

Looking ahead, it is very difficult to determine or estimate the future impacts of COVID-19 on Hydro One's operations as it will be largely dependent on the duration of the pandemic and the severity of the measures that may be implemented to combat this virus. Electricity consumption and demand can be impacted by numerous variables, including weather, changing economic conditions and conservation efforts, making it difficult to estimate the impact of COVID-19 with any level of precision. Hydro One continues to take the necessary steps to mitigate the impact of COVID-19 on the Company's operations.

Selected Operating Highlights

Hydro One quickly restored power to more than 84,000 customers in northern and central Ontario as well as over 70,000 customers in southern and central Ontario following severe weather across the Province. Hydro One prioritizes restoration in a way that brings power back to the greatest number of customers in the shortest period of time. Customers can easily access updates how and when they want using Hydro One's innovative outage tools, such as its outage map, app and proactive text or email notification. These free tools allow customers to check the status of power outages anywhere in Hydro One's service area and receive helpful tips and news.

Hydro One announced support for Feed Ontario, the province's largest collective of hunger-relief organizations providing food banks with fresh food and pantry staples. Hydro One's contribution of $150,000 will provide the equivalent of 450,000 meals. The partnership will help safely distribute nutritious food to over 1,200 hunger-relief organizations in more than 130 communities across Ontario.

The CCAB and Hydro One announced 28 recipients of the Hydro One Business Grant. As many businesses continue to face financial challenges associated with the lasting impacts of the pandemic, these new grants will provide direct financial support to Indigenous-owned businesses.

The Company partnered with PowerFlex, a division of EDF Renewables North America, to provide distributed energy resources for our commercial and industrial customers. The two projects in this partnership are battery energy storage systems totaling 20MWh. This solution helps our customers optimize their energy consumption and reduce their overall energy bills.

In September, the Company's wholly-owned subsidiary, Hydro One Inc. raised $900 million of MTN consisting of $450 million aggregate principal amount of 2.23% MTN, Series 50, due 2031 and $450 million aggregate principal amount of 3.10% MTN, Series 51, due 2051. Hydro One Inc. expects to use the net proceeds of this offering to repay and/or prepay maturing long-term and short-term debt and for general corporate purposes.

Common Share Dividends

Following the conclusion of the third quarter, on November 8, 2021, the Company declared a quarterly cash dividend to common shareholders of $0.2663 per share to be paid on December 31, 2021 to shareholders of record on December 8, 2021.

Supplemental Segment Information

(millions of Canadian dollars)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Revenues				
Transmission	507	483	1,403	1,342
Distribution	1,395	1,410	4,012	4,050
Other	11	10	31	31
Total revenues	**1,913**	**1,903**	**5,446**	**5,423**
Revenues, net of purchased power				
Transmission	507	483	1,403	1,342
Distribution	462	417	1,347	1,242
Other	11	10	31	31
Total revenues, net of purchased power	**980**	**910**	**2,781**	**2,615**
Operation, maintenance and administration costs				
Transmission	95	102	294	318
Distribution	153	145	497	434
Other	14	15	42	45
Total operation, maintenance and administration costs	**262**	**262**	**833**	**797**
Income (loss) before financing charges and taxes				
Transmission	296	268	754	690
Distribution	200	167	536	503
Other	(5)	(7)	(17)	(20)
Total income before financing charges and taxes	**491**	**428**	**1,273**	**1,173**
Capital investments				
Transmission	304	309	1,017	796
Distribution	206	190	566	502
Other	3	1	10	3
Total capital investments	**513**	**500**	**1,593**	**1,301**
Assets placed in-service				
Transmission	287	196	482	383
Distribution	225	174	481	376
Other	2	1	8	2
Total assets placed in-service	**514**	**371**	**971**	**761**

This press release should be read in conjunction with the Company's third quarter 2021 unaudited consolidated financial statements and MD&A. These financial statements and MD&A together with additional information about Hydro One, including the audited consolidated financial statements and MD&A for the year ended December 31, 2020 can be accessed at www.HydroOne.com/Investors and www.sedar.com.

Quarterly Investment Community Teleconference

The Company's third quarter 2021 results teleconference with the investment community will be held on November 9, 2021 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 1-866-221-1674 prior to the scheduled start time and request access to Hydro One's third quarter 2021 results call, conference ID 8546552 (international callers may dial 1-270-215-9604). 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.

Hydro One Limited (TSX: H)

Hydro One Limited, through its wholly-owned subsidiaries, is Ontario's largest electricity transmission and distribution provider with approximately 1.4 million valued customers, approximately $30.3 billion in assets as at December 31, 2020, and annual revenues in 2020 of approximately $7.3 billion.

Our team of approximately 8,700 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. In 2020, Hydro One invested approximately $1.9 billion in its transmission and distribution networks, and supported the economy through buying approximately $1.7 billion of goods and services.

We are committed to the communities where we live and work through community investment, sustainability and diversity initiatives. We are designated as a Sustainable Electricity Company by the Canadian Electricity Association.

Hydro One Limited's common shares are listed on the TSX and certain of Hydro One Inc.'s medium term notes are listed on the NYSE. Additional information can be accessed at www.hydroone.com, www.sedar.com or www.sec.gov.

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: the Company's continuing support of its customers and economic growth in the province; building a grid for the future; Hydro One's commitment to investments in Indigenous communities; energizing life in Ontario; improving customer experience; the Company's ongoing and planned projects and expected capital investments, including anticipated outcomes and impacts; investments in reliability and performance of the electricity system; impact of COVID-19 on the Company's business and operations, and potential future actions that the Company may take in response to the COVID-19 pandemic and its anticipated impacts; the Company's response to the COVID-19 pandemic, including in relation to customer relief measures and safety; the impact of Hydro One's contribution to Feed Ontario, and the impact of the partnership across Ontario; the Hydro One Business Grant; Hydro One Inc.'s September MTN issuance and the expected use of proceeds; and payment of dividends. 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 unaudited condensed interim consolidated financial statements and accompanying notes thereto (Consolidated Financial Statements) of Hydro One Limited (Hydro One or the Company) for the three and nine months ended September 30, 2021, as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2020. The Consolidated Financial Statements have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). All financial information in this MD&A is presented in Canadian dollars, unless otherwise indicated.

The Company has prepared this MD&A in accordance with National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canadian securities laws and regulations, which can vary from those of the US. This MD&A provides information as at and for the three and nine months ended September 30, 2021, based on information available to management as of November 8, 2021.

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

	Three months ended September 30			Nine months ended September 30		
(millions of dollars, except as otherwise noted)	2021	2020	Change	2021	2020	Change
Revenues	1,913	1,903	0.5%	5,446	5,423	0.4%
Purchased power	933	993	(6.0%)	2,665	2,808	(5.1%)
Revenues, net of purchased power[1]	980	910	7.7%	2,781	2,615	6.3%
Operation, maintenance and administration (OM&A) costs	262	262	—%	833	797	4.5%
Depreciation, amortization and asset removal costs	227	220	3.2%	675	645	4.7%
Financing charges	118	114	3.5%	338	352	(4.0%)
Income tax expense	71	22	222.7%	123	(812)	(115.1%)
Net income to common shareholders of Hydro One	**300**	**281**	**6.8%**	**806**	**1,609**	**(49.9%)**
Adjusted net income to common shareholders of Hydro One[1]	**300**	**281**	**6.8%**	**806**	**742**	**8.6%**
Basic earnings per common share (EPS)	$0.50	$0.47	6.4%	$1.35	$2.69	(49.8%)
Diluted EPS	$0.50	$0.47	6.4%	$1.34	$2.68	(50.0%)
Basic adjusted non-GAAP EPS (Adjusted EPS)[1]	$0.50	$0.47	6.4%	$1.35	$1.24	8.9%
Diluted Adjusted EPS[1]	$0.50	$0.47	6.4%	$1.34	$1.24	8.1%
Net cash from operating activities	550	680	(19.1%)	1,479	1,603	(7.7%)
Funds from operations (FFO)[1]	545	529	3.0%	1,553	1,409	10.2%
Capital investments	513	500	2.6%	1,593	1,301	22.4%
Assets placed in-service	514	371	38.5%	971	761	27.6%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	21,137	22,831	(7.4%)	20,174	20,392	(1.1%)
Distribution: Electricity distributed to Hydro One customers *(GWh)*	7,329	7,132	2.8%	22,235	20,829	6.8%

As at	September 30, 2021	December 31, 2020
Debt to capitalization ratio[2]	56.5%	56.3%

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

[2] Debt to capitalization ratio is a non-GAAP measure and has been calculated as total debt (including total long-term debt and short-term borrowings, net of cash and cash equivalents) divided by total debt plus total shareholders' equity, but excluding any amounts related to noncontrolling interest. Management believes that the debt to capitalization ratio is helpful as a measure of the proportion of debt in the Company's capital structure.

OVERVIEW

The Company's transmission business consists of the transmission system operated by subsidiaries of Hydro One Inc. (a wholly-owned subsidiary of the Company), Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners).

Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks, inclusive of the distribution system of Orillia Power Distribution Corporation (Orillia Power) and the business and distribution assets of Peterborough Distribution Inc. (Peterborough Distribution), and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

The other segment consists principally of Hydro One's subsidiary, Acronym Solutions Inc., which provides telecommunications support for the Company's transmission and distribution businesses, investments including a joint venture that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network brand, as well as certain corporate activities, and is not rate-regulated.

For the nine months ended September 30, 2021 and 2020, Hydro One's segments accounted for the Company's total revenues, net of purchased power, as follows:

Nine months ended September 30	2021	2020
Transmission	51 %	51 %
Distribution	48 %	48 %
Other	1 %	1 %

As at September 30, 2021 and December 31, 2020, Hydro One's segments accounted for the Company's total assets as follows:

As at	September 30, 2021	December 31, 2020
Transmission	59 %	58 %
Distribution	39 %	38 %
Other	2 %	4 %

RESULTS OF OPERATIONS

Net Income

Net income attributable to common shareholders for the quarter ended September 30, 2021 of $300 million is an increase of $19 million, or 6.8%, from the prior year. Significant influences on net income included:

- higher revenues, net of purchased power, primarily resulting from:
  - an increase in distribution revenues, net of purchased power, primarily resulting from Ontario Energy Board (OEB)-approved rates, recovery of deferred tax asset (DTA) amounts (DTA Recovery Amounts) pursuant to the April 2021 OEB decision (DTA Implementation Decision), and the resumption of late payment charges assessed on overdue accounts receivable balances; and
  - an increase in transmission revenues primarily resulting from DTA Recovery Amounts pursuant to the DTA Implementation Decision and OEB-approved 2021 rates, partially offset by lower peak demand driven by unfavourable weather.
- higher depreciation, amortization and asset removal costs primarily attributable to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program, and higher environmental spend.
- higher financing charges primarily attributable to higher debt levels.
- higher income tax expense primarily attributable to:
  - tax expense relating to the DTA Recovery Amounts pursuant to the DTA Implementation Decision which is offset by a corresponding increase in revenue; and
  - lower net deductible timing differences and higher pre-tax earnings.

Further contributing to the year-over-year increase in net income attributable to common shareholders was the redemption of the Series 1 Preferred Shares announced in the third quarter of the prior year.

Net income attributable to common shareholders for the nine months ended September 30, 2021 of $806 million is a decrease of $803 million, or 49.9%, from the prior year. Year-to-date results were primarily impacted by the non-recurring income tax recovery recorded in the second quarter of 2020 following the July 2020 decision of the Ontario Divisional Court (ODC Decision). Excluding the impact of the ODC Decision, adjusted net income was $64 million, or 8.6%, higher than last year due to similar factors as noted above, as well as:

- higher peak demand and energy consumption on a year-to-date basis, partially offset by lower transmission revenues resulting from timing of the OEB decision on the 2020 rates received in the prior year, including the recognition of Conservation and Demand Management (CDM) revenues;
- lower financing charges on a year-to-date basis primarily resulting from the recognition of carrying charges associated with the DTA Recovery Amounts in the second quarter of 2021 pursuant to the DTA Implementation Decision; and
- higher OM&A resulting from higher work program expenditures mainly related to the timing of vegetation management execution, emergency restoration efforts, information technology initiatives and customer programs, partially offset by lower COVID-19 and lower corporate support costs.

Included in the Company's results for the third quarter and nine months ended September 30, 2021 are costs incurred as a result of the COVID-19 pandemic. Total OM&A costs in the quarter of $3 million (2020 - $5 million), are primarily attributable to direct expenses, including purchases of additional facility-related cleaning supplies and personal protective equipment. On a year-to-date basis, Hydro One has incurred $10 million of COVID-19 related OM&A expenditures (2020 - $32 million). For additional disclosure related to the impact of COVID-19 on the Company's operations for the third quarter and nine months ended September 30, 2021, please see section "Other Developments - COVID-19".

EPS and Adjusted EPS

EPS was $0.50 and $1.35 for the three and nine months ended September 30, 2021, respectively, compared to EPS of $0.47 and $2.69 in the comparable periods last year. The increase in EPS for the three months ended September 30, 2021 was driven by higher earnings, as discussed above. The decrease in EPS for the nine months ended September 30, 2021 was primarily driven by the impact of the 2020 ODC decision, as noted above. Adjusted EPS, which adjusts for impacts of the ODC Decision, was $0.50 and $1.35 for the three and nine months ended September 30, 2021, respectively, compared to $0.47 and $1.24 in the comparable periods last year. The increase in adjusted EPS was driven by changes in net income for the three and nine months ended September 30, 2021, as discussed above, but excluding the impacts of the ODC Decision. See section "Non-GAAP Measures" for description and reconciliation of Adjusted EPS.

Revenues

	Three months ended September 30			Nine months ended September 30		
(millions of dollars, except as otherwise noted)	2021	2020	Change	2021	2020	Change
Transmission	507	483	5.0%	1,403	1,342	4.5%
Distribution	1,395	1,410	(1.1%)	4,012	4,050	(0.9%)
Other	11	10	10.0%	31	31	—%
Total revenues	1,913	1,903	0.5%	5,446	5,423	0.4%
Transmission	507	483	5.0%	1,403	1,342	4.5%
Distribution, net of purchased power[1]	462	417	10.8%	1,347	1,242	8.5%
Other	11	10	10.0%	31	31	—%
Total revenues, net of purchased power[1]	980	910	7.7%	2,781	2,615	6.3%
Transmission: Average monthly Ontario 60-minute peak demand *(MW)*	21,137	22,831	(7.4%)	20,174	20,392	(1.1%)
Distribution: Electricity distributed to Hydro One customers *(GWh)*	7,329	7,132	2.8%	22,235	20,829	6.8%

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

<u>Transmission Revenues</u>

Transmission revenues increased by 5.0% during the quarter ended September 30, 2021, primarily due to:

- higher revenues resulting from the DTA Recovery Amounts pursuant to the DTA Implementation Decision; and
- higher revenues resulting from OEB-approved 2021 rates; partially offset by
- lower average monthly Ontario 60-minute peak demand.

Transmission revenues increased by 4.5% during the nine months ended September 30, 2021, as higher revenues resulting from OEB-approved 2021 rates, DTA Recovery Amounts pursuant to the DTA Implementation Decision, and higher average monthly Ontario 60-minute peak demand on a year-to-date basis were partially offset by the impacts of the 2020 OEB Decision on Transmission rates, including the recognition of CDM revenues in the prior year.

<u>Distribution Revenues, Net of Purchased Power</u>

Distribution revenues, net of purchased power, increased by 10.8% during the quarter ended September 30, 2021, primarily due to:

- higher revenues resulting from OEB-approved 2021 rates;
- higher revenues resulting from the DTA Recovery Amounts pursuant to the DTA Implementation Decision; and
- higher revenues driven by the resumption of late payment charges in 2021.

Distribution revenues, net of purchased power, increased by 8.5% during the nine months ended September 30, 2021, primarily due to similar factors as noted above, as well as higher energy consumption on a year-to-date basis.

OM&A Costs

	Three months ended September 30			Nine months ended September 30		
(millions of dollars)	2021	2020	Change	2021	2020	Change
Transmission	95	102	(6.9%)	294	318	(7.5%)
Distribution	153	145	5.5%	497	434	14.5%
Other	14	15	(6.7%)	42	45	(6.7%)
	262	262	—%	833	797	4.5%

Transmission OM&A Costs

The 6.9% decrease in transmission OM&A costs for the quarter ended September 30, 2021, was primarily due to:

- lower other post-employment benefit (OPEB) costs; and
- timing of work on vegetation management.

The 7.5% decrease in transmission OM&A costs for the nine months ended September 30, 2021, was primarily due to lower corporate support costs and lower COVID-19 related costs, as well as similar factors as noted above, partially offset by a higher volume of station maintenance related expenditures.

Distribution OM&A Costs

The 5.5% increase in distribution OM&A costs for the quarter ended September 30, 2021, was primarily due to higher spend on emergency power restoration efforts.

The 14.5% increase in distribution OM&A costs for the nine months ended September 30, 2021, was primarily due to:

- costs of the Peterborough Distribution and Orillia Power operations;
- higher spend on emergency power restoration efforts;
- the timing of vegetation management execution;
- higher corporate support costs;
- higher spend on customer program; and
- higher spend on information technology initiatives; partially offset by
- lower COVID-19 related costs.

Depreciation, Amortization and Asset Removal Costs

The $7 million and $30 million increase in depreciation, amortization and asset removal costs for the three and nine months ended September 30, 2021, respectively, was primarily due to growth in capital assets as the Company continues to place new assets in-service, consistent with its ongoing capital investment program, as well as higher environmental spend. The year-to-date increase was also impacted by higher asset removal costs.

Financing Charges

The $4 million increase in financing charges for the three months ended September 30, 2021, was primarily due to higher debt levels.

The $14 million decrease in financing charges for the nine months ended September 30, 2021, was primarily due to:

- the recognition of carrying charges associated with the DTA Recovery Amounts pursuant to the DTA Implementation Decision; and
- higher capitalized interest due to higher average balance of assets under construction; partially offset by
- higher interest expense on long-term debt due to higher debt levels.

Income Tax Expense

Income tax expense was $71 million and $123 million for the three and nine months ended September 30, 2021, respectively, compared to income tax expense of $22 million and income tax recovery of $812 million in the comparable periods last year. The $935 million increase in income tax expense for the nine months ended September 30, 2021 was primarily attributable to the $867 million income tax recovery recognized in the second quarter of 2020 following the ODC Decision. When adjusted for this non-recurring recovery, the adjusted income tax expense for the nine months ended September 30, 2020 was $55 million.

The $49 million increase in tax expense for the quarter ended September 30, 2021 was principally attributable to the following:

- tax expense relating to the DTA Recovery Amounts pursuant to the OEB's DTA Implementation Decision;
- lower net deductible timing differences; and
- higher pre-tax earnings.

The $68 million increase in adjusted tax expense for the nine months ended September 30, 2021 was principally attributable to similar factors to those noted above.

The Company realized an effective tax rate (ETR) of approximately 19.0% and 13.2% for the three and nine months ended September 30, 2021, respectively, compared to approximately 7.0% and (98.9%) realized in the same periods last year. The prior year ETR of (98.9)% for the nine months ended September 30, 2020, once adjusted for the impact of the ODC Decision, was 6.7%.

See section "Non-GAAP Measures" for description and reconciliation of adjusted tax expense and adjusted ETR.

Common Share Dividends

In 2021, 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 23, 2021	March 17, 2021	March 31, 2021	$0.2536	152
May 6, 2021	June 9, 2021	June 30, 2021	$0.2663	159
August 9, 2021	September 8, 2021	September 30, 2021	$0.2663	159
				470

Following the conclusion of the third quarter of 2021, the Company declared a cash dividend to common shareholders as follows:

Date Declared	Record Date	Payment Date	Amount per Share	Total Amount *(millions of dollars)*
November 8, 2021	December 8, 2021	December 31, 2021	$0.2663	159

QUARTERLY RESULTS OF OPERATIONS

Quarter ended *(millions of dollars, except EPS and ratio)*	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Revenues	1,913	1,722	1,811	1,867	1,903	1,670	1,850	1,715
Purchased power	933	838	894	1,046	993	808	1,007	914
Revenues, net of purchased power[1]	980	884	917	821	910	862	843	801
Net income to common shareholders	300	238	268	161	281	1,103	225	211
Adjusted net income to common shareholders[1]	300	238	268	161	281	236	225	211
Basic EPS	$0.50	$0.40	$0.45	$0.27	$0.47	$1.84	$0.38	$0.35
Diluted EPS	$0.50	$0.40	$0.45	$0.27	$0.47	$1.84	$0.38	$0.35
Basic Adjusted EPS[1]	$0.50	$0.40	$0.45	$0.27	$0.47	$0.39	$0.38	$0.35
Diluted Adjusted EPS[1]	$0.50	$0.40	$0.45	$0.27	$0.47	$0.39	$0.38	$0.35
Earnings coverage ratio[2]	3.1	3.0	2.9	2.8	2.9	n/a	n/a	n/a

[1] See section "Non-GAAP Measures" for description of revenues, net of purchased power, adjusted net income and Adjusted EPS.

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

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

CAPITAL INVESTMENTS

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

Assets Placed In-Service

The following table presents Hydro One's assets placed in-service during the three and nine months ended September 30, 2021 and 2020:

	Three months ended September 30			Nine months ended September 30		
(millions of dollars)	2021	2020	Change	2021	2020	Change
Transmission	287	196	46.4%	482	383	25.8%
Distribution	225	174	29.3%	481	376	27.9%
Other	2	1	100.0%	8	2	300.0%
Total assets placed in-service	514	371	38.5%	971	761	27.6%

Transmission Assets Placed In-Service

Transmission assets placed in-service increased by $91 million or 46.4% in the third quarter of 2021, primarily due to the following:

- substantial completion of the new Ontario grid control centre in the City of Orillia;
- timing of assets placed in-service in the third quarter of 2021 including East-West Tie Connection, Richview transmission station breaker replacement, and Trafalgar transmission station component replacement, partially offset by Cherrywood transmission station component replacement and Lennox transmission station component replacement, which was placed in service last year; and
- cyber security assets at Cherrywood, Hawthorne and Detweiler transmission stations; partially offset by
- lower spend on spare transformer purchases in the third quarter of 2021.

Transmission assets placed in-service increased by $99 million or 25.8% in the nine months ended September 30, 2021, primarily due to similar factors as noted above.

Distribution Assets Placed In-Service

Distribution assets placed in-service increased by $51 million or 29.3% in the third quarter of 2021, primarily due to the following:

- substantial completion of the new Ontario grid control centre in the City of Orillia;
- higher volume of work on storm-related asset replacements;
- higher volume of work on station refurbishments and replacements; and
- higher volume of work on customer connections; partially offset by
- timing of assets placed in-service for system capability reinforcement projects; and
- lower volume of IT projects.

Distribution assets placed in-service increased by $105 million or 27.9% in the nine months ended September 30, 2021, primarily due to similar factors as noted above as well as higher volume of wood pole replacements.

Capital Investments

The following table presents Hydro One's capital investments during the three and nine months ended September 30, 2021 and 2020:

	Three months ended September 30			Nine months ended September 30		
(millions of dollars)	2021	2020	Change	2021	2020	Change
Transmission						
Sustaining	204	226	(9.7%)	696	579	20.2%
Development	73	52	40.4%	229	152	50.7%
Other	27	31	(12.9%)	92	65	41.5%
	304	309	(1.6%)	1,017	796	27.8%
Distribution						
Sustaining	83	78	6.4%	239	222	7.7%
Development	98	83	18.1%	238	222	7.2%
Other	25	29	(13.8%)	89	58	53.4%
	206	190	8.4%	566	502	12.7%
Other	3	1	200.0%	10	3	233.3%
Total capital investments	513	500	2.6%	1,593	1,301	22.4%

Transmission Capital Investments

Transmission capital investments decreased by $5 million or 1.6% in the third quarter of 2021 compared to the third quarter of 2020. Principal impacts on the levels of capital investments included:

- lower volume of station refurbishments and replacements;
- lower spend on spare transformer purchases; and
- timing of spend on minor fixed assets; partially offset by
- higher investments in multi-year development projects; and
- higher volume of work on customer connections.

Transmission capital investments increased by $221 million or 27.8% in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to higher volume of station refurbishments and replacements, higher spend on line refurbishments and wood pole replacements, higher investments in multi-year development projects, higher volume of work on customer connections, and investment in the new Ontario grid control centre in the City of Orillia, partially offset by lower spend on spare transformer purchases.

Distribution Capital Investments

Distribution capital investments increased by $16 million or 8.4% in the third quarter of 2021 compared to the third quarter of 2020. Principal impacts on the levels of capital investments included:

- higher investments in system capability reinforcement projects; and
- higher volume of storm-related asset replacements; partially offset by
- timing of spend on minor fixed assets purchases.

Distribution capital investments increased by $64 million or 12.7% in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, primarily due to investment in the new Ontario grid control centre in the City of Orillia, higher volume of wood pole replacements, higher volume of work on customer connections and higher investments in IT projects.

Major Transmission Capital Investment Projects

The following table summarizes the status of significant transmission projects as at September 30, 2021:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To Date
Development Projects:			*(year)*	*(millions of dollars)*	
Wataynikaneyap Power LP Line Connection	Pickle Lake Northwestern Ontario	New stations and transmission connection	2022	33	12
East-West Tie Station Expansion	Northern Ontario	New transmission connection and station expansion	2023[1]	181	160
Waasigan Transmission Line	Thunder Bay-Atikokan-Dryden Northwestern Ontario	New transmission line	2024[2]	68[2]	14
Leamington Area Transmission Reinforcement[3,4]	Leamington Southwestern Ontario	New transmission line and stations	2026[3,4]	525[3,4]	149
Sustainment Projects:					
Richview Transmission Station Circuit Breaker Replacement[5]	Toronto Southwestern Ontario	Station sustainment	2021	120	120
Bruce A Transmission Station[5]	Tiverton Southwestern Ontario	Station sustainment	2021	148	148
Beck #2 Transmission Station Circuit Breaker Replacement	Niagara area Southwestern Ontario	Station sustainment	2023	135	99
Cherrywood Transmission Station Circuit Breaker Replacement	Pickering Central Ontario	Station sustainment	2023	115	79
Bruce B Switching Station Circuit Breaker Replacement	Tiverton Southwestern Ontario	Station sustainment	2024	185	121
Middleport Transmission Station Circuit Breaker Replacement	Middleport Southwestern Ontario	Station sustainment	2025	113	88
Lennox Transmission Station Circuit Breaker Replacement	Napanee Southeastern Ontario	Station sustainment	2026	152	101

[1] Due to a revised timeline of project activities, the majority of the East-West Tie Station Expansion project, enabling the connection and energization of the new East-West Tie transmission line, is expected to be placed in-service in 2021 and 2022, with final project in-service in 2023.

[2] The estimated cost of the Waasigan Transmission Line relates to the development phase of the project and the anticipated in-service date reflects the anticipated completion date of the development phase.

[3] The Leamington Area Transmission Reinforcement project consists of the construction of a new double-circuit line between Chatham and Lakeshore and associated transmission stations and connections. The project is currently in the development stage and as such the estimated cost is subject to change. The anticipated in-service dates for the line and stations are between 2022 and 2026.

[4] On March 29, 2021, the Independent Electricity System Operator (IESO) requested Hydro One initiate work to develop and construct a new transmission line between Chatham and Lambton to support agricultural growth in Southwest Ontario; Hydro One is currently evaluating the scope and timing of this work.

[5] Major portions of the Richview Transmission Station and Bruce A Transmission Stations projects were completed and placed in-service. Work on certain minor portions of the project continues in the fourth quarter of 2021.

Future Capital Investments

The Company estimates future capital investments based on management's expectations of the amount of capital expenditures that will be required to provide transmission and distribution services that are efficient, reliable, and provide value for customers, consistent with the OEB's Renewed Regulatory Framework.

The 2021 and 2022 transmission and distribution capital investment estimates below differ from the prior year disclosures, reflecting updated timing and pacing of future capital investments, as well as reprioritization of work. The 2023 to 2027 capital investment estimates have been updated following the filing of the proposed transmission and distribution investment plan which forms part of Hydro One Networks' 2023-2027 Joint Rate Application (JRAP). The 2023 and 2024 transmission and distribution capital investment estimates differ from prior year disclosures, reflecting an updated regional and system growth outlook. The projections and the timing of the transmission and distribution expenditures for years 2023 to 2027 are subject to approval by the OEB.

The following tables summarize Hydro One's annual projected capital investments for 2021 to 2027, by business segment and by category:

By business segment: *(millions of dollars)*	2021	2022	2023	2024	2025	2026	2027
Transmission[1]	1,287	1,236	1,506	1,559	1,514	1,564	1,481
Distribution	782	695	1,020	1,040	1,132	1,082	1,081
Other	23	18	14	11	9	12	14
Total capital investments[2]	2,092	1,949	2,540	2,610	2,655	2,658	2,576

By category: *(millions of dollars)*	2021	2022	2023	2024	2025	2026	2027
Sustainment	1,164	1,271	1,723	1,758	1,826	1,834	1,809
Development[1]	659	499	553	610	614	611	572
Other[3]	269	179	264	242	215	213	195
Total capital investments[2]	2,092	1,949	2,540	2,610	2,655	2,658	2,576

[1] Figures include investments in certain development projects of Hydro One Networks not included in the investment plan filed with the JRAP.

[2] Total capital investments for 2021 include $85 million related to a new Ontario grid control centre.

[3] "Other" capital expenditures include investments in fleet, real estate, IT, and operations technology and related functions.

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 September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Cash provided by operating activities	550	680	1,479	1,603
Cash provided by (used in) financing activities	364	(51)	(225)	(183)
Cash used in investing activities	(508)	(624)	(1,559)	(1,408)
Increase (decrease) in cash and cash equivalents	406	5	(305)	12

Cash provided by operating activities

Cash from operating activities for the third quarter of 2021 decreased by $130 million compared to the third quarter of 2020. The decrease was impacted by various factors, including the following:

- decrease in net working capital primarily attributable to lower payables to the IESO as a result of a lower Global Adjustment rate in the current year and higher rate protection plan settlements in the prior year; and
- changes in certain regulatory accounts; partially offset by
- DTA Recovery Amounts collected pursuant to the DTA Implementation Decision.

Cash from operating activities for the nine months ended September 30, 2021 decreased by $124 million compared to the same period in 2020. The decrease was impacted by various factors, including the following:

- decrease in net working capital primarily attributable to higher receivables from the IESO associated with provincial funding programs implemented in early 2020, timing of customer receipts in 2021 and higher energy sales; partially offset by
- DTA Recovery Amounts collected pursuant to the DTA Implementation Decision; and
- higher pre-tax earnings year to date compared to prior year.

Cash provided by (used in) financing activities

Cash provided by financing activities increased by $415 million and decreased by $42 million for the three and nine months ended September 30, 2021, respectively, compared to 2020. This was impacted by various factors, including the following:

Sources of cash

- The Company issued $900 million of long-term debt in the nine months ended September 30, 2021, compared to $1,100 million of long-term debt issued in the same period last year.
- The Company received proceeds of $960 million and $3,105 million from the issuance of short-term notes in the three and nine months ended September 30, 2021, respectively, compared to $985 million and $3,130 million received in the same periods last year.

Uses of cash

- The Company repaid $1,330 million and $2,945 million of short-term notes in the three and nine months ended September 30, 2021, respectively, compared to $860 million and $3,288 million repaid in the same periods last year.
- The Company repaid $802 million of long-term debt in the nine months ended September 30, 2021, compared to $652 million repaid in the same period last year.
- Common share dividends paid in the three and nine months ended September 30, 2021 were $159 million and $470 million, respectively, compared to dividends of $155 million and $460 million, paid in the same periods last year.

Cash used in investing activities

Cash used in investing activities decreased by $116 million compared to the third quarter of 2020 due to the acquisitions of Orillia Power and the business and distribution assets of Peterborough Distribution in the third quarter of 2020.

Cash used in investing activities for the nine months ended September 30, 2021 increased by $151 million compared to the same period in the prior year as a result of higher capital investments in the current year, partially offset by the acquisitions of Orillia Power and the business and distribution assets of Peterborough Distribution. Please see section "Capital Investments" for comparability of capital investments made by the Company during the three and nine months ended September 30, 2021 compared to the same periods last year.

LIQUIDITY AND FINANCING STRATEGY

Short-term liquidity is provided through FFO, 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 $2,300 million in short-term notes with a term to maturity of up to 365 days.

At September 30, 2021, Hydro One Inc. had $960 million in commercial paper borrowings outstanding, compared to $800 million outstanding at December 31, 2020. In addition, the Company has revolving bank credit facilities (Operating Credit Facilities) with a total available balance of $2,550 million as at September 30, 2021. On June 1, 2021, the maturity date for the Operating Credit Facilities was extended from 2024 to 2026. No amounts were drawn on the Operating Credit Facilities as at September 30, 2021 or December 31, 2020. The Company may use the Operating Credit Facilities for working capital and general corporate purposes. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, available cash on hand and anticipated levels of FFO are expected to be sufficient to fund the Company's operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements. See section "Other Developments - COVID-19" for additional information of the impact of COVID-19 on the Company's operations.

At September 30, 2021, the Company had long-term debt outstanding in the principal amount of $13,656 million, which included $425 million of long-term debt issued by Hydro One, $13,095 million of long-term debt issued by Hydro One Inc., and long-term debt in the principal amount of $136 million issued by HOSSM. The long-term debt issued by Hydro One was issued under its short form base shelf prospectus (Universal Base Shelf Prospectus), as further described below. The majority of long-term debt issued by Hydro One Inc. has been issued under its Medium Term Note (MTN) Program, as further described below. The Company's total long-term debt consists of notes and debentures that mature between 2022 and 2064, and as at September 30, 2021, had a weighted-average term to maturity of approximately 15.0 years (December 31, 2020 - 14.5 years) and a weighted-average coupon rate of 3.8% (December 31, 2020 - 3.8%).

In April 2020, Hydro One Inc. filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At September 30, 2021, $1,900 million remained available for issuance under the MTN Program prospectus.

In August 2020, Hydro One filed the Universal Base Shelf Prospectus with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to $2,000 million of debt, equity or other securities, or any combination thereof, and expires in September 2022. At September 30, 2021, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus.

In December 2020, Hydro One Holdings Limited (HOHL) filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US to replace a previous prospectus that expired in December 2020. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3,000 million of debt securities, unconditionally guaranteed by Hydro One, expiring in January 2023. At September 30, 2021, no securities have been issued under the US Debt Shelf Prospectus.

Compliance

At September 30, 2021, 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:

As at September 30, 2021 *(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	13,656	603	1,433	1,250	10,370
Long-term debt - interest payments	8,575	507	979	906	6,183
Short-term notes payable	960	960	—	—	—
Pension contributions	664	80	214	223	147
Environmental and asset retirement obligations	136	33	33	15	55
Outsourcing and other agreements	183	78	85	7	13
Lease obligations	80	15	25	20	20
Long-term software/meter agreement	18	3	5	4	6
Total contractual obligations	24,272	2,279	2,774	2,425	16,794
Other commercial commitments *(by year of expiry)*					
Operating Credit Facilities[1]	2,550	—	—	2,550	—
Letters of credit[2]	177	173	4	—	—
Guarantees[3]	487	487	—	—	—
Total other commercial commitments	3,214	660	4	2,550	—

[1] On June 1, 2021, the maturity date for the Operating Credit Facilities was extended to 2026.

[2] Letters of credit consist of $164 million letters of credit related to retirement compensation arrangements, a $6 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.

[3] Guarantees consist of $475 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees provided by Hydro One to the Minister of Natural Resources (Canada) of $7 million relating to Ontario Charging Network LP (OCN LP) (OCN Guarantee) and $5 million relating to Aux Energy Inc., the Company's indirect subsidiary. Ontario Power Generation Inc. (OPG) has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee.

SHARE CAPITAL

The common shares of Hydro One are publicly traded on the Toronto Stock Exchange (TSX) under the trading symbol "H". Hydro One is authorized to issue an unlimited number of common shares. The amount and timing of any dividends payable by Hydro One is at the discretion of the Hydro One Board of Directors (Board) and is established on the basis of Hydro One's results of operations, maintenance of its deemed regulatory capital structure, financial condition, cash requirements, the satisfaction of solvency tests imposed by corporate laws for the declaration and payment of dividends and other factors that the Board may consider relevant. At November 8, 2021, Hydro One had 598,217,314 issued and outstanding common shares.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At November 8, 2021, the Company had no preferred shares issued and outstanding.

The number of additional common shares of Hydro One that would be issued if all outstanding awards under the share grant plans and Long-term Incentive Plan (LTIP) were vested and exercised as at November 8, 2021 was 2,846,364.

REGULATION

Electricity Rates - Joint Rate Application

In March 2018, the OEB issued a letter (OEB Letter) requesting Hydro One to file a single application for distribution rates and transmission revenue requirement for the period from 2023 to 2027. The OEB Letter had indicated that Hydro One Remote Communities should be included in the single application, however, this requirement was later removed by the OEB.

On August 5, 2021, Hydro One Networks filed a custom JRAP for 2023-2027. The JRAP includes a proposed investment plan supporting the transmission and distribution revenue requirements. A decision is anticipated in the latter half of 2022. The following table summarizes the key elements of Hydro One's JRAP filed with the OEB:

	Hydro One Networks - Transmission		Hydro One Networks - Distribution	
Year	Rate Base (Forecast)	Revenue Requirement[1]	Rate Base (Forecast)	Revenue Requirement[1]
2023	$14,593 million	$1,823 million	$9,372 million	$1,632 million
2024	$15,450 million	$1,938 million	$9,963 million	$1,711 million
2025	$16,449 million	$2,028 million	$10,641 million	$1,785 million
2026	$17,394 million	$2,140 million	$11,302 million	$1,881 million
2027	$18,256 million	$2,219 million	$11,880 million	$1,965 million

[1] Revenue requirement for 2023 to 2027 represents filing estimates utilizing the OEB's 2021 Allowed Return on Equity (ROE) of 8.34%. The ROE is based on the Cost of Capital Parameters released by the OEB on November 9, 2020.

Deferred Tax Asset

On March 7, 2019, the OEB issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the DTA resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On April 5, 2019, the Company filed an appeal with the Ontario Divisional Court with respect to the OEB's DTA Decision. The appeal was heard on November 21, 2019.

On July 16, 2020, the Ontario Divisional Court rendered its ODC Decision on the Company's appeal of the OEB's DTA Decision. In its decision, the Ontario Divisional Court set aside the OEB's DTA Decision. The Ontario Divisional Court found that the OEB's DTA Decision was incorrect in law because the OEB had failed to apply the correct legal test. In its decision, the Ontario Divisional Court agreed with the submissions of Hydro One that the DTA should be allocated to shareholders in its entirety.

On September 21, 2020, the Ontario Divisional Court issued its final order (ODC Order) with respect to the ODC Decision. Following the ODC Order, on October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court and required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period.

On April 8, 2021, the OEB rendered its DTA Implementation Decision regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. In its DTA Implementation Decision, the OEB approved recovery of the DTA amounts allocated to ratepayers and included in customer rates for the 2017 to 2021 period plus carrying charges over a two-year recovery period commencing on July 1, 2021. The recovery of these amounts is expected to result in an annual increase in FFO of approximately $65 million, $135 million and $65 million in 2021, 2022 and 2023, respectively. In addition, the DTA Implementation Decision requires that Hydro One adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further tax savings flowing to customers. This is expected to further increase FFO by approximately $50 million in 2022, but will decline over time. The DTA Implementation Decision is also expected to result in an increase in the Company's ETR to approximately 14% to 22% over the next five years, with the most significant impacts expected over the recovery period.

Hydro One Remote Communities

On November 3, 2020, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2% increase to 2020 base rates, effective May 1, 2021, which was subsequently updated to 2.2% in accordance with the OEB's 2021 inflation parameters for electricity distributors issued on November 9, 2020. On March 25, 2021, the OEB approved Hydro One Remote Communities' application for rates and other charges to be effective May 1, 2021.

Leave to Construct

On October 27, 2020, Hydro One Networks filed a Leave to Construct application with the OEB seeking approval to upgrade five circuit kilometres of transmission cable facilities in the downtown Toronto area. These facilities are required to ensure that the area continues to receive a safe and reliable supply of electricity. On February 25, 2021, the OEB approved the Leave to Construct application with standard conditions of approval.

OTHER DEVELOPMENTS

COVID-19

Throughout the COVID-19 pandemic, the Company's decisions and actions have continuously been guided by two priorities: to protect Hydro One's employees and to maintain the safe and reliable supply of electricity to Hydro One's customers. To date, Hydro One has been successful in achieving these priorities as the Company continues to operate-in-line with the evolving safety procedures and practices implemented since the start of the pandemic. As a result, Hydro One has experienced very few cases of workplace transmission of the COVID-19 virus.

The Company continues to monitor and adhere to guidance provided by the Province of Ontario (Province) and public health experts in an effort to ensure employee, customer and public safety.

In keeping with the Company's ongoing commitment to customers, and to assist those customers significantly impacted by the pandemic, the Company continues to offer a number of customer relief measures including the Pandemic Relief Fund, increased payment flexibility to residential and small business customers, and assistance in securing other financial assistance.

Looking ahead, it is very difficult to determine or estimate the future impacts of COVID-19 on Hydro One's operations as it will be largely dependent on the duration of the pandemic and the severity of the measures that may be implemented to combat this virus. Hydro One continues to take the necessary steps to mitigate the impact of COVID-19 on the Company's operations.

Hydro One will continue to actively monitor the impacts of the COVID-19 pandemic, including guidance provided by the Province and public health experts, and may take further actions that it determines to be in the best interest of its operations, employees, customers, partners and stakeholders, or as required by federal or provincial authorities.

Collective Agreements

The prior collective agreement with the Society of United Professionals (Society) expired on March 31, 2021. In February 2021, Hydro One and the Society commenced collective bargaining with the official exchange of bargaining agendas. On June 25, 2021, Hydro One and the Society reached a tentative agreement, and on July 30, 2021, the agreement was ratified by the Society membership. The term of the agreement is for two years ending on March 31, 2023.

Building Broadband Faster Act

On March 4, 2021, the provincial Government introduced Bill 257 (*Supporting Broadband and Infrastructure Expansion Act, 2021*) to create a new act entitled the Building Broadband Faster Act, 2021 that is aimed at supporting the timely deployment of needed broadband infrastructure within unserved and underserved rural Ontario communities. Bill 257 received Royal Assent on April 12, 2021. Bill 257 amends the Ontario Energy Board Act, 1998 (OEB Act) to provide the government with regulation-making authority regarding the development of, access to, or use of electricity infrastructure for non-electricity purposes, including to reduce or fix the annual rental charge that telecommunications service providers must pay to attach their wireline broadband telecommunications attachments to utility poles, establish performance standards and timelines for how utilities must respond to attachment requests and require utilities to consider joint use of poles during planning processes. Regulations informing the legislative changes are expected later this year. The Company will continue to assess the impact as more details become available.

Acquisitions

In June 2021, the Company successfully completed the integration of Orillia Power and the business and distribution assets of Peterborough Distribution, including the integration of employees, customer and billing information, business processes and operations.

Sustainability Report

The Hydro One 2020 Sustainability Report entitled "Building a better & brighter future" is available on the Company's website at www.hydroone.com/sustainability.

The 2020 Sustainability Report discloses the Company's environmental, social and governance performance and provides a better understanding of how Hydro One manages the opportunities and challenges associated with its business. The report also includes disclosure relating to the Company's current efforts in its priority areas of People, Planet and Community.

Hydro One Telecom Rebranding

In October 2021, the Company rebranded its subsidiary, Hydro One Telecom Inc., as Acronym Solutions Inc.

NON-GAAP MEASURES

FFO, basic and diluted Adjusted EPS, adjusted net income, revenues, net of purchased power, and distribution revenues, net of purchased power are not recognized measures under US GAAP and do not have standardized meanings 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.

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, management believes that FFO provides a consistent measure of the cash generating performance of the Company's assets.

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Net cash from operating activities	550	680	1,479	1,603
Changes in non-cash balances related to operations	(3)	(146)	80	(179)
Preferred share dividends	—	(4)	—	(13)
Distributions to noncontrolling interest	(2)	(1)	(6)	(2)
FFO	545	529	1,553	1,409

Adjusted Net Income and Adjusted EPS

The following adjusted net income, and basic and diluted Adjusted EPS have been calculated by management on a supplementary basis which adjusts net income under US GAAP for impacts related to the ODC Decision. Adjusted net income and Adjusted EPS are used internally by management to assess the Company's performance and are considered useful because they exclude the impacts of the ODC Decision. Adjusted net income and Adjusted EPS provide users with a comparative basis to evaluate the current ongoing operations of the Company compared to prior year.

Quarter ended *(millions of dollars, except number of shares and EPS)*	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020
Net income attributable to common shareholders	300	238	268	161
Impacts related to the ODC Decision	—	—	—	—
Adjusted net income attributable to common shareholders	300	238	268	161
Weighted-average number of shares				
Basic	598,217,261	598,212,600	597,665,695	597,588,309
Effect of dilutive stock-based compensation plans	2,135,732	2,276,575	2,491,520	2,586,310
Diluted	600,352,993	600,489,175	600,157,215	600,174,619
Adjusted EPS				
Basic	$0.50	$0.40	$0.45	$0.27
Diluted	$0.50	$0.40	$0.45	$0.27

Quarter ended *(millions of dollars, except number of shares and EPS)*	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Net income attributable to common shareholders	281	1,103	225	211
Impacts related to the ODC Decision	—	(867)	—	—
Adjusted net income attributable to common shareholders	281	236	225	211
Weighted-average number of shares				
Basic	597,557,787	597,551,514	596,983,560	596,670,374
Effect of dilutive stock-based compensation plans	2,362,569	2,423,441	2,663,999	2,564,789
Diluted	599,920,356	599,974,955	599,647,559	599,235,163
Adjusted EPS				
Basic	$0.47	$0.39	$0.38	$0.35
Diluted	$0.47	$0.39	$0.38	$0.35

Revenues, Net of Purchased Power

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

Quarter ended *(millions of dollars)*	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Revenues	1,913	1,722	1,811	1,867	1,903	1,670	1,850	1,715
Less: Purchased power	933	838	894	1,046	993	808	1,007	914
Revenues, net of purchased power	980	884	917	821	910	862	843	801

Quarter ended *(millions of dollars)*	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Distribution revenues	1,395	1,263	1,354	1,457	1,410	1,201	1,439	1,298
Less: Purchased power	933	838	894	1,046	993	808	1,007	914
Distribution revenues, net of purchased power	462	425	460	411	417	393	432	384

Adjusted Income Tax Expense and Adjusted ETR

The following adjusted income tax expense and adjusted ETR has been calculated by management on a supplementary basis which adjusts ETR for impacts related to the ODC Decision. Adjusted ETR is used internally by management to assess the Company's income tax impacts and is considered useful because it excludes the impact of the ODC Decision. Adjusted ETR provides users with a comparative basis to evaluate the income tax impacts on the Company compared to prior year.

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Income before income tax expense	373	314	935	821
Income tax (recovery)	71	22	123	(812)
Impacts related to the ODC Decision	—	—	—	867
Adjusted income tax expense	71	22	123	55
Adjusted ETR	19.0 %	7.0 %	13.2 %	6.7 %

RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.2% ownership at September 30, 2021. The IESO, OPG, Ontario Electricity Financial Corporation (OEFC), and the OEB are related parties to Hydro One because they are controlled or significantly influenced by the Ministry of Energy. OCN LP is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2021 and 2020:

(millions of dollars)		Three months ended September 30		Nine months ended September 30	
Related Party	Transaction	2021	2020	2021	2020
Province	Dividends paid	75	76	222	225
IESO	Power purchased	527	560	1,558	1,700
	Revenues for transmission services	502	478	1,387	1,325
	Amounts related to electricity rebates	267	402	815	1,172
	Distribution revenues related to rural rate protection	62	61	184	181
	Distribution revenues related to supply of electricity to remote northern communities	8	8	26	26
	Funding received related to CDM programs	1	4	1	21
OPG[1]	Power purchased	3	1	8	4
	Revenues related to provision of services and supply of electricity	2	2	5	6
	Capital contribution received from OPG	1	—	3	—
	Costs related to the purchase of services	—	—	1	1
OEFC	Power purchased from power contracts administered by the OEFC	1	—	1	1
OEB	OEB fees	2	3	6	7
OCN LP[2]	Investment in OCN LP	4	—	4	2

[1] OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee. See Other Obligations - Summary of Contractual Obligations and Other Commercial Commitments for details related to the OCN Guarantee.

[2] OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2021 that materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures and internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS

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

Recently Adopted Accounting Guidance

Guidance	Date issued	Description	Effective date	Impact on Hydro One
ASU 2018-14	August 2018	Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2021	No impact upon adoption
ASU 2019-12	December 2019	The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles and improving consistent application of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	No impact upon adoption
ASU 2020-01	January 2020	The amendments clarify the interaction of the accounting for equity securities under Topic 321, investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021	No impact upon adoption
ASU 2020-10	October 2020	The amendments are intended to improve the Codification by ensuring the guidance required for an entity to disclose information in the notes of financial statements are codified in the disclosure sections to reduce the likelihood of disclosure requirements being missed.	January 1, 2021	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Hydro One
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	Under assessment
ASU 2021-08	October 2021	The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination.	January 1, 2023	Under assessment

HYDRO ONE HOLDINGS LIMITED - CONSOLIDATING SUMMARY FINANCIAL INFORMATION

Hydro One Limited fully and unconditionally guarantees the payment obligations of its wholly-owned subsidiary Hydro One Holdings Limited (HOHL) issuable under the short form base shelf prospectus dated December 17, 2020. Accordingly, the following consolidating summary financial information is provided in compliance with the requirements of section 13.4 of National Instrument 51-102 - *Continuous Disclosure Obligations* providing for an exemption for certain credit support issuers. The tables below contain consolidating summary financial information as at September 30, 2021 and December 31, 2020 and for the three and nine months ended September 30, 2021 and September 30, 2020 for: (i) Hydro One Limited; (ii) HOHL; (iii) the subsidiaries of Hydro One Limited, other than HOHL, on a combined basis, (iv) consolidating adjustments, and (v) Hydro One Limited and all of its subsidiaries on a consolidated basis, in each case for the periods indicated. Such summary financial information is intended to provide investors with meaningful and comparable financial information about Hydro One Limited and its subsidiaries. This summary financial information should be read in conjunction with Hydro One Limited's most recently issued annual and interim financial statements. This summary financial information has been prepared in accordance with US GAAP, as issued by the FASB.

Three months ended September 30 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	159	2	—	—	2,098	2,006	(344)	(105)	1,913	1,903
Net Income (Loss) Attributable to Common Shareholders	159	(5)	—	—	468	371	(327)	(85)	300	281

Nine months ended September 30 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	470	6	—	—	6,006	5,731	(1,030)	(314)	5,446	5,423
Net Income (Loss) Attributable to Common Shareholders	470	(9)	—	—	1,329	1,886	(993)	(268)	806	1,609

As at September 30, 2021 and December 31, 2020 *(millions of dollars)*	Hydro One Limited		HOHL		Subsidiaries of Hydro One Limited, other than HOHL		Consolidating Adjustments		Total Consolidated Amounts of Hydro One Limited	
	Sept.2021	Dec.2020	Sept.2021	Dec.2020	Sept.2021	Dec.2020	Sept.2021	Dec.2020	Sept.2021	Dec.2020
Current Assets	103	97	—	—	3,135	3,446	(1,467)	(1,554)	1,771	1,989
Non-Current Assets	3,438	3,426	—	—	45,823	44,408	(19,897)	(19,529)	29,364	28,305
Current Liabilities	469	454	—	—	3,732	4,066	(1,464)	(1,541)	2,737	2,979
Non-Current Liabilities	425	423	—	—	29,894	28,810	(12,888)	(12,546)	17,431	16,687

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, the industry, regulatory and economic environments in which it operates, and includes 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 the JRAP and its proposed investment plan, resulting and related decisions including the DTA Implementation Decision, as well as resulting rates, recovery and expected impacts and timing; expectations about the Company's liquidity and capital resources and operational requirements, including as result of COVID-19; the Operating Credit Facilities; expectations regarding the Company's financing activities; the Company's maturing debt; the Company's ongoing and planned projects, initiatives and expected capital investments, including expected results, costs and in-service and completion dates; the Company's response to the COVID-19 pandemic, including in relation to customer relief measures and safety; the potential impact of COVID-19 on the Company's business and operations, and potential future actions that the Company may take in response to the COVID-19 pandemic and its anticipated impacts; contractual obligations and other commercial commitments; the number of Hydro One common shares issuable in connection with outstanding awards under the share grant plans and the LTIP; collective agreements; Bill 257, related regulations and the expected timing and impacts; future pension contributions; dividends; non-GAAP measures; internal controls over financial reporting and disclosure; recent accounting-related guidance; the MTN Program; the Universal Base Shelf Prospectus; and the US Debt Shelf Prospectus. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "would", "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: the scope of the COVID-19 pandemic and duration thereof as well as the effect and severity of corporate and other mitigation measures on the Company's operations, supply chain or employees; no unforeseen changes in the legislative and operating framework for Ontario's electricity market or for Hydro One specifically; favourable decisions from the OEB and other regulatory bodies concerning outstanding and future rate and other applications; no unexpected delays in obtaining the required approvals; no unforeseen changes in rate orders or rate setting methodologies for the Company's distribution and transmission businesses; continued use of US GAAP; a stable regulatory environment; no unfavourable changes in environmental regulation; no significant changes to the Company's current credit ratings; no unforeseen impacts of new accounting pronouncements; no changes to expectations regarding electricity consumption; no unforeseen changes to economic and market conditions; recoverability of costs and expenses related to the COVID-19 pandemic, including the costs of customer defaults resulting from the pandemic; completion of operating and capital projects that have been deferred; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to the Company, including information obtained 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:

- a significant expansion in length or severity of the COVID-19 pandemic restricting or prohibiting the Company's operations or significantly impacting the Company's supply chain or workforce;
- severity of mitigation measures related to the COVID-19 pandemic;
- delays in completion of and increases in costs of operating and capital projects;
- regulatory risks and risks relating to Hydro One's revenues, including risks relating to rate orders and the rate-setting models for transmission and distribution, actual performance against forecasts and capital expenditures, competition with other transmitters and other applications to the OEB, the recoverability of total compensation costs or denials of applications;
- 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, risks associated with the Province's exercise of further legislative and regulatory powers in the implementation of the *Hydro One Accountability Act*, risks relating to the ability of the Company to attract and retain qualified executive talent or the risk of a credit rating downgrade for the Company and its impact on the Company's funding and liquidity;
- risks relating to the location of the Company's assets on reserve (as defined in the *Indian Act* (Canada)) (Reserve) lands and the risk that Hydro One may incur significant costs associated with transferring assets located on Reserves;
- the risk that the Company may be unable to comply with regulatory and legislative requirements or that the Company may incur additional costs for compliance that are not recoverable through rates;
- the risk of exposure of the Company's facilities to the effects of severe weather conditions, natural disasters, man-made events or other unexpected occurrences for which the Company is uninsured or for which the Company could be subject to claims for damage;
- the risk of non-compliance with environmental regulations and inability to recover environmental expenditures in rate applications and the risk that assumptions that form the basis of the Company's recorded environmental liabilities and related regulatory assets may change;
- risks associated with information system security and maintaining complex information technology (IT) and operational technology (OT) system infrastructure, including system failures or risks of cyber-attacks or unauthorized access to corporate IT and OT systems;
- the risk of labour disputes and inability to negotiate or renew appropriate collective agreements on acceptable terms consistent with the Company's rate decisions;
- risks related to the Company's work force demographic and its potential inability to attract and retain qualified personnel;
- the risk that the Company is not able to arrange sufficient cost-effective financing to repay maturing debt and to fund capital expenditures;
- risks associated with fluctuations in interest rates and failure to manage exposure to credit and financial instrument risk;
- risks associated with economic uncertainty and financial market volatility;
- 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 or the risk of increased competition for the development of large transmission projects or legislative changes affecting the selection of transmitters;
- risks associated with asset condition, capital projects and innovation, including public opposition to or delays or denials of the requisite approvals and accommodations for the Company's planned projects;
- the risk of failure to mitigate significant health and safety risks;
- 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 impact of the ownership by the Province of lands underlying the Company's transmission system;
- the risk associated with legal proceedings that could be costly, time-consuming or divert the attention of management and key personnel from the Company's business operations;
- the impact if the Company does not have valid occupational rights on third-party owned or controlled lands and the risks associated with occupational rights of the Company that may be subject to expiry;
- risks relating to adverse reputational events or political actions;
- risks relating to acquisitions, including the failure to realize anticipated benefits of such transaction at all, or within the time periods anticipated, and unexpected costs incurred in relation thereto;
- the inability to prepare financial statements using US GAAP; and
- the risk related to the impact of any new accounting pronouncements.

Hydro One cautions the reader that the above list of factors is not exhaustive. Some of these and other factors are discussed in more detail in the section entitled "Risk Management and Risk Factors" in the 2020 MD&A.

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

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)
For the three and nine months ended September 30, 2021 and 2020

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars, except per share amounts)	**2021**	**2020**	**2021**	**2020**
Revenues				
Distribution (includes related party revenues of $71 and $214 (2020 - $70 and $212) for the three and nine months ended September 30, respectively) *(Note 24)*	1,395	1,410	4,012	4,050
Transmission (includes related party revenues of $502 and $1,387 (2020 - $478 and $1,325) for the three and nine months ended September 30, respectively) *(Note 24)*	507	483	1,403	1,342
Other	11	10	31	31
	1,913	1,903	5,446	5,423
Costs				
Purchased power (includes related party costs of $531 and $1,567 (2020 - $561 and $1,705) for the three and nine months ended September 30, respectively) *(Note 24)*	933	993	2,665	2,808
Operation, maintenance and administration *(Note 24)*	262	262	833	797
Depreciation, amortization and asset removal costs *(Note 5)*	227	220	675	645
	1,422	1,475	4,173	4,250
Income before financing charges and income tax expense	**491**	**428**	**1,273**	**1,173**
Financing charges *(Note 6)*	118	114	338	352
Income before income tax expense	**373**	**314**	**935**	**821**
Income tax expense (recovery) *(Note 7)*	71	22	123	(812)
Net income	**302**	**292**	**812**	**1,633**
Other comprehensive income (loss) *(Note 8)*	2	4	8	(30)
Comprehensive income	**304**	**296**	**820**	**1,603**
Net income attributable to:				
Noncontrolling interest	2	2	6	6
Preferred shareholders	—	9	—	18
Common shareholders	300	281	806	1,609
	302	**292**	**812**	**1,633**
Comprehensive income attributable to:				
Noncontrolling interest	2	2	6	6
Preferred shareholders	—	9	—	18
Common shareholders	302	285	814	1,579
	304	**296**	**820**	**1,603**
Earnings per common share *(Note 22)*				
Basic	$0.50	$0.47	$1.35	$2.69
Diluted	$0.50	$0.47	$1.34	$2.68
Dividends per common share declared *(Note 21)*	$0.27	$0.25	$0.79	$0.75

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (unaudited)
At September 30, 2021 and December 31, 2020

As at *(millions of Canadian dollars)*	**September 30, 2021**	**December 31, 2020**
Assets		
Current assets:		
Cash and cash equivalents	452	757
Accounts receivable *(Note 9)*	738	722
Due from related parties *(Note 24)*	265	326
Other current assets *(Note 10)*	316	184
	1,771	1,989
Property, plant and equipment *(Note 11)*	23,565	22,631
Other long-term assets:		
Regulatory assets *(Note 12)*	4,648	4,571
Deferred income tax assets	124	124
Intangible assets (net of accumulated amortization - $642; 2020 - $586)	555	514
Goodwill	373	373
Other assets *(Note 13)*	99	92
	5,799	5,674
Total assets	**31,135**	**30,294**
Liabilities		
Current liabilities:		
Short-term notes payable *(Note 16)*	960	800
Long-term debt payable within one year (includes $nil measured at fair value; 2020 - $303) *(Notes 16, 17)*	603	806
Accounts payable and other current liabilities *(Note 14)*	1,069	1,044
Due to related parties *(Note 24)*	105	329
	2,737	2,979
Long-term liabilities:		
Long-term debt *(Notes 16, 17)*	13,019	12,726
Regulatory liabilities *(Note 12)*	280	231
Deferred income tax liabilities	317	56
Other long-term liabilities *(Note 15)*	3,815	3,674
	17,431	16,687
Total liabilities	**20,168**	**19,666**
Contingencies and Commitments *(Notes 26, 27)*		
Subsequent Events *(Note 29)*		
Noncontrolling interest subject to redemption	20	22
Equity		
Common shares *(Note 20)*	5,688	5,678
Additional paid-in capital *(Note 23)*	38	47
Retained earnings	5,174	4,838
Accumulated other comprehensive loss	(21)	(29)
Hydro One shareholders' equity	10,879	10,534
Noncontrolling interest	68	72
Total equity	**10,947**	**10,606**
	31,135	**30,294**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
For the nine months ended September 30, 2021 and 2020

Nine months ended September 30, 2021 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2021	5,678	—	47	4,838	(29)	10,534	72	10,606
Net income	—	—	—	806	—	806	5	811
Other comprehensive income *(Note 8)*	—	—	—	—	8	8	—	8
Distributions to noncontrolling interest	—	—	—	—	—	—	(9)	(9)
Dividends on common shares	—	—	—	(470)	—	(470)	—	(470)
Common shares issued	10	—	(10)	—	—	—	—	—
Stock-based compensation	—	—	1	—	—	1	—	1
September 30, 2021	**5,688**	**—**	**38**	**5,174**	**(21)**	**10,879**	**68**	**10,947**

Nine months ended September 30, 2020 *(millions of Canadian dollars)*	Common Shares	Preferred Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Hydro One Shareholders' Equity	Non-controlling Interest	Total Equity
January 1, 2020	5,661	418	49	3,667	(5)	9,790	59	9,849
Net income	—	—	—	1,627	—	1,627	5	1,632
Other comprehensive loss *(Note 8)*	—	—	—	—	(30)	(30)	—	(30)
Distributions to noncontrolling interest	—	—	—	—	—	—	(2)	(2)
Contributions from sale of noncontrolling interest *(Note 4)*	—	—	—	—	—	—	9	9
Dividends on preferred shares	—	—	—	(13)	—	(13)	—	(13)
Dividends on common shares	—	—	—	(447)	—	(447)	—	(447)
Common shares issued	15	—	(10)	—	—	5	—	5
Stock-based compensation	—	—	6	—	—	6	—	6
Preferred shares to be redeemed	—	(418)	—	(5)	—	(423)	—	(423)
September 30, 2020	**5,676**	**—**	**45**	**4,829**	**(35)**	**10,515**	**71**	**10,586**

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

HYDRO ONE LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the three and nine months ended September 30, 2021 and 2020

	Three months ended September 30		Nine months ended September 30	
(millions of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
Operating activities				
Net income	302	292	812	1,633
Environmental expenditures	(7)	(4)	(24)	(15)
Adjustments for non-cash items:				
Depreciation and amortization *(Note 5)*	203	194	597	573
Regulatory assets and liabilities	(18)	37	34	35
Deferred income tax expense (recovery)	63	11	95	(842)
Other	4	4	45	40
Changes in non-cash balances related to operations *(Note 25)*	3	146	(80)	179
Net cash from operating activities	**550**	**680**	**1,479**	**1,603**
Financing activities				
Long-term debt issued	900	—	900	1,100
Long-term debt repaid	—	—	(802)	(652)
Short-term notes issued	960	985	3,105	3,130
Short-term notes repaid	(1,330)	(860)	(2,945)	(3,288)
Short-term debt repaid	—	(20)	—	(20)
Dividends paid	(159)	(155)	(470)	(460)
Distributions paid to noncontrolling interest	(2)	(1)	(6)	(2)
Contributions received from sale of noncontrolling interest *(Note 4)*	—	—	—	9
Common shares issued	—	—	—	5
Costs to obtain financing	(5)	—	(7)	(5)
Net cash from (used in) financing activities	**364**	**(51)**	**(225)**	**(183)**
Investing activities				
Capital expenditures *(Note 25)*				
Property, plant and equipment	(472)	(457)	(1,467)	(1,183)
Intangible assets	(26)	(37)	(97)	(88)
Capital contributions received	—	—	9	—
Acquisitions *(Note 4)*	—	(126)	—	(126)
Other	(10)	(4)	(4)	(11)
Net cash used in investing activities	**(508)**	**(624)**	**(1,559)**	**(1,408)**
Net change in cash and cash equivalents	406	5	(305)	12
Cash and cash equivalents, beginning of period	46	37	757	30
Cash and cash equivalents, end of period	**452**	**42**	**452**	**42**

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). At September 30, 2021, the Province held approximately 47.2% (December 31, 2020 - 47.3%) 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

The Company's transmission business consists of the transmission system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks Inc. (Hydro One Networks) and Hydro One Sault Ste. Marie LP (HOSSM), as well as an approximately 66% interest in B2M Limited Partnership (B2M LP), a limited partnership between Hydro One and the Saugeen Ojibway Nation (SON), and an approximately 55% interest in Niagara Reinforcement Limited Partnership (NRLP), a limited partnership between Hydro One and Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation (collectively, the First Nations Partners).

Hydro One's distribution business consists of the distribution system operated by Hydro One Inc.'s subsidiaries, Hydro One Networks, inclusive of the distribution system of Orillia Power Distribution Corporation and the business and distribution assets of Peterborough Distribution Inc., and Hydro One Remote Communities Inc. (Hydro One Remote Communities).

Deferred Tax Asset (DTA)

On March 7, 2019, the Ontario Energy Board (OEB) issued its reconsideration decision (DTA Decision) with respect to Hydro One's rate-setting treatment of the benefits of the DTA resulting from the transition from the payments in lieu of tax regime to tax payments under the federal and provincial tax regimes. On July 16, 2020, the Ontario Divisional Court rendered its decision (ODC Decision) on the Company's appeal of the OEB's DTA Decision. On April 8, 2021, the OEB rendered its decision and order regarding the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period (DTA Implementation Decision). See Note 12 - Regulatory Assets and Liabilities for additional details.

Hydro One Remote Communities

On November 3, 2020, Hydro One Remote Communities filed an application with the OEB seeking approval for a 2% increase to 2020 base rates, effective May 1, 2021, which was subsequently updated to 2.2% in accordance with the OEB's 2021 inflation parameters for electricity distributors issued on November 9, 2020. On March 25, 2021, the OEB approved Hydro One Remote Communities' application for rates and other charges to be effective May 1, 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation

These unaudited condensed interim consolidated financial statements (Consolidated Financial Statements) include the accounts of the Company and its subsidiaries. Inter-company 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, 2020, with the exception of the adoption of new accounting standards as described 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 annual audited consolidated financial statements for the year ended December 31, 2020.

Management Estimates

The impact of the COVID-19 pandemic (COVID-19 or the pandemic) as at and for the nine months ended September 30, 2021 has been reflected in the Consolidated Financial Statements. The Company has analyzed the impact of the pandemic on its estimates and assumptions that affect its financial results as at and for the nine months ended September 30, 2021 and has determined that there was no material impact. As the duration of the pandemic remains uncertain, the Company continues to assess its impact to the Company's financial results and operations.

3. NEW ACCOUNTING PRONOUNCEMENTS

The following tables present Accounting Standard Updates (ASUs) 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
ASU 2018-14	August 2018	Disclosure requirements related to single-employer defined benefit pension or other post-retirement benefit plans are added, removed or clarified to improve the effectiveness of disclosures in financial statement notes.	January 1, 2021	No impact upon adoption
ASU 2019-12	December 2019	The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles and improving consistent application of Topic 740 by clarifying and amending existing guidance.	January 1, 2021	No impact upon adoption
ASU 2020-01	January 2020	The amendments clarify the interaction of the accounting for equity securities under Topic 321, investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815.	January 1, 2021	No impact upon adoption
ASU 2020-10	October 2020	The amendments are intended to improve the Codification by ensuring the guidance required for an entity to disclose information in the notes of financial statements are codified in the disclosure sections to reduce the likelihood of disclosure requirements being missed.	January 1, 2021	No impact upon adoption

Recently Issued Accounting Guidance Not Yet Adopted

Guidance	Date issued	Description	Effective date	Anticipated Impact on Hydro One
ASU 2021-05	July 2021	The amendments are intended to align lease classification requirements for lessors under Topic 842 with Topic 840's practice.	January 1, 2022	Under assessment
ASU 2021-08	October 2021	The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination.	January 1, 2023	Under assessment

4. BUSINESS COMBINATIONS

NRLP

On January 31, 2020, the Mississaugas of the Credit First Nation purchased an additional 19.9% equity interest in NRLP partnership units from Hydro One Networks for total cash consideration of $9 million. Following this transaction, Hydro One's interest in the equity portion of NRLP partnership units was reduced to 55%, with the Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation owning 25% and 20%, respectively, of the equity interest in NRLP partnership units. NRLP is fully consolidated in these Consolidated Financial Statements as it is controlled by Hydro One. The First Nations Partners' noncontrolling interest in NRLP is classified within equity.

Acquisition of Peterborough Distribution Assets

On August 1, 2020, Hydro One completed the acquisition of the business and distribution assets of Peterborough Distribution, an electricity distribution company located in east central Ontario, from the City of Peterborough, for a purchase price of $104 million, including the assumption of agreed upon liabilities and closing adjustments. The purchase price is comprised of a cash payment of $105 million, including a deposit of $4 million paid in 2018 and $101 million paid on closing of the transaction, partially offset by a purchase price adjustment of $1 million.

Acquisition of Orillia Power

On September 1, 2020, Hydro One completed the acquisition of Orillia Power, an electricity distribution company located in Simcoe County, Ontario, from the City of Orillia for a purchase price of $28 million, including closing adjustments. The purchase price is comprised of a cash payment of $26 million, including a deposit of $1 million paid in 2016, $25 million paid on closing of the transaction, as well as a purchase price adjustment of $2 million.

5. DEPRECIATION, AMORTIZATION AND ASSET REMOVAL COSTS

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	**2021**	**2020**	**2021**	**2020**
Depreciation of property, plant and equipment	177	174	517	510
Amortization of intangible assets	19	16	56	48
Amortization of regulatory assets	7	4	24	15
Depreciation and amortization	203	194	597	573
Asset removal costs	24	26	78	72
	227	220	675	645

6. FINANCING CHARGES

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	**2021**	**2020**	**2021**	**2020**
Interest on long-term debt	125	122	375	369
Realized loss on cash flow hedges (interest-rate swap agreements) *(Notes 8, 17)*	3	3	9	4
Interest on short-term notes	—	2	1	8
Other	5	1	11	10
Less: Interest capitalized on construction and development in progress	(15)	(14)	(44)	(36)
DTA carrying charges *(Note 12)*	1	—	(12)	—
Interest earned on cash and cash equivalents	(1)	—	(2)	(3)
	118	114	338	352

7. INCOME TAXES

As a rate regulated utility company, the Company recovers income taxes from its ratepayers based on estimated current income tax expense in respect of its regulated business. The amounts of deferred income taxes related to regulated operations which are considered to be more likely-than-not to be recoverable from, or refundable to, ratepayers in future periods are recognized as deferred income tax regulatory assets or liabilities, with an offset to deferred income tax recovery or expense, respectively. The Company's consolidated tax expense or recovery for the period includes all current and deferred income tax expenses for the period net of the regulated accounting offset to deferred income tax expense arising from temporary differences to be recovered from, or refunded to, customers in future rates. Thus, the Company's income tax expense or recovery 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 September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Income before income tax expense	373	314	935	821
Income tax expense at statutory rate of 26.5% (2020 - 26.5%)	99	84	248	218
Increase (decrease) resulting from:				
Net temporary differences recoverable in future rates charged to customers:				
Capital cost allowance in excess of depreciation and amortization	(26)	(34)	(72)	(86)
Impact of tax deductions from deferred tax asset sharing[1]	(12)	(13)	(32)	(35)
Impact of tax recovery from deferred tax asset sharing[2]	24	—	24	—
Overheads capitalized for accounting but deducted for tax purposes	(7)	(6)	(19)	(16)
Interest capitalized for accounting but deducted for tax purposes	(4)	(4)	(13)	(11)
Pension and post-retirement benefit contributions in excess of pension expense	(4)	(5)	(10)	(8)
Environmental expenditures	(2)	(2)	(6)	(6)
Other	1	1	(1)	(3)
Net temporary differences attributable to regulated business	(30)	(63)	(129)	(165)
Net permanent differences	2	1	4	2
Recognition of deferred income tax regulatory asset	—	—	—	(867)
Total income tax expense (recovery)	71	22	123	(812)
Effective income tax rate	19.0%	7.0%	13.2%	(98.9%)

[1] Prior to the ODC Decision, the impact represents tax deductions from deferred asset tax sharing given to ratepayers as previously mandated by the OEB. Subsequent to the ODC Decision, and pursuant to the DTA Implementation Decision, the impact represents the additional amounts shared in respect of the fiscal period that is recoverable from ratepayers. See Note 12 - Regulatory Assets and Liabilities.

[2] Pursuant to the DTA Implementation Decision, the impact represents the amounts recovered from ratepayers in respect of tax deductions previously shared with ratepayers. See Note 12 – Regulatory Assets and Liabilities.

8. OTHER COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Gain (loss) on cash flow hedges (interest-rate swap agreements) *(Notes 6, 17)*[1]	2	2	8	(21)
Gain (loss) on transfer of other post-employment benefits (OPEB) *(Note 18)*	—	2	—	(7)
Loss on cash flow hedges (bond forward agreements) *(Note 17)*	—	—	—	(2)
	2	4	8	(30)

[1] Includes $2 million after-tax realized loss (2020 - $2 million), $3 million before-tax (2020 - $3 million), and $6 million after-tax realized loss (2020 - $3 million), $9 million before-tax (2020 - $4 million), on cash flow hedges reclassified to financing charges for the three and nine months ended September 30, 2021, respectively.

9. ACCOUNTS RECEIVABLE

As at *(millions of dollars)*	**September 30, 2021**	**December 31, 2020**
Accounts receivable - billed	411	347
Accounts receivable - unbilled	385	421
Accounts receivable, gross	796	768
Allowance for doubtful accounts	(58)	(46)
Accounts receivable, net	738	722

The following table shows the movements in the allowance for doubtful accounts for the nine months ended September 30, 2021 and the year ended December 31, 2020:

(millions of dollars)	**Nine months ended September 30, 2021**	**Year ended December 31, 2020**
Allowance for doubtful accounts – beginning	(46)	(22)
Write-offs	9	11
Additions to allowance for doubtful accounts[1]	(21)	(35)
Allowance for doubtful accounts – ending	(58)	(46)

[1] Additions to allowance for doubtful accounts for the year ended December 31, 2020 included an incremental $14 million related to the COVID-19 pandemic. There were no additional COVID-19 related amounts included in the allowance for doubtful accounts for the nine months ended September 30, 2021.

10. OTHER CURRENT ASSETS

As at *(millions of dollars)*	**September 30, 2021**	**December 31, 2020**
Regulatory assets *(Note 12)*	233	105
Prepaid expenses and other assets	61	53
Materials and supplies	22	23
Derivative assets *(Note 17)*	—	3
	316	184

11. PROPERTY, PLANT AND EQUIPMENT

As at *(millions of dollars)*	**September 30, 2021**	**December 31, 2020**
Property, plant and equipment	34,232	33,377
Less: accumulated depreciation	(12,522)	(12,056)
	21,710	21,321
Construction in progress	1,676	1,135
Future use land, components and spares	179	175
	23,565	22,631

12. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

As at *(millions of dollars)*	September 30, 2021	December 31, 2020
Regulatory assets:		
Deferred income tax regulatory asset	2,489	2,343
Pension benefit regulatory asset	1,749	1,660
Deferred tax asset sharing	227	204
Post-retirement and post-employment benefits - non-service cost	124	113
Environmental	110	133
Post-retirement and post-employment benefits	60	59
Stock-based compensation	37	41
Foregone revenue deferral	34	63
Conservation and Demand Management (CDM) variance	10	16
Debt premium	8	12
Other	33	32
Total regulatory assets	4,881	4,676
Less: current portion	(233)	(105)
	4,648	4,571
Regulatory liabilities:		
Retail settlement variance account	84	92
Tax rule changes variance	82	70
Asset removal costs cumulative variance	32	19
Pension cost differential	30	31
Earnings sharing mechanism deferral	20	37
External revenue variance	20	7
Green energy expenditure variance	15	22
Distribution rate riders	7	1
Deferred income tax regulatory liability	4	4
Other	15	14
Total regulatory liabilities	309	297
Less: current portion	(29)	(66)
	280	231

Deferred Tax Asset Sharing

On October 2, 2020, the OEB issued a procedural order to implement the direction of the Ontario Divisional Court which required Hydro One to submit its proposal for the recovery of the DTA amounts allocated to ratepayers for the 2017 to 2022 period. On April 8, 2021, the OEB rendered the DTA Implementation Decision, in which the OEB approved recovery of the DTA amounts allocated to ratepayers for the 2017 to 2021 period, plus DTA carrying charges over a two-year period, commencing on July 1, 2021. In addition, Hydro One was approved to adjust the transmission revenue requirement and the base distribution rates beginning January 1, 2022 to eliminate any further amounts of future tax savings flowing to customers. As at September 30, 2021, Hydro One has a regulatory asset of $227 million for the cumulative DTA amounts shared with ratepayers since 2017 to date, net of the amount recovered from ratepayers pursuant to the DTA Implementation Decision. The regulatory asset of $227 million consists of $80 million and $147 million for Hydro One Networks' distribution and transmission segments, respectively. As a result of the OEB's procedural order, the $227 million regulatory asset relating to the cumulative DTA amounts allocated to ratepayers since 2017 has been separately presented from the deferred income tax regulatory asset. The balance of this regulatory account will continue to decrease as amounts are recovered, net of incremental amounts shared with ratepayers through December 31, 2021.

Distribution Rate Riders

In December 2020, the OEB rendered its decision on Hydro One Networks distribution 2021 annual update rate application. The retail settlement variance account balance as at December 31, 2019, including accrued interest, was approved for disposition over a one year period ending December 31, 2021. As a result, this balance was transferred to the 2021 Rate Rider in January 2021. Additionally, the residual balance from the 2015-2017 Rate Rider, including accrued interest, was approved for disposition over the same period.

COVID-19 Emergency Deferral

On June 17, 2021, the OEB issued its Report: Regulatory Treatment of Impact Arising from the COVID-19 Emergency which outlines the OEB's final guidance on the rules and operation of the deferral account established for utilities to track the impacts arising from the COVID-19 pandemic. The OEB has determined that eligibility for recovery of most balances recorded in the account will be subject to a means test based on a utility's achieved regulatory return on equity (ROE). Based on management's assessment of the OEB's final guidance, no amounts related to the COVID-19 pandemic have been recognized as regulatory assets.

13. OTHER LONG-TERM ASSETS

As at *(millions of dollars)*	September 30, 2021	December 31, 2020
Right-of-Use (ROU) assets *(Note 19)*	69	77
Investments *(Note 17)*	21	7
Other long-term assets	9	8
	99	92

14. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at *(millions of dollars)*	September 30, 2021	December 31, 2020
Accrued liabilities	648	566
Accounts payable	198	238
Accrued interest	138	118
Environmental liabilities	32	33
Regulatory liabilities *(Note 12)*	29	66
Lease obligations *(Note 19)*	13	12
Derivative liabilities *(Note 17)*	11	11
	1,069	1,044

15. OTHER LONG-TERM LIABILITIES

As at *(millions of dollars)*	September 30, 2021	December 31, 2020
Post-retirement and post-employment benefit liability *(Note 18)*	1,889	1,797
Pension benefit liability *(Note 18)*	1,749	1,660
Environmental liabilities	78	100
Lease obligations *(Note 19)*	61	70
Asset retirement obligations	13	13
Derivative liabilities *(Note 17)*	3	14
Long-term accounts payable	3	3
Other long-term liabilities	19	17
	3,815	3,674

16. 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 $2,300 million. 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 revolving standby credit facilities totalling $2,300 million.

At September 30, 2021, Hydro One's consolidated committed and unsecured credit facilities (Operating Credit Facilities) totalling $2,550 million included Hydro One's credit facilities of $250 million and Hydro One Inc.'s credit facilities of $2,300 million. On June 1, 2021, the maturity date for the Operating Credit Facilities was extended from 2024 to 2026. At September 30, 2021, no amounts have been drawn on the Operating Credit Facilities.

The Company may use the Operating Credit Facilities for working capital and general corporate purposes. If used, interest on the Operating Credit Facilities would apply based on Canadian benchmark rates. The obligation of each lender to make any credit extension under its credit facility is subject to various conditions including that no event of default has occurred or would result from such credit extension.

Subsidiary Debt Guarantee

Hydro One Holdings Limited (HOHL) is an indirect wholly-owned subsidiary of Hydro One that may offer and sell debt securities. Any debt securities issued by HOHL are fully and unconditionally guaranteed by the Company. At September 30, 2021 and December 31, 2020, no debt securities have been issued by HOHL.

Long-Term Debt

The following table presents long-term debt outstanding at September 30, 2021 and December 31, 2020:

As at *(millions of dollars)*	**September 30, 2021**	**December 31, 2020**
Hydro One Inc. long-term debt (a)	13,095	12,995
Hydro One long-term debt (b)	425	425
HOSSM long-term debt (c)	145	151
	13,665	13,571
Add: Net unamortized debt premiums	9	10
Add: Unrealized mark-to-market loss[1]	—	3
Less: Unamortized deferred debt issuance costs	(52)	(52)
Total long-term debt	13,622	13,532
Less: Long-term debt payable within one year	(603)	(806)
	13,019	12,726

[1] At September 30, 2021, there was no unrealized mark-to-market loss. At December 31, 2020, the unrealized mark-to-market net loss of $3 million related to $300 million Series 39 notes repaid in June 2021. At December 31, 2020, the unrealized mark-to-market net loss was offset by a $3 million unrealized mark-to-market net gain on the related fixed-to-floating interest-rate swap agreements, which were accounted for as fair value hedges.

(a) Hydro One Inc. long-term debt

At September 30, 2021, long-term debt of $13,095 million (December 31, 2020 - $12,995 million) was outstanding, the majority of which was issued under Hydro One Inc.'s Medium Term Note (MTN) Program. In April 2020, Hydro One Inc. filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At September 30, 2021, $1,900 million remained available for issuance under the MTN Program prospectus. During the three and nine months ended September 30, 2021, Hydro One Inc. issued long-term debt totalling $900 million (2020 - $nil and $1,100 million, respectively) under its MTN Program as follows:

- $450 million Series 50 notes with a maturity date of September 17, 2031 and a coupon rate of 2.23%; and
- $450 million Series 51 notes with a maturity date of September 15, 2051 and a coupon rate of 3.10%.

During the three and nine months ended September 30, 2021, long-term debt of $nil and $800 million (2020 - $nil and $650 million, respectively) was repaid, respectively, under the MTN Program.

(b) Hydro One long-term debt

At September 30, 2021, long-term debt of $425 million (December 31, 2020 - $425 million) was outstanding under Hydro One's short form base shelf prospectus (Universal Base Shelf Prospectus). In August 2020, Hydro One filed the Universal Base Shelf Prospectus with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to $2,000 million of debt, equity or other securities, or any combination thereof, and expires in September 2022. At September 30, 2021, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus. During the three and nine months ended September 30, 2021 and 2020, no long-term debt was issued or repaid.

(c) HOSSM long-term debt

At September 30, 2021, HOSSM long-term debt of $145 million (December 31, 2020 - $151 million) with a principal amount of $136 million (December 31, 2020 - $138 million) was outstanding. During the three and nine months ended September 30, 2021, no long-term debt was issued (2020 - $nil) and in the nine month period $2 million of long-term debt was repaid (2020 - $2 million), all in the second quarter.

Principal and Interest Payments

At September 30, 2021, future principal repayments, interest payments, and related weighted-average interest rates were as follows:

	Long-Term Debt Principal Repayments	Interest Payments	Weighted-Average Interest Rate
	(millions of dollars)	*(millions of dollars)*	*(%)*
Year 1	603	507	3.2
Year 2	733	494	1.7
Year 3	700	485	2.5
Year 4	750	463	2.3
Year 5	500	443	2.8
	3,286	2,392	2.5
Years 6-10	2,625	2,078	3.0
Thereafter	7,745	4,105	4.6
	13,656	8,575	3.8

17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Non-Derivative Financial Assets and Liabilities

At September 30, 2021 and December 31, 2020, 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 September 30, 2021 and December 31, 2020 are as follows:

	September 30, 2021		December 31, 2020	
As at *(millions of dollars)*	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt measured at fair value - $300 million MTN Series 39 notes	—	—	303	303
Other notes and debentures	13,622	15,178	13,229	16,226
Long-term debt, including current portion	13,622	15,178	13,532	16,529

Fair Value Measurements of Derivative Instruments

Fair Value Hedges

At September 30, 2021, Hydro One Inc. had no fair value hedges. At December 31, 2020, Hydro One Inc. had interest-rate swaps with a total notional amount of $300 million that were used to convert fixed-rate debt to floating-rate debt. These swaps were classified as fair value hedges. Hydro One Inc.'s fair value hedge exposure at December 31, 2020 was approximately 2% of its total long-term debt.

Cash Flow Hedges

At September 30, 2021 and December 31, 2020, Hydro One Inc. had a total of $800 million in pay-fixed, receive-floating interest-rate swap agreements designated as cash flow hedges. These cash flow hedges are intended to offset the variability of interest rates on the issuances of short-term commercial paper between January 9, 2020 and March 9, 2023.

At September 30, 2021 and December 31, 2020, the Company had no derivative instruments classified as undesignated contracts.

Fair Value Hierarchy

The fair value hierarchy of financial assets and liabilities at September 30, 2021 and December 31, 2020 is as follows:

As at September 30, 2021 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Investments *(Note 13)*	21	21	—	—	21
	21	21	—	—	21
Liabilities:					
Long-term debt, including current portion	13,622	15,178	—	15,178	—
Derivative instruments *(Notes 14, 15)*					
Cash flow hedges, including current portion	14	14	—	14	—
	13,636	15,192	—	15,192	—

As at December 31, 2020 *(millions of dollars)*	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Investments *(Note 13)*	7	7	—	—	7
Derivative instruments *(Note 10)*					
Fair value hedges	3	3	—	3	—
	10	10	—	3	7
Liabilities:					
Long-term debt, including current portion	13,532	16,529	—	16,529	—
Derivative instruments *(Notes 14, 15)*					
Cash flow hedges, including current portion	25	25	—	25	—
	13,557	16,544	—	16,554	—

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.

There were no transfers between any of the fair value levels during the nine months ended September 30, 2021 or the year ended December 31, 2020.

Changes in the Fair Value of Financial Instruments Classified in Level 3

The following table summarizes the changes in fair value of financial instruments classified in Level 3 for the nine months ended September 30, 2021 and the year ended December 31, 2020:

(millions of dollars)	Nine months ended September 30, 2021	Year ended December 31, 2020
Fair value of assets - beginning	7	2
Additions	14	5
Fair value of assets - ending	21	7

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 values, foreign exchange rates and interest rates. The Company is exposed to fluctuations in interest rates, as its regulated ROE is derived using a formulaic approach that takes anticipated interest rates into account. The Company is not currently exposed to material commodity price risk or material foreign exchange 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 may utilize interest-rate swaps 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, such as cash flow hedges, to manage its exposure to short-term interest rates or to lock in interest-rate levels on forecasted 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 and nine months ended September 30, 2021 and 2020.

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 and nine months ended September 30, 2021 and 2020 were not material.

For derivative instruments that are designated and qualify as cash flow hedges, the unrealized gain or loss, after tax, on the derivative instrument is recorded as other comprehensive income (OCI) or other comprehensive loss (OCL) and is reclassified to results of operations in the same period during which the hedged transaction affects results of operations. During the three months ended September 30, 2021, $nil after-tax unrealized loss (2020 - $1 million loss), $nil before-tax (2020 - $2 million), was recorded in OCI, and a $2 million after-tax realized loss (2020 - $2 million), $3 million before-tax (2020 - $3 million), was reclassified to financing charges. During the nine months ended September 30, 2021, a $2 million after-tax unrealized gain (2020 - $27 million loss), $2 million before-tax (2020 - $37 million), was recorded in OCI, and a $6 million after-tax realized loss (2020 - $3 million), $9 million before-tax (2020 - $4 million), was reclassified to financing charges. This resulted in an accumulated other comprehensive loss (AOCL) of $10 million related to cash flow hedges at September 30, 2021 (December 31, 2020 - $18 million). The Company estimates that the amount of AOCL, after tax, related to cash flow hedges to be reclassified to results of operations in the next 12 months is $8 million. Actual amounts reclassified to results of operations depend on the interest rate risk in effect until the derivative contracts mature. For all forecasted transactions, at September 30, 2021, the maximum term over which the Company is hedging exposures to the variability of cash flows is approximately one year.

The Pension Plan manages market risk by diversifying investments in accordance with the Pension Plan's Statement of Investment Policies and Procedures. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the Pension Plan's financial instruments. In addition, changes in interest rates can also impact discount rates which impact the valuation of the pension and post-retirements and post-employment liabilities. Currency risk is the risk that the value of the Pension Plan's financial instruments will fluctuate due to changes in foreign currencies relative to the Canadian dollar. Other price risk is the risk that the value of the Pension Plan's investments in equity securities will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. All three factors may contribute to changes in values of the Pension Plan investments.

<u>Credit Risk</u>

Financial assets create a risk that a counterparty will fail to discharge an obligation, causing a financial loss. At September 30, 2021 and December 31, 2020, 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 September 30, 2021 and December 31, 2020, there was no material accounts receivable balance due from any single customer.

At September 30, 2021, the Company's allowance for doubtful accounts was $58 million (December 31, 2020 - $46 million). The allowance for doubtful accounts reflects the Company's current lifetime expected credit losses for all accounts receivable balances, which are based on historical overdue balances, customer payments and write-offs. At September 30, 2021, approximately 5% (December 31, 2020 - 4%) of the Company's net accounts receivable were outstanding for more than 60 days. Please see Note 9 - Accounts Receivable for additions to allowance for doubtful accounts related to the impact of the COVID-19 pandemic.

Hydro One manages its counterparty credit risk through various techniques including (i) entering into transactions with highly rated counterparties, (ii) limiting total exposure levels with individual counterparties, (iii) entering into master agreements which enable net settlement and the contractual right of offset, and (iv) monitoring the financial condition of counterparties. The Company monitors current credit exposure to counterparties on both 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 maximum credit exposure of derivative contracts, before collateral, is represented by the fair value of contracts at the reporting date. At September 30, 2021 and December 31, 2020, the counterparty credit risk exposure on the fair value of these interest-rate swap contracts was not material. At September 30, 2021, Hydro One's credit exposure for all derivative instruments, and applicable payables and receivables, was with two financial institutions with investment grade credit ratings as counterparties.

The Pension Plan manages its counterparty credit risk with respect to bonds by investing in investment-grade corporate and government bonds and with respect to derivative instruments by transacting only with highly rated financial institutions and by ensuring that exposure is diversified across counterparties.

<u>Liquidity Risk</u>

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Hydro One meets its short-term operating liquidity requirements using cash and cash equivalents on hand, funds from operations, the issuance of commercial paper, and the Operating Credit Facilities. The short-term liquidity under the commercial paper program, the Operating Credit Facilities, and anticipated levels of funds from operations are expected to be sufficient to fund the Company's operating requirements. The Company's currently available liquidity is also expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Company's cash requirements.

In April 2020, Hydro One Inc. filed a short form base shelf prospectus for its MTN Program, which has a maximum authorized principal amount of notes issuable of $4,000 million, expiring in May 2022. At September 30, 2021, $1,900 million remained available for issuance under the MTN Program prospectus.

In August 2020, Hydro One filed the Universal Base Shelf Prospectus with securities regulatory authorities in Canada. The Universal Base Shelf Prospectus allows Hydro One to offer, from time to time in one or more public offerings, up to $2,000 million of debt, equity or other securities, or any combination thereof, and expires in September 2022. At September 30, 2021, $1,575 million remained available for issuance under the Universal Base Shelf Prospectus.

In December 2020, HOHL filed a short form base shelf prospectus (US Debt Shelf Prospectus) with securities regulatory authorities in Canada and the US to replace a previous prospectus that expired in December 2020. The US Debt Shelf Prospectus allows HOHL to offer, from time to time in one or more public offerings, up to US$3,000 million of debt securities, unconditionally guaranteed by Hydro One, expiring in January 2023. At September 30, 2021, no securities have been issued under the US Debt Shelf Prospectus.

The Pension Plan's short-term liquidity is provided through cash and cash equivalents, contributions, investment income and proceeds from investment transactions. In the event that investments must be sold quickly to meet current obligations, the majority of the Pension Plan's assets are invested in securities that are traded in an active market and can be readily disposed of as liquidity needs arise.

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

The following table provides the components of the net periodic benefit costs for the three and nine months ended September 30, 2021 and 2020:

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Three months ended September 30 *(millions of dollars)*	**2021**	**2020**	**2021**	**2020**
Current service cost	60	54	17	18
Interest cost	64	71	13	15
Expected return on plan assets, net of expenses[1]	(107)	(112)	—	—
Prior service cost amortization	—	1	2	1
Amortization of actuarial losses	32	24	—	—
Net periodic benefit costs	49	38	32	34
Charged to results of operations[2,3]	6	6	17	21

	Pension Benefits		Post-Retirement and Post-Employment Benefits	
Nine months ended September 30 *(millions of dollars)*	**2021**	**2020**	**2021**	**2020**
Current service cost	180	162	50	54
Interest cost	192	213	38	45
Expected return on plan assets, net of expenses[1]	(323)	(338)	—	—
Prior service cost amortization	2	2	5	2
Amortization of actuarial losses	94	72	2	2
Net periodic benefit costs	145	111	95	103
Charged to results of operations[2,3]	20	19	54	58

[1] The expected long-term rate of return on pension plan assets for the year ending December 31, 2021 is 5.40% (2020 - 5.75%).

[2] The Company accounts for pension costs consistent with their inclusion in OEB-approved rates. During the three and nine months ended September 30, 2021, pension costs of $17 million (2020 - $18 million) and $54 million (2020 - $53 million), respectively, were attributed to labour, of which $6 million (2020 - $6 million) and $20 million (2020 - $19 million), respectively, was charged to operations, and $11 million (2020 - $12 million) and $34 million (2020 - $34 million), respectively, was capitalized as part of the cost of property, plant and equipment and intangible assets.

[3] In the 2020-2022 Transmission Decision, the OEB confirmed the recovery of the non-service cost component of post-retirement and post-employment benefits as part of operation, maintenance and administration costs for the Company's transmission business. Prior to the decision, these costs were tracked in a regulatory asset. As a result, during the nine months ended September 30, 2021, additional other post-retirement and post-employment costs of $12 million (2020 - $17 million) attributed to labour were charged to operations.

Transfers from Other Plans

In January 2021, Hydro One and Inergi LP executed a letter of understanding (LOU) for the transfer of certain Inergi LP employees (Transferred Employees) to Hydro One Networks over a period of time. The employees who will transfer relate to the information technology operations, Finance and Accounting, Payroll and certain Shared Services functions. The transfer is expected to be completed by January 1, 2022. The Transferred Employees who are participants in the Inergi LP Pension Plan (Inergi Plan) will become participants in the Hydro One Defined Benefit Pension Plan (Plan) upon transfer to Hydro One. Subject to all necessary regulatory approvals, the assets and liabilities of the Inergi Plan will transfer to the Plan. The values of assets and liabilities of the Inergi Plan to be transferred to the Plan will be determined at the date of transfer. In accordance with the LOU, Inergi LP and Hydro One Networks also agreed to transfer OPEB liabilities related to the Transferred Employees to Hydro One's post-retirement and post-employment benefit plans.

On March 1, 2021, Transferred Employees associated with information technology operations (ITO Employees) transferred to Hydro One Networks, and the transfer of the OPEB liability of $28 million related to the ITO Employees was completed. The liability was recorded as a post-retirement and post-employment benefit liability with an offset to OCL, and cash totaling $27 million was transferred to Hydro One and recorded as an asset with an offset to OCI. Both, the OCI resulting from the transfer of the cash asset and the OCL resulting from the transfer of the other post-retirement benefit liability are being recognized in net income over the expected average remaining service lifetime (EARSL) of the ITO Employees.

19. LEASES

Hydro One has operating lease contracts for buildings used in administrative and service-related functions and storing telecommunications equipment. These leases have terms between three and nine years with renewal options of additional three- to five-year terms at prevailing market rates at the time of extension. All leases include a clause to enable upward revision of the rental charge on an annual basis or on renewal according to prevailing market conditions or pre-established rents. There are no restrictions placed upon Hydro One by entering into these leases. Renewal options are included in the lease term when their exercise is reasonably certain. Other information related to the Company's operating leases was as follows:

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Lease expense	5	4	12	11
Lease payments made	4	3	11	9

As at	September 30, 2021	December 31, 2020
Weighted-average remaining lease term[1] *(years)*	6	7
Weighted-average discount rate	2.6 %	2.6 %

[1] Includes renewal options that are reasonably certain to be exercised.

At September 30, 2021, future minimum operating lease payments were as follows:

(millions of dollars)	
Remainder of 2021	5
2022	14
2023	12
2024	12
2025	10
Thereafter	27
Total undiscounted minimum lease payments	80
Less: discounting minimum lease payments to present value	(6)
Total discounted minimum lease payments	74

At December 31, 2020, future minimum operating lease payments were as follows:

(millions of dollars)	
2021	16
2022	13
2023	12
2024	12
2025	10
Thereafter	27
Total undiscounted minimum lease payments	90
Less: discounting minimum lease payments to present value	(8)
Total discounted minimum lease payments	82

Hydro One presents its ROU assets and lease obligations on the consolidated balance sheets as follows:

As at *(millions of dollars)*	September 30, 2021	December 31, 2020
Other long-term assets *(Note 13)*	69	77
Accounts payable and other current liabilities *(Note 14)*	13	12
Other long-term liabilities *(Note 15)*	61	70

20. SHARE CAPITAL

Common Shares

The Company is authorized to issue an unlimited number of common shares. At September 30, 2021, the Company had 598,217,314 (December 31, 2020 - 597,611,787) common shares issued and outstanding.

The following table presents the changes to common shares during the nine months ended September 30, 2021:

(number of shares)	
Common shares - December 31, 2020	597,611,787
Common shares issued - LTIP[1]	188,376
Common shares issued - share grants[2]	417,151
Common shares - September 30, 2021	598,217,314

[1] During the nine months ended September 30, 2021, Hydro One issued from treasury 188,376 common shares in accordance with provisions of the Long-term Incentive Plan (LTIP).

[2] During the nine months ended September 30, 2021, Hydro One issued from treasury 417,151 common shares in accordance with provisions of the Power Workers' Union (PWU) and the Society of United Professionals (Society) Share Grant Plans.

Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. At September 30, 2021 and December 31, 2020, the Company had no preferred shares issued and outstanding.

21. DIVIDENDS

During the three months ended September 30, 2021, common share dividends in the amount of $159 million (2020 - $151 million) were declared and paid and no preferred share dividends (2020 - $4 million) were paid.

During the nine months ended September 30, 2021, common share dividends in the amount of $470 million (2020 - $447 million) were declared and paid and no preferred share dividends (2020 - $13 million) were paid. See Note 29 - Subsequent Events for dividends declared subsequent to September 30, 2021.

22. 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 LTIP, which are calculated using the treasury stock method.

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Net income attributable to common shareholders *(millions of dollars)*	300	281	806	1,609
Weighted-average number of shares				
Basic	598,217,261	597,557,787	598,033,873	597,364,993
Effect of dilutive stock-based compensation plans	2,135,732	2,362,569	2,315,332	2,486,114
Diluted	600,352,993	599,920,356	600,349,205	599,851,107
EPS				
Basic	$0.50	$0.47	$1.35	$2.69
Diluted	$0.50	$0.47	$1.34	$2.68

23. STOCK-BASED COMPENSATION

Share Grant Plans

Hydro One has two share grant plans (Share Grant Plans), one for the benefit of certain members of the PWU (the PWU Share Grant Plan) and one for the benefit of certain members of the Society (the Society Share Grant Plan). A summary of share grant activity under the Share Grant Plans during the three and nine months ended September 30, 2021 and 2020 is presented below:

	Three months ended September 30		Nine months ended September 30	
(number of share grants)	2021	2020	2021	2020
Share grants outstanding - beginning	2,737,785	3,232,815	3,154,805	3,674,377
Vested and issued[1]	(131)	—	(417,151)	(441,562)
Share grants outstanding - ending	2,737,654	3,232,815	2,737,654	3,232,815

[1] During the nine months ended September 30, 2021, Hydro One issued from treasury 417,151 (2020 - 441,562) common shares to eligible employees in accordance with provisions of the PWU and the Society Share Grant Plans.

Directors' Deferred Share Unit (DSU) Plan

A summary of DSU awards activity under the Directors' DSU Plan during the three and nine months ended September 30, 2021 and 2020 is presented below:

	Three months ended September 30		Nine months ended September 30	
(number of DSUs)	2021	2020	2021	2020
DSUs outstanding - beginning	70,547	64,326	65,240	52,620
Granted	5,320	5,370	15,942	17,076
Paid	—	(9,861)	(5,315)	(9,861)
DSUs outstanding - ending	75,867	59,835	75,867	59,835

At September 30, 2021, a liability of $2 million (December 31, 2020 - $2 million) related to Directors' DSUs has been recorded at the closing price of the Company's common shares of $29.94 (December 31, 2020 - $28.65). This liability is included in other long-term liabilities on the consolidated balance sheets.

Management DSU Plan

A summary of DSU awards activity under the Management DSU Plan during the three and nine months ended September 30, 2021 and 2020 is presented below:

	Three months ended September 30		Nine months ended September 30	
(number of DSUs)	2021	2020	2021	2020
DSUs outstanding - beginning	88,721	67,740	61,880	52,186
Granted	752	627	27,593	21,592
Paid	—	(7,027)	—	(12,438)
DSUs outstanding - ending	89,473	61,340	89,473	61,340

At September 30, 2021, a liability of $3 million (December 31, 2020 - $2 million) related to Management DSUs has been recorded at the closing price of the Company's common shares of $29.94 (December 31, 2020 - $28.65). This liability is included in other long-term liabilities on the consolidated balance sheets.

Long-term Incentive Plan (LTIP)

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

A summary of PSU and RSU awards activity under the LTIP during the three and nine months ended September 30, 2021 and 2020 is presented below:

	PSUs		RSUs	
Three months ended September 30 *(number of units)*	2021	2020	2021	2020
Units outstanding - beginning	—	117,470	—	144,980
Vested and issued	—	—	—	—
Forfeited	—	(3,670)	—	(2,420)
Units outstanding - ending	—	113,800	—	142,560

	PSUs		RSUs	
Nine months ended September 30 *(number of units)*	2021	2020	2021	2020
Units outstanding - beginning	111,920	171,344	139,730	206,993
Vested and issued	(111,920)	(52,627)	(104,970)	(3,728)
Forfeited	—	(4,917)	—	(4,295)
Settled	—	—	(34,760)	(56,410)
Units outstanding - ending	—	113,800	—	142,560

No awards were granted during the three and nine months ended September 30, 2021 and 2020. The compensation expense related to the PSU and RSU awards recognized by the Company during the three and nine months ended September 30, 2021 was $nil and less than $1 million (2020 - $2 million and $3 million).

Stock Options

A summary of stock options activity during the three and nine months ended September 30, 2021 and 2020 is presented below:

	Three months ended September 30		Nine months ended September 30	
(number of stock options)	2021	2020	2021	2020
Stock options outstanding - beginning[1]	108,710	162,710	108,710	403,550
Exercised	—	—	—	(240,840)
Stock options outstanding - ending[1]	108,710	162,710	108,710	162,710

[1] All stock options outstanding as at January 1, 2021 and September 30, 2021, were vested and exercisable (2020 - all stock options were vested and exercisable).

24. RELATED PARTY TRANSACTIONS

The Province is a shareholder of Hydro One with approximately 47.2% ownership at September 30, 2021. The Independent Electricity System Operator (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 Ministry of Energy. Ontario Charging Network (OCN LP) is a joint-venture limited partnership between a subsidiary of Hydro One and OPG. The following is a summary of the Company's related party transactions during the three and nine months ended September 30, 2021 and 2020:

(millions of dollars)		Three months ended September 30		Nine months ended September 30	
Related Party	Transaction	2021	2020	2021	2020
Province	Dividends paid	75	76	222	225
IESO	Power purchased	527	560	1,558	1,700
	Revenues for transmission services	502	478	1,387	1,325
	Amounts related to electricity rebates	267	402	815	1,172
	Distribution revenues related to rural rate protection	62	61	184	181
	Distribution revenues related to supply of electricity to remote northern communities	8	8	26	26
	Funding received related to CDM programs	1	4	1	21
OPG[1]	Power purchased	3	1	8	4
	Revenues related to provision of services and supply of electricity	2	2	5	6
	Capital contribution received from OPG	1	—	3	—
	Costs related to the purchase of services	—	—	1	1
OEFC	Power purchased from power contracts administered by the OEFC	1	—	1	1
OEB	OEB fees	2	3	6	7
OCN LP[2]	Investment in OCN LP	4	—	4	2

[1] OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee. See Note 27 - Commitments for details related to the OCN Guarantee.

[2] OCN LP owns and operates electric vehicle fast charging stations across Ontario, under the Ivy Charging Network brand.

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. Invoices are issued monthly, and amounts are due and paid on a monthly basis.

25. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(millions of dollars)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Accounts receivable	(27)	(38)	(25)	67
Due from related parties	20	11	61	124
Materials and supplies *(Note 10)*	—	—	1	1
Prepaid expenses and other assets *(Note 10)*	(3)	4	(8)	(9)
Other long-term assets *(Note 13)*	—	1	1	1
Accounts payable	—	30	(43)	(15)
Accrued liabilities *(Note 14)*	4	13	82	53
Due to related parties	(30)	79	(224)	(140)
Accrued interest *(Note 14)*	23	25	20	31
Long-term accounts payable and other long-term liabilities *(Note 15)*	2	—	2	—
Post-retirement and post-employment benefit liability	14	21	53	66
	3	146	(80)	179

Capital Expenditures

The following tables reconcile investments in property, plant and equipment and intangible assets and the amounts presented in the consolidated statements of cash flows for the three and nine months ended September 30, 2021 and 2020. The reconciling items include net change in accruals and capitalized depreciation.

	Three months ended September 30, 2021			Nine months ended September 30, 2021		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(480)	(33)	(513)	(1,493)	(100)	(1,593)
Reconciling items	8	7	15	26	3	29
Cash outflow for capital expenditures	(472)	(26)	(498)	(1,467)	(97)	(1,564)

	Three months ended September 30, 2020			Nine months ended September 30, 2020		
(millions of dollars)	Property, Plant and Equipment	Intangible Assets	Total	Property, Plant and Equipment	Intangible Assets	Total
Capital investments	(464)	(36)	(500)	(1,216)	(85)	(1,301)
Reconciling items	7	(1)	6	33	(3)	30
Cash outflow for capital expenditures	(457)	(37)	(494)	(1,183)	(88)	(1,271)

Supplementary Information

	Three months ended September 30		Nine months ended September 30	
(millions of dollars)	2021	2020	2021	2020
Net interest paid	105	102	359	349
Income taxes paid	—	10	13	23

26. 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.

27. COMMITMENTS

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

As at September 30, 2021 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Outsourcing and other agreements	78	56	29	5	2	13
Long-term software/meter agreement	3	2	3	2	2	6

Outsourcing and Other Agreements

In February 2021, Hydro One entered into an agreement for information technology services with Capgemini Canada Inc., which expires on February 29, 2024, and includes an option to extend for two additional one-year terms at Hydro One's discretion. This agreement resulted in commitment of $143 million over the initial term of the agreement.

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

As at September 30, 2021 *(millions of dollars)*	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Operating Credit Facilities[1]	—	—	—	—	2,550	—
Letters of credit[2]	173	4	—	—	—	—
Guarantees[3]	487	—	—	—	—	—

[1] On June 1, 2021, the maturity date for the Operating Credit Facilities was extended to 2026.

[2] Letters of credit consist of $164 million letters of credit related to retirement compensation arrangements, a $6 million letter of credit provided to the IESO for prudential support, $4 million in letters of credit to satisfy debt service reserve requirements, and $3 million in letters of credit for various operating purposes.

[3] Guarantees consist of $475 million prudential support provided to the IESO by Hydro One Inc. on behalf of its subsidiaries, and guarantees provided by Hydro One to the Minister of Natural Resources (Canada) of $7 million relating to OCN LP (OCN Guarantee) and $5 million relating to Aux Energy Inc., the Company's indirect subsidiary. OPG has provided a $2.5 million guarantee to Hydro One related to the OCN Guarantee.

28. SEGMENTED REPORTING

Hydro One has three reportable segments:

- The Transmission Segment, which comprises the transmission of high voltage electricity across the province, interconnecting 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, investments including a joint venture that owns and operates electric vehicle fast charging stations across Ontario under the Ivy Charging Network brand, and the operations of the Company's telecommunications business. The Other Segment includes a portion of the DTA which arose from the revaluation of the tax bases of Hydro One's assets to fair market value when the Company transitioned from the provincial payments in lieu of tax regime to the federal tax regime at the time of Hydro One's initial public offering in 2015. This DTA is not required to be shared with ratepayers, the Company considers it to not be part of the regulated transmission and distribution segment assets, and it is included in the other segment.

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 tax expense from continuing operations (excluding certain allocated corporate governance costs).

Three months ended September 30, 2021 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	507	1,395	11	1,913
Purchased power	—	933	—	933
Operation, maintenance and administration	95	153	14	262
Depreciation, amortization and asset removal costs	116	109	2	227
Income (loss) before financing charges and income tax expense	296	200	(5)	491
Capital investments	304	206	3	513

Three months ended September 30, 2020 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	483	1,410	10	1,903
Purchased power	—	993	—	993
Operation, maintenance and administration	102	145	15	262
Depreciation, amortization and asset removal costs	113	105	2	220
Income (loss) before financing charges and income tax expense	268	167	(7)	428
Capital investments	309	190	1	500

Nine months ended September 30, 2021 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,403	4,012	31	5,446
Purchased power	—	2,665	—	2,665
Operation, maintenance and administration	294	497	42	833
Depreciation, amortization and asset removal costs	355	314	6	675
Income (loss) before financing charges and income tax expense	754	536	(17)	1,273
Capital investments	1,017	566	10	1,593

Nine months ended September 30, 2020 *(millions of dollars)*	Transmission	Distribution	Other	Consolidated
Revenues	1,342	4,050	31	5,423
Purchased power	—	2,808	—	2,808
Operation, maintenance and administration	318	434	45	797
Depreciation, amortization and asset removal costs	334	305	6	645
Income (loss) before financing charges and income tax expense	690	503	(20)	1,173
Capital investments	796	502	3	1,301

Total Assets by Segment:

As at *(millions of dollars)*	**September 30, 2021**	**December 31, 2020**
Transmission	18,499	17,761
Distribution	11,964	11,387
Other	672	1,146
Total assets	31,135	30,294

Total Goodwill by Segment:

As at *(millions of dollars)*	**September 30, 2021**	**December 31, 2020**
Transmission	157	157
Distribution	216	216
Total goodwill	373	373

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

29. SUBSEQUENT EVENTS

Dividends

On November 8, 2021, common share dividends of $159 million ($0.2663 per common share) were declared.