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H.TO - Q1 2016 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Hydro One Limited first-quarter 2015 results investment community teleconference.

(Operator Instructions)

As reminder, this call may be recorded. I would now like to turn the call over to Bruce Mann with the Hydro One management team. Please go ahead.

Bruce Mann - *Hydro One Limited - VP of IR*

Thank you very much, and good morning, everyone. We appreciate you joining us. I'm here in Toronto with Hydro One's President and CEO, Mayo Schmidt, and our Chief Financial Officer, Michael Vels. We'll provide some brief comments and background with respect to our first-quarter results and then we'll spend the majority of the call answering as many of your questions as time permits.

There's also several slides which we've got to illustrate and/or support a few of the points that we will go over in a moment. They should be up on the webcast now, or if you're dialed into the teleconference, you can find them on the Hydro One website in the events and presentations section.

And then just quickly, as the discussion this morning will undoubtedly touch on estimates and other forward-looking types of things, you should please review the cautionary language in the earnings report today and in our full-year MD&A regarding the various factors and assumptions and risks that could cause our actual results to differ. All of that applies equally to the our on the call. You can find our full-year and quarterly MD&A on our Hydro One website as well as on the SEDAR website.

And with that, I shall turn the call over to Mayo Schmidt.

Mayo Schmidt - *Hydro One Limited - President & CEO*

Thank you Bruce, and good morning everyone. This was Hydro One's first full quarter as a public company, and it's been an intense few months since the IPO. I intend to give you some insights into what we've been focusing on in the last few months.

First, some comments on the quarterly results. I'd characterize our first-quarter earnings as strong with lower operating costs driven by continuing reductions in costs related to our billing systems and related support. These continuing cost reductions which drove an improvement in our distribution ROE were offset by the impacts of very unseasonably mild winter temperatures and recovery costs from an ice storm that affected a large region of Ontario in late March. The very unseasonably mild weather temperatures and ice storm were noncontrollable events, but despite these early weather challenges, we are well-positioned and generally tracking to our overall plan for the full year.

During our first quarter we also announced the definitive agreement to acquire Great Lakes Power electric transmission business in Northern Ontario. This transmission asset is strategic to Hydro One, as directly contiguous on both ends with Hydro One's own transmission network and upon completion of the transaction, Hydro One will operate 98% of Ontario's transmission capacity.

As I mentioned previously, this acquisition squarely aligns with our stated objective of maximizing opportunities within Ontario in our core electrical transmission and distribution businesses, and was a unique (technical difficulties) high-quality asset management team as we continue to expand in Canada's most populated province. Completion of the transaction is subject to the Ontario Energy Board and Competition Bureau approvals, and we have made all the required regulatory approval filings and expect to be on track to get this acquisition closed, hopefully late this year.

We've also executed a highly successful CAD1.35 billion long-term debt offering that was well subscribed and enabled us to lock in some historical low rates. Shortly after the quarter concluded we assisted the Province in Ontario in their monetization of another approximately 15% of their equity ownership of Hydro One be a successful secondary offering. The offering almost doubled the float of the Company, which has already proven very positive in terms of increased liquidity, and at the same time was completely non-dilutive transaction for shareholders. The Province's ownership interest is now 70%, halfway to their goal of selling down to 40%.

In terms of common share dividends, as you can see on slide 3, our target is to pay out dividends equal to 70% to 80% of net income. This morning we announced a quarterly dividend of CAD0.21 per share. Also during the quarter we implemented a non-diluted dividend reinvestment program.

I'd like to talk to you about our management team's focus and where we are spending the vast majority of our time. We're working towards a Company-wide initiative to develop a comprehensive road map targeted at materially enhancing operating capabilities, building momentum, and moving toward best-in-class customer service and operating metrics. I introduced the initiative internally referred to as Moving From Good To Great on our last call, and we have continued to progress on development of a detailed comprehensive top-to-bottom operating plan to move our organization forward.

I've spoken before about our objective to transfer Hydro One to a performance-focused commercial organization that will generate consistent growth and value for our customers and shareholders. This has led to an intensive effort by all employees to build on our plan and then execute on that plan. When this detailed operating plan and structure is fully implemented across the organization, we'll measure our success across several core elements. And those will include building a customer-centric approach focusing on our customers' needs, ensuring that customer feedback consistently and drives -- and directly drives our business decisions for further value creation, the sharper focus on continually increased efficiencies and productivity while accelerating the effectiveness of our capital deployment to execute on the multi-year infrastructure upgrades we have in front of us with precision, making Hydro One a more personally and professionally rewarding safe place to work for our employees as we significantly increase communication across all levels and locations of the Company, engaging employees to create the right outcomes.

We have implemented compensation programs that incent our staff to focus on the right priorities. And as we do this, we intend to build a world-class competencies and strive towards delivering best-in-class operating metrics that position our Company for accelerating growth well into the future. While over time we will look to potentially grow beyond our core, today our focus is taking the excellent set of assets in the employee base we have today, building organizational muscle and momentum, choosing to move from good to great. We intend to leverage our asset base and increase capabilities to even further accelerate growth and value creation.

I have personally spent many days in the field with our people sharing the vision, getting their feedback, and understanding the Hydro One cultures. I am pleased to report is that we have a talented and engaged workforce in the field and offices across the Province that are asking to be engaged in our future plans, are looking to be empowered, accountable and rewarded for performance. They embrace removal of the historic bureaucratic processes, policies and other barriers to enable them to be more productive and efficient.

I look forward to following up with you to provide an update on results from the implementing and execution of our internal planning over the coming months and with that, I'd like to turn it over to Michael Vels to discuss the financials. And then we will take your questions.

Michael Vels - *Hydro One Limited - CFO*

Thank you, Mayo. Good morning, everyone. For the first full quarter as a public company we generated net income of CAD208 million and earnings per share of CAD0.35. We also return just over CAD200 million to shareholders with a payment of our first common share dividend since the November initial public offering.

I will start by highlighting a few of the IPO and other operating-related items that are outlined in our MD&A that make comparisons for this quarter a little less comparable than last year. First, and I'm referring to slide 5, were

For IPO-related effects. There are two items to take note of. First is the divestiture of the Hydro One Brampton business that occurred on August 31, 2015, which on a pro forma basis reduces both revenue and earnings.

The second item is the impact of the recapitalization at the time of the IPO which brought our leverage up to match the regulatory [deemed] 60/40 debt equity cap structure. and resulted in an increase in interest expense year over year. The effect of the two items compared to last year is a reduction of CAD7 million of net earnings in the first quarter of 2016.

From an operating perspective, Mayo briefly touched on the main items of note that impact the year-over-year comparison. The first of these being the impact of one of the warmest winters on record, which reduced revenues, although it was partly mitigated by regulated rate changes that were put in the place at the start of the year. These rate increases are annual rate adjustments that are approved by the OEB and as you can see on slide 6, had about 0.4% impact on the total customer bill after you exclude other bill components over which we have no control or economic interest.

On the (inaudible) cost side, we delivered some good improvements versus the first quarter of last year in areas including information technology, bad data expense, and certain other items related to billing and back-office systems issues that existed early last year but that are now stable and operating to specifications. However, about one-third of these cost savings were internal set by the expense portion of the recovery costs associated with the late March ice storm in Ontario. The appreciation cost increases which tracks with the rate base and revenue increases. The remainder of our costs were either consistent or slightly lower than last year.

On slide 7 you can see that we finished the quarter with a strong balance sheet and significant available liquidity. In addition to the renewal of the Company's medium-term note shelf prospectus at the Hydro One Inc level late in the fourth quarter, during the first quarter we also put in place a universal shelf prospectus at the Hydro One Limited level which will provide us with additional financial flexibility as we go forward. As you know, shortly after the quarter concluded, the Province already utilized the shelf to facilitate this recent secondary share offering.

On slide 8 we outlined the changes that you see to our debt on our balance sheet reflecting a very successful CAD1.3 billion three-tranche note offering at our fully owned to regulated subsidiary, Hydro One Inc, priced during the quarter. It consisted of CAD500 million each of 5- and 10-year term notes and CAD350 million of 30-year notes. The offering was well subscribed and resulted in attractive coupon rates.

Proceeds of the transaction were used to repay a debt maturity and outstanding short-term borrowings. Liquidity remains very strong, leverage remains conservative, and we remain investment-grade A rated at all three of the agencies.

And slide 9, lastly. I'll point out that on the regulatory front we expect to make a transmission rate filing at the end of this month for the 2017 and 2018 period. In future periods transmission in Ontario will move to an incentive-based regulatory regime. This is consistent with the transition that local electric distribution is undergoing in Ontario and will also be the construct around distribution rate filing that we expect to make around this same time next year. And with that, we will now be pleased to take your questions.

Bruce Mann - *Hydro One Limited - VP of IR*

All right. Operator, if you would please go ahead and explain quickly to the participants how you would like to organize the Q&A polling process. We are ready and happy to take questions from the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Securities - Analyst*

Thank you. Can you maybe help us understand a little bit more the degree that weather affected results financially in the quarter? Any sort of rules of thumb of normalization or anything would be helpful.

Michael Vels - *Hydro One Limited - CFO*

Good morning, Linda. We do provide two statistics in our consolidated financial highlights, which is average monthly 60-minute peak demand in our electricity distribution, which is the consumption affect. You can see the effect there of the operating ratios. To help you a little bit with the dynamics of that, January was particularly warm. And that had probably the most significant effect on our peak load for the quarter and drove the reduction in our average monthly 60-minute peak demand that you see on our operating statistics. Throughout the whole month the weather was quite mild. And as a result there was a significantly lower load and related distribution consumption in our distribution business. In terms of the relative impact of that, the distribution consumption reduction probably had a slightly larger affect then the impact in January of the difference in the peak load. So roughly equally distributed between the businesses.

In terms of rules of thumb, it is very difficult, frankly, to try to correlate literally the temperatures in the weather to a financial result. And if I actually had a ratio that was easy to use, I certainly both be using it internally and be providing it to you. But it does differ depending on the month, what the anticipated peak load is. Whether you're in a period of very high temperatures like the summer, or expected high temperatures like the summer, or expected low temperatures in the winter versus the shoulder months in the spring and the fall. The best we can do is highlight it and point it out. And show you quarter over quarter how it impacted our numbers. In terms of rules of thumb, very hard to go beyond that.

Linda Ezergailis - *TD Securities - Analyst*

Okay, thank you. Maybe just a bigger picture question. Looking at the Great Lakes acquisition, are you seeing -- are you in dialogue with any other utilities in Ontario currently, or what are you seeing on that front, if anything?

Mayo Schmidt - *Hydro One Limited - President & CEO*

Hi, Linda. It's Mayo. We continually stay in dialogue with LDCs, or local distribution businesses, across the province for many reasons, one particularly operationally. We connect to most of those. And I would say that the Great Lakes Power is a transmission business, was of course the last 2% that would or could have come to market,. Made a particularly important to us, and of course got a very good management team that came along with it. So we're very happy with that. And there has been publicized a couple local distribution companies that have engaged us in conversations about the connectivity that we have and what we might be able to do for them.

I think historically this organization has acquired over history almost 90 LDCs. And we continue to find them approaching us to say, how can Hydro One integrate these businesses in? Because I think that in the past the LDCs, particularly we've got a couple in integration right now, have successfully found value in connecting to Hydro One's larger network. And not only the synergies, but the savings associated with that better supporting their communities. I think you'll continue to see that. But it's not an overall large initiative by the organization. It is -- frankly, it's something that we do as a matter of a natural course. We are also in discussions with a Orillia and Peterborough, as we speak, a couple local municipalities that have been in touch with us to see what Hydro One can do for the business.

Linda Ezergailis - *TD Securities - Analyst*

Thank you.

Operator

Andrew Kuske, Credit Suisse.

Andrew Kuske - *Credit Suisse - Analyst*

Thank you. Good morning. I guess the question relates to looking at the Ontario power market and your role within it. I ask the question in part because if we looked at whether normalized demand over the last, say, 10, 15 years we've seen a pretty consistent fade in demand. And how do you think about that as you look at your business? Obviously the Q1 numbers are skewed because of mild winter. But structurally if we looked at demand, we've seen a fade in demand for a variety of reasons. So how do you think about that, how that affects your business ultimately?

Mayo Schmidt - *Hydro One Limited - President & CEO*

I think longer term we're certainly watching these trends. And we've got new generators that are coming online. We're thinking about, of course, disruptive technology that the Company needs to be positioned to deal with. And quite frankly, the overall cost of power and how it affects people's decisions of whether they come to the Province to set up large manufacturing business or exit. I would mention that we've had a number of -- significant number of consultations with our customers, particularly the large industrials, and identifying ways that we can work together to create reliability and quality of power for each of the businesses. So while there may be the slightest deterioration in terms of volume, depending of course some of it's affected by weather, some of it's affected by overall business demand and economies, we're finding positive ways to support internal growth. We've got a system that we operate and largely owned that is -- certainly has deteriorated over the years. It needs to be enhanced. So that's a conversation informed by the customer consultations we're having. It will have discussions with the OEB regarding the continuing to build out the system for reliabilities, as well as also security of supply.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, that's helpful.

Michael Vels - *Hydro One Limited - CFO*

The other thing, Andrew, that maybe I'd add that to is over time the OEB has directed us to move towards fixed rate billing on our distribution system. So roughly over the next five-plus year as net rate changes is factored in throughout the system, the impact of distribution consumption would become significantly less of an issue from a quarter-to-quarter basis for us, and over the long term, as we will be billing out distribution delivery on a fixed rate basis.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, that's helpful. And then Mayo, you mentioned earlier, just listen to the customers and what they're looking for. And I think you gave some really good examples about trying to enhance reliability. And obviously there's a pretty big reinvestment window from enhancing the grid and bringing it back up to a much better standard than what we've seen. How do you think about the tension of -- potential tension between some customers looking to wanting to export power out of the Province to really distribution customers, and on a pricing dynamic with that really means? And is there a reconciliation of that, that tension and how do you balance that because you have assets on both sides?

Mayo Schmidt - *Hydro One Limited - President & CEO*

I think, one, is the customer consultations have been quite informative. And what we not only suspected but what we learn and what we were able to build is a relationship with the customers, was an understanding of the value in terms of a cost for reliability and quality of power. So that was very, very informative. And we think it's going to be very supportive of the good dialogue that we intend to have with the OEB.

Of course, it's the IESO that manages the flow of power inside and outside of the Province and the associated pricing. And as Mike indicated, the base charge that's going to exist will further support not only stability and continued stability in our numbers, but also as we continue to need to invest more capital, as we've done. And part of our job we see today is really to get to a point of a higher level of precision, that when we have a proved rate base, or an agreed target, that we hit those targets with a great degree of precision, which will allow us I think to continue to operate more efficiently. And I think taking -- effectively costs being lowered in our particular business gets contributed back to the development of the system, which we are working really hard on.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, that's very helpful. Thank you.

Mayo Schmidt - *Hydro One Limited - President & CEO*

Thank you.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Morning. First question here, just on the move for both the distribution and transmission utilities to incentive structures and distributions probably a little bit closer here. But can you talk about if you've got some thoughts of the framework? And especially comparing and contrasting between the two, particularly given the O&M intensive nature of distribution, and transmission being less so? What would you expect a transmission incentive rate structure to look like?

Michael Vels - *Hydro One Limited - CFO*

That's a good question, Robert. I would say before I answer you, I don't have a very specific answer. We are still considering that. Clearly the first filing that's going to be coming up right after our cost of service for transmission is distribution. As you've correctly pointed out, it's a much more O&M intensive business. It's also the business that has not, at least from a benchmarking perspective, as obviously efficient as our transmission business. And it's probably the area where we see the most opportunity to impact productivity and efficiency.

So I think it's probably -- it's definitely premature to speculate on exactly what our structure would be in an IRM filing. It would be for sure at least definitely on both sides a custom filing where we need to ensure that there's an mechanism that incentivizes us to reduce costs, and obviously at the same time retain a portion of those during the filing period. But at the same time ensure that the significant increases in capital spending and the rate base on both sides are recovered in the rate. It's a good question. And probably one that we will be able to answer at a later point in time. But in terms of the specific structure, can't clearly speculate right now.

Robert Kwan - *RBC Capital Markets - Analyst*

Fair enough. If I can ask one other question. Just with the province moving forward with the large renewal procurement process, I'm just wondering, and this could be one of many more to come, I'm just wondering if you've given a thought as to what the impact of this and any future calls might be? And is this additive, then, to your capital forecast if the procurement process is move forward?

Michael Vels - *Hydro One Limited - CFO*

Well there is certainly several large projects that are under discussion, or in some cases similar to the Northwest Bulk project, under development. And it would depend on which element of the Province you are referring to, for sure. Northwest Bulk, for example, we are the designated transmitter. In terms of other procurement processes and potential new transmission, we continue to believe that we would be very competitive in any of those processes. And particularly as Mayo said, as we sharpen up our execution and our capabilities internally we believe we'll be competitive in those processes. To the extent that those are in fact projects that we end up developing and constructing, that would all be additive to the rate base estimates that we've included, both in our IPO prospectus and our most recent MD&A.

Robert Kwan - *RBC Capital Markets - Analyst*

That's great. Thank you very much.

Operator

Paul Lechem, CIBC.

Paul Lechem - *CIBC World Markets - Analyst*

Mayo, you made some comments in your initial discussion around consolidation of the LDCs in Ontario. And I'm just wondering, have you seen the pace or the intensity of discussions pick up now that we are in that three-year tax window, that tax holiday, that's being set by the government? How has the tone of the discussions changed since the beginning of this year?

Mayo Schmidt - *Hydro One Limited - President & CEO*

I don't think we've seen a change in the tone. I think there -- the issue really is the complexity of what the municipality needs or requires to create a transaction. And that might be what they are looking for is obviously job stability and additional capital for infrastructure in their particular community so they can redeploy their capital. It seems to me, just the view that we've had, is there is a consistent number of approaches over a period of time. And there's generally a couple conversations that are happening at one time with a number of them in the queue. But they are long, and I wouldn't use the word difficult, but they're a little bit challenging because there's a whole process of education getting to a transaction.

And of course it is not negotiating with one principal owner of the business, it's negotiating with a municipality that has many different interested parties in how those businesses are operated and who operates them. But I think what they are finding is the value in participating along with, in our particular case, with Hydro One. We are able to consolidate into certain communities with some of our transmission business, as well as the local distribution. So it does create both employment in the communities, yet at the same time it doesn't raise our cost. There's synergies in those particular opportunities for us. So I would say it's consistently there is several at any one time that want to have the discussion. And there's generally a couple that are in discussion.

Paul Lechem - *CIBC World Markets - Analyst*

All right. As we move through the three-year window, do you expect the pace of discussions to pick up? Or should we think about 2017 and 2018 as potentially busier years for consolidation?

Mayo Schmidt - *Hydro One Limited - President & CEO*

I don't -- it doesn't feel that way right now, Paul. Obviously if you look at the financial outcomes related to incentives, one would draw that conclusion. But the communities aren't necessarily driven by pure financial outcomes. They are driven by other things and other needs as a community. So the decision-making tends to get drawn out to a longer extended period of time. So for us, we've developed a methodology of having those discussions without, obviously, creating situation where we are distracted from the primary focus of building out the transmission system and supporting our customers.

Paul Lechem - *CIBC World Markets - Analyst*

Got you. Thank you. Just a couple of quick questions on the incentive rate making and the move to that. How should we think about the base-allowed ROE as we move -- as you move into the incentive rate-making structure? Everything else being equal, would you expect a downward pressure on the base-allowed ROE such that the upside earnings from cost synergies, cost savings would bring you back into the same range that you are in now? Or would you expect to be achieving an ROE above where the current base-allowed ROE is set?

Michael Vels - *Hydro One Limited - CFO*

The very short and top-line answer to that question is, the last part of your question is, yes. In a properly constructive rate filing we would expect to exceed our allowed ROE. That is really the fundamental principle of a well constructed IRM. The regulator wants you to be incentivized to overrun your ROE for a period of time on the assumption that once your rate filing period is over, which is for a long period of time itself, you are going to ultimately return those efficiencies to the ratepayers and customers will benefit.

In terms of the core of your question, which is at the same time does the regulator sort of try to, I guess, maybe putting words in your mouth, balance it out by providing a lower allowed ROE? The answer is no. The regulator is actually aligned with us in that they want to incentivize us to make a good living through that period, because it does benefit the ratepayers at the end of the period. We don't anticipate, I guess, a proactive change by the regulator on ROE side. It is up to us to construct a proper mechanism that enables us to through that five-year rate period to over-earn our ROE.

Paul Lechem - *CIBC World Markets - Analyst*

Thank you. Last question, if I may. As you move the transmission business onto incentive-based rate-making, do you anticipate you have to go through a benchmarking process there, similar to you did -- what you did on the distribution side? Or are you're already doing that work in advance so that you can actually move to incentive rate-making by 2019 on transmission?

Michael Vels - *Hydro One Limited - CFO*

The way I would characterize that is that the OEB has been very clear about their renewed regulatory framework, which has a number of components to it. And that would apply equally to transmitters. And certainly benchmarking studies and customer consultations is a very material element of that. In fact, as we go through the process of our cost of service filing for transmission, we are taking some care and effort to make sure that we are responsive to that for new regulatory framework today. So we would be doing benchmarking in fact to support our regulatory filing from cost of service. And we would provide more benchmarking, and also a scorecard for our transmission business as well as our distribution business. I guess apologies for the long answer. But the short answer to that question is yes, absolutely.

Paul Lechem - *CIBC World Markets - Analyst*

Okay. Thank you very much.

Operator

Ben Pham, BMO Capital Markets.

Ben Pham - *BMO Capital Markets - Analyst*

Thanks. Good morning, everybody. I wanted to follow up on the commentary around the fixed charge on the residential side with distribution. And I guess that's coming in the next couple of years. Just with the decoupling from the volume side. Has there been any initiation from the OEB on the nonresidential side to put something similar to what's going on with residential?

Michael Vels - *Hydro One Limited - CFO*

The focus, or at least the direction on rate changes at this point has been on residential. So we have orders and directions in terms of how the residential rates would be changed that implemented on the residential side. So we have a fairly significant clarity and a road map for the residential side. At the same time the OEB has commissioned a working group on commercial and industrial buildings to identify what the optimum method dollars you would be for billing to larger customers. And we're participating in that, but no news at this point.

Ben Pham - *BMO Capital Markets - Analyst*

Okay. And then I was wondering, too, if local distribution companies, the OEB has relaxed over the years the potential for participation in non-regulated investments. And you talked about yourself also maybe looking at renew energy, contracted power. So getting outside of your regulated infrastructure. I'm just wondering how aggressive you guys think you could be with maybe servicing some additional growth in non-regulated as you move forward towards potential electrification in the grid?

Mayo Schmidt - *Hydro One Limited - President & CEO*

Ben, this is Mayo. Thanks for the question. I would go back to what was the specific comments that we made, not only on the road show but consistently over time, is that we are entirely focused on the internal capabilities now of executing at a high level on the transmission or distribution businesses that are 99% regulated. We've always felt that the strength of this organization not only is execution -- executing well, both customer transmission distribution, but the fact that we've got a very, very strong balance sheet and that we are not attracted to get into necessarily businesses at this time that have a degree of volatility in them.

So I think really for us, we look at 2016 as really the heavy lifting, as building the competencies and capabilities. And as I said in my press release, the muscle in the organization to execute with a high level of precision and degree of confidence. And I think our heavy lifting over the next year or two really has begun with the two-year transmission, which ultimately will be a five-year distribution rate, is really replacing some of the deterioration of the system for a better security supply. Because our customers are talking to us continually about reliability, and also quality of power because of the disruptions that even fluctuation in power has to their plant operations.

So I think you're going to see us stick pretty close to the knitting and really get to a high-performance team before we start looking outside of the envelope that we're working on right now. And of course we're executing on CAD1.6 billion of CapEx annually. So job one is to get a degree of precision on that. Thanks for your question.

Ben Pham - *BMO Capital Markets - Analyst*

Okay, thanks. And the last thing, you mentioned the CAD1.6 billion CapEx number. And a little bit of rounding last quarter with your forecast. Any change in the rate-based growth there? Is everything in line with what you've indicated previously?

Michael Vels - *Hydro One Limited - CFO*

At this time we are not changing our forward-looking projections on capital and rate base materially. Having said that, as I outlined at the beginning of this call, we do have a rate filing for transmission that will be filed at the end of this month. And that will have some estimates of future capital expenditures embedded in it. And that would probably provide the first [extent] of relook at what we anticipate our capital expenditures to look like going forward.

Ben Pham - *BMO Capital Markets - Analyst*

Okay, that's great. Thanks for taking my questions.

Michael Vels - *Hydro One Limited - CFO*

Thanks, Ben.

Operator

Jeremy Rosenfield, Industrial Alliance.

Jeremy Rosenfield - *Industrial Alliance - Analyst*

Good morning. Just one question, actually. As you go forward into the incentive regulation in 2017 and 2018, labor costs are a significant component of the overall cost structure for the organization. I know you have labor agreements that are in place right now. But I'm curious to get your thoughts in terms of how you see those evolving as you move into the intensive regulation moving forward? Thanks.

Mayo Schmidt - *Hydro One Limited - President & CEO*

I think a couple of things. One is, your point is correct that we've certainly three years of agreements that are outstanding. We will have to determine over the course of time how those discussions are going to go. And of course those are driven by many, many different factors. We are continuing to focus entirely in this organization on the cost, and also how we can be more efficient within the cost structure that we have. So it really is about engaging our workforce in the circumstances that we have and getting a higher level of productivity. So I don't think at this time we've got any or taken any views on what will be a, I guess, a 2018/2019 discussion. But I think you can be assured that we're going to be focused on getting more value out of the existing assets and workload that we have today.

Jeremy Rosenfield - *Industrial Alliance - Analyst*

Perfect. Thanks. That's it for me.

Mayo Schmidt - *Hydro One Limited - President & CEO*

Thanks Jeremy.

Operator

Patrick Kenny with National Bank Financial.

Patrick Kenny - *National Bank Financial - Analyst*

Good morning, guys. Just on the Good To Great initiative. Wondering if you could provide us with a couple of key operating metrics to watch over the coming quarters, outside of high level OM&A costs? And what your targets might be over the next 12 to 18 months? Thanks.

Mayo Schmidt - *Hydro One Limited - President & CEO*

Thanks, Patrick. We're going to be at some point soon be talking about what metrics we might want to publish. But let me talk specifically about some of the things that we're doing. One of the things, when we get a particular capital program initiative underway, there has been times in the past where the organization has shown an inability to perform or to execute on the rate base that's been approved and has left considerable amount of capital on the sidelines. Our intention is to identify exactly what needs to be done within a particular year and then incentivize our employees to hit that number with a degree of accuracy so as we are not abandoning tens of millions or even larger numbers alongside of the highway that -- on our way to our objectives. So you will find in the G2G, as we call it, the Good To Great, that it really is getting that optimal performance about what's been approved. So really right at this point in time the metrics are within the rate bases that we have approved on the distribution and transmission is hitting those numbers with a degree of accuracy going forward.

Patrick Kenny - *National Bank Financial - Analyst*

Okay, great. We will watch that. And then wondering if you'd please comment on what you are seeing from your distribution customers on the home battery fronts pairing up with rooftop solar? And I guess how many of your customers would be pursuing the home power storage opportunity today? What might be your expectations over the next 1 to 5 years? And just general comments on how that might impact the overall distribution system or present opportunities for you going forward?

Mayo Schmidt - *Hydro One Limited - President & CEO*

Thanks Patrick for that. There is a lot of conversation, some research, and I would say we are seeing in the field elements of particular, I guess, isolated circumstances where there is test models with 20 homes and battery storage, and really taking some analysis around that. There hasn't been any commercial -- commercially obvious opportunities that are going to occur over the next couple of years. But we're looking at either disruptor or innovative technology carefully and closely.

We've not only engaged in analysis around the organization, engaged our Board of Directors in some insights into many years from now what might yet come. But right now there is certainly a lot of testing, a lot of conversation, but very, very, very small test models which might be a couple dozen homes here and there that are under test But nothing significant to give you in terms of guidance in that area at all.

But be sure that we are going to continue to take a very close eye on it. And we think about innovation is, there is a risk to be in too early of an adopter and too late. And there is no shame in if someone else has got a model that if we can adapt quickly and we're prepared to do that, too. But right now our focus is much is keeping an eye on innovation is really about execution of the underlying rate-base approved capital that we have.

Patrick Kenny - *National Bank Financial - Analyst*

Okay, great. Thanks for that color Mayo. That's it for me.

Mayo Schmidt - *Hydro One Limited - President & CEO*

You bet. Thanks. Have a good day.

Operator

I'd like to turn the call back to Bruce Mann for closing remarks.

Bruce Mann - *Hydro One Limited - VP of IR*

Thank you very much, operator. And the management team here at Hydro One would like to thank everyone for investing some of your time with us this morning. We appreciate your interest and your support. And to the extent you have any questions that weren't answered on the call, please feel free to reach out to Omar or I. Our contact information is at the end of this morning's earnings release. This concludes our call. Have a lovely weekend. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. And you may all disconnect. Everyone have a great day.
