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CONFERENCE CALL PARTICIPANTS

Andrew M. Kuske *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research and Global Co-ordinator for Infrastructure Research*

Benjamin Pham *BMO Capital Markets Equity Research - Analyst*

Dariusz Lozny *BofA Merrill Lynch, Research Division - Research Analyst*

Elias A. Foscolos *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Linda Ezergailis *TD Securities Equity Research - Research Analyst*

Mark Thomas Jarvi *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

Robert Hope *Scotiabank Global Banking and Markets, Research Division - Analyst*

Robert Michael Kwan *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Hydro One Limited Third Quarter 2020 Analyst Teleconference. (Operator Instructions) As a reminder, the call is being recorded. I would now like to introduce your host for today's conference, Mr. Omar Javed, Vice President, Investor Relations at Hydro One. Please go ahead.

Omar Javed - *Hydro One Limited - VP of IR*

Good morning, everyone, and thank you for joining us in Hydro One's third quarter earnings call. Joining us today are our President and CEO, Mark Poweska; and our Chief Financial Officer, Chris Lopez.

In the call today, we will go over our third quarter results and then spend the majority of the call answering as many of your questions as time permits. There are also several slides that illustrate some of the points we'll address in a moment. This should be up on the webcast now. Or if you're dialed into the call, you can also find them on Hydro One's website in the Investor Relations section under Events and Presentations.

Today's discussions will likely touch on estimates and other forward-looking information. You should review the cautionary language in today's earnings release and our MD&A, which is -- which we filed this morning regarding the various factors, assumptions and risks that could cause our actual results to differ as they all apply to this call.

With that, I turn the call over to our President and CEO, Mark Poweska.

Mark Poweska - *Hydro One Limited - President, CEO*

Good morning, everyone, and thank you for joining us. Before we begin, I'm heartbroken to share with you that 1 of our employees lost his life in a very serious motor vehicle accident in the Port Carling area a couple of days ago. Our employee was traveling in Hydro One pickup truck on a rural Ontario Road when a concrete truck rolled onto this vehicle while rounding a corner. Our thoughts and prayers are with his family, friends by 2 priorities: protecting our employees and delivering safe, reliable power to Ontarians. These priorities will continue to guide our decisions, along with the advice of our public health experts. To date, we've had very few cases of COVID amongst our employee population. And there's only been 1 suspected case of workplace transmission, which occurred subsequent to the quarter end. Safety protocols such as extra PPE, on-site hand washing supplies, adaptive work methods and site protocols have allowed us to complete our work programs. We will continue to be diligent in following these protocols as we look to the future when we get to a new normal. Our return to office plan is designed to minimize the risk to our employees. It is gradual and phased. It helps -- it builds on lessons we have learned since the start of the pandemic. It is flexible in when and how we work so that everyone is protected. And it ensures that lights stay on while we continue to complete our work programs.

Our customers have also been affected in many ways, and we understand this. We have been and will continue to be there for our customers. In yesterday's budget, the government announced an additional initiative to lower the global adjustment charge. This will help our business customers. The government also confirmed rate protections for our residential customers will remain in place. We were pleased to see the government's commitment to managing electricity costs, so Ontario's businesses can be competitive on the global stage.

At Hydro One, we continue to support residential customers by extending our ban on electricity disconnections and providing them with help through Hydro One's pandemic relief program as while ensuring they are benefiting from the government's COVID energy assistance programs. We have a responsibility to give back to the communities where we work and live. This includes support for our indigenous customers, businesses and families. We serve 104 indigenous communities and have transmission assets on 23 First Nations reserves.

We have a responsibility to build respectful and meaningful relationships with indigenous communities across the province through the work that we do every day, and I'm pleased that we are making advancements. Hydro One was recently recognized by the Canadian Council for Aboriginal Business, or the CCAB with silver level certification in Progressive Aboriginal Relations for Par, advancing from our bronze level certification in 2017.

Awards like these are incredibly important because they track our progress. To help us improve our performance as a trusted partner with indigenous communities, and we are honored to be recognized in this way.

This partnership mindset also extends to our employees and unions. I'm pleased to announce that the Power Workers' Union, the PW members voted in favor of renewing 2 collective agreements. The main collective agreement, which includes frontline operations staff, and the customer service operations collective agreement, which includes staff in customer-facing roles. The collective agreements cover over 4,200 regular employees and approximately 1,500 contingent employees in critical frontline roles across the company, operations in Ontario. These agreements reflect our shared commitment to working together. And there are several notable components, including employment security, extended health benefits focused on mental health for employees. The agreements also allow for increased productivity, enhanced flexibility and a renewed emphasis on diverse and inclusive practices. We are now in a period of labor stability with these agreements in place for the next several years.

And as we look out to the future, we see a lot of things to be optimistic about. First, we are continuing to energize life for our customers. We are working to connect over 170 commercial and industrial customers to the grid. These new customers represent over 2,200 megawatts of capacity, which is enough to supply a city of about 1.5x the size of Ottawa. Second, we are in a stable rate-regulated environment. Our rate applications for the distribution and transmission businesses have been successful through 2022. We have high visibility of the capital investment and corresponding rate base growth that is required to maintain the safe and efficient transmission of power. Our formulaic return on equity has already been determined, which provides us with an incentive to work harder for our customers. In addition, we have a path to final resolution on the deferred tax asset. Our constructive relationship with our regulator is strong, and we are working with the new leadership at the Ontario Energy Board as they move forward with the regulatory reforms that will benefit all Ontarians and which we support.

our shareholders. This positive outlook, combined with our greater purpose of energizing life is attracting high-caliber individuals to our talent force and motivating existing employees to step up.

And with that, I'm pleased to welcome Megan Telford as the Chief Human Resources Officer. Megan was previously at Toronto Dominion, where she transitioned through increasingly challenging roles and most recently was the Head of Human Resources for TD insurance. For background in all areas of HR and law will be invaluable to us.

Our Chief Safety Officer, Darlene Bradley, recently retired after 33 years with the company. Darlene had been a core part of my leadership team, and I would like to thank her for her service, and we all wish her the very best in this new stage of her life. And I'm pleased to report the appointment of Lyla Garzouzi to the role of Chief Safety Officer. Lyla, an electrical engineer by background, has over 15 years of experience in Hydro One, most recently as Vice President of Distribution. Given her frontline experience, she is deeply committed to improving Hydro One safety culture. She was also recently recognized as 1 of Canada's top 40 under 40 for 2020. As an executive sponsor of Pride, Laila is also an important model who will continue to deliver on our commitment to diversity and inclusion.

And to close, we're all saddened by the loss of our colleague, and this has prompted us to step back and reflect. In my ways, this quarter has been positive. But all the good is diminished when we experienced a tragic incident like the one this week. We must and will continue to work towards eliminating serious injuries in this company.

Chris, over to you.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thank you, Mark. Good morning, everyone, and thank you for joining us today. I hope you and your families are safe and doing well. I will take this moment to express my sincerest of condolences to the family, friends and coworkers affected by this tragic motor vehicle accident. Our thoughts and prayers are with you all.

With respect to the business, I would like to extend Megan and Lyla, a warm welcome to the executive leadership team. As Mark mentioned, there is a lot to be positive about. We have accomplished a great deal since we launched our strategy a year ago. In spite of COVID-19, our teams continue to perform well. I would like to thank all that have contributed to this outcome in a trying and unexpected circumstances. While our commitment to excellence is being rewarded, we are not losing sight of the work that lies ahead. In terms of our financial results for the quarter, we saw an increase in earnings per share to $0.47 compared to $0.40 last year. The main driver of higher earnings this quarter was warmer weather, which positively affected peak demand in the transmission segment while also increasing energy consumption in the distribution segment.

Our third quarter revenue, net of purchase power, was higher year-over-year by 6.3%. We saw substantially warmer weather during the quarter with year-over-year peak demand up 12% in July and August and up 3% in September. This favorable weather resulted in an increase in year-over-year peak demand during the quarter of 9%. Electricity distributed to Hydro One customers was also higher by 7.6%.

As a result, transmission revenues were up by 9% and distribution revenues net of purchase power were 3.5% higher. On the cost front, operating, maintenance and administrative expenses were higher by 1.2% year-over-year. Recall, in the transmission decision received earlier this year, we were required to recognize additional other post-employment benefits as both the cost and the revenue, making it net income neutral. Adjusting for this, we saw a marginal decrease in OM&A year-over-year despite the additional COVID-19-related costs, on which I'll elaborate further in this call.

With respect to COVID-19 costs, we have incurred operating expenditures of approximately $5 million related to the purchase of additional facility and cleaning-related suppliers this quarter. This brings our year-to-date OM&A expenditure on COVID-19 to $32 million. As a reminder, this amount includes costs associated with the temporary stand-down of the workforce and other sustainment work performed in previous quarters. We continue to track the impact of COVID-19 as directed by the Ontario Energy Board. The company is tracking approximately $54 million in these accounts, which includes a $14 million allowance for bad debt, which has been deferred. We are pleased to report that we do not see a material change in the allowance for bad debt at this stage, and as such, have not changed the allowance taken in the first quarter of this year.

From the regulatory perspective, the OEB increased the number of COVID-19-related tracking accounts from 3 to 5. The new accounts include foregone revenues from postponing rain implementation and carving out bad debt from the other incremental cost account.

In September, OEB confirmed that they have engaged external consultants to assist in the preparation and issuance of an OEB staff proposal regarding the deferral accounts. The consultants' reports and additional guidance from the OEB on potential next steps is expected sometime this month.

On financing, we saw a slight decrease in interest expense in the quarter due to a lower weighted average long-term debt balance outstanding in the quarter. There are a few notable events that occurred with respect to the capital structure since our last call. First, on September 21, we announced that we would exercise the option to redeem Series 1 preferred shares on November 20, 2020. These shares carry a yield of 4.25% and will be redeemed for $423 million, consisting of $418 million being the value of preferred shares as well as $5 million of accrued dividends. Second, on October 15, subsequent to the quarter end, Hydro One Limited issued $425 million of long-term debt at a competitive rate of 1.41% to fund the preferred share redemption. DBRS Limited assigned an issuer rating of A to Hydro One Limited and also assigned an A rating to the $425 million long-term debt issuance. S&P has signed an issue level rating of BBB+ to the $425 million long-term debt issuance. The redemption of the preferred shares is expected to be approximately $0.02 accretive.

Third, On October 9, Hydro One Inc. issued long-term debt totaling $1.2 billion at competitive rates. We expect to use net proceeds of this offering to repay and/or prepay maturing long-term debt and short-term debt including maturities coming up early in 2021 and general corporate purposes. We remain very pleased with our strong liquidity position and balance sheet as well as our robust investment-grade credit ratings. Income tax expense was $22 million for the third quarter compared to $14 million last year. The increase in income tax expense was mainly related to higher income before taxes. The effective tax rate for this quarter was 7% versus 5.4% last year. An effective tax rate is consistent with our previous guidance of 6% to 13%.

Following the positive decision in July, the Ontario Divisional Court issued its final order regarding setting aside OEB ruling on the deferred tax asset on September 21. Recall from the last quarter that we had reversed the onetime charges taken at the end of 2018 and recognize an income tax recovery that had a onetime net income impact of $867 million.

On October 2, the OEB issued a procedural order to implement the direction of the divisional court and instructed Hydro One to submit a proposal for the recovery of the deferred tax asset amounts allocated to repays for the 2017 to 2022 period. We view this as a positive development and anticipate a final decision in the first half of next year. In the near term, our effective tax rate guidance is not expected to change. We will update you once the OEB has finalized the matter.

Moving to investing activities, the company placed $371 million of assets in service in the third quarter, a 14.3% decrease to the prior year. This was largely a result of the year-over-year decrease related to admissions segment, which had the substantial completion of the Niagara Reinforcement project as well as investments in the Elgin transmission station in 2019. In the distribution segment, we saw a year-over-year increase as the feeder the construction of a new Ontario Group control center in Orillia and Woodstock Operations Center, investments in distribution system connections and modernization initiatives, and a higher volume of refurbishment work and storm-related asset replacements.

On the acquisition front, as mentioned on the last call, we completed the purchase of the business and distribution assets of Peterborough distribution from the city of Peterborough on August 1. I'm pleased to report that we also successfully completed the acquisition of Orillia Power Distribution Corporation from the City of Orillia on September 1. As committed last quarter, we have updated the future capital investment table to reflect the changes arising from the Orillia acquisition. Over the next few quarters, we will focus our efforts on business integration, for the 2 acquisitions.

Lastly, we continue to be committed to and affirm our guidance of 4% to 7% earnings per share growth through 2022. I'll stop there, and we'll be pleased to take your questions.

Omar Javed - *Hydro One Limited - VP of IR*

Thank you, Mark and Chris. We ask the operator to explain how she'd like to organize the Q&A polling process. And in case we aren't able to address your questions today, my team and I are always available to respond to any follow-up questions. Please go ahead, Jan.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Robert Kwan with RBC Capital Markets.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Chris, you just talked about reconfirming EPS growth rate. And with that, $1.52 to $1.65 range that you rolled out in March. As you stand here today, you've got the Tx trade decision since that. You've made a lot of headway on cost and productivity improvements and a lot of tailwinds on the actual debt financing. So I'm just kind of wondering as you're thinking about the headwinds and tailwinds that have unfolded, how are you thinking about where you might be sitting in the guidance range?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thanks, Robert. Good question. I agree with you. Both Mark and I touched on the fact that a number of the uncertainties have been taken out of the business. I'll remind you that our long-term projection was a growth in rate base of 5%, growth in earnings of 5% and a growth in dividend of 5%. We still see that continuing over the long term. In the short term, it's true that we'll have some variation. And this quarter is a good example of that, where weather has resulted in a fairly sizable uptick. They are related to the quarter at hand and not sustainable over the long term. So I still think the long-term guidance is relative. Now we did give a range of 4% to 7%. So clearly, with that uncertainty being taken out, the guidance is probably skewed towards the upper end of that.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

So you mentioned kind of removing the uncertainty. Is it fair to say then when you constructed that range, that uncertainty from your perspective maybe cheated you to being more conservative because there are a number of things that whether you called it the uncertainty, but financing rates are probably lower than you would have anticipated, and you've done a good job locking a lot of that in. So that's ongoing and not really related to the near-term per se?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. Again, I won't be changing the range. I think the comments are fairly clear. Our confidence level in terms of being that range and again, skewed towards the upper end of that has improved is how I put that. So what you've pointed to is interest costs, and that is fair. The interest cost has been lower than initially anticipated. So very pleased with that.

But again, if I look forward to next year and the year after, I don't have clarity yet on the impacts of COVID-19 in the longer term. We're in the second wave. We could have a third wave. Again, the uncertainty there you're asking me about a range over that period. And the range is still valid, although possibly towards -- skewed towards the upper end.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Understood. If I can just finish with your approach to M&A. And obviously, right now, it's focused on roll-ups. With them being very small, it's easy for you just to double leverage them. But can you just talk about your corporate approach to acquisitions, especially if you decide to start doing maybe some larger transactions. Do you assess accretion based on actual financing? Is that kind of your threshold? Or are you approaching that from a fully financed basis, i.e., notional common equity issuance for the equity component of transactions?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. I think it's the latter, Robert. I'm not a big fan of high leverage. We may have the balance sheet that can leverage it, especially on the smaller ones from our -- from the finance sources, but we still look at it through the lens of financing at long term, especially in the regulated space, 60% debt, 40% equity and then accretive at that range.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Right. And does it have to be immediately accretive? Or do you have a time frame that you want to see something for us over into accretion?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. It would need to be immediately accretive. I've not got a specific time line in mind. What we find with the smaller LDCs, the construction of that is usually in the first year or so, while you have some integration costs. It's not accretive, but it's accretive within the second and third year. So that's the model on the smaller LDCs at this point. And I don't expect that to change.

Okay. I wanted to ask on the -- you mentioned you're not a huge fan of leverage. But are you able to quantify even the HoldCo debt recently. What sort of flex or room you have, if any, on ability to take on more HoldCo debt. And I know you're taking out the preps as well. But as I would assume there's also some on preferred shares to your capital structure, if you needed to?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Ben, Chris, again. Look, on preferred shares, they're not inefficient. We would always look at them. But right now, they're not an efficient source of capital for Hydro One. The main reason for that is that we we're unable to realize the tax benefits in the near term, and that's because of our large deferred tax asset. So even before we won the DTA case, we still had a significant amount of tax deductions available to Hydro One. So it's not as efficient to Hydro One say other entities. So that answers the preferred share question.

We do have some flexibility. Today, we are a 99% regulated business. The regulatory construct is 60% debt, 40% equity. And we're going to stay there. The other area that we have guided by is that we will always remain investment-grade as far as our credit ratings goes. So we'll not push the boundaries at that point. That said, we do have some financial flexibility at the HoldCo level. We will look at that as the right opportunities come. And like we said, we are very focused on growing the regulated business. So again, I'd expect that to remain in the 60%, 40% equity range.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

Okay. And then with your nonregulated assets, I know it's a good point on the press that, I guess, was 6.1 tax. Are you able to I think you grow in nonregulated businesses over time as your strategy. There's ability to use that prep or deduct that tax side of things? Or that's not available. And then an associated question to that with non-reg, you've mentioned a number of scenarios to grow that. But is there also a thought process of growing through M&A on that portion?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes, Ben. Look, I think -- I mean, my first comment is going to be today, we are 99% regulated, and the majority of our efforts are focused there, including competitive transmission and the growth in acquisition of LDC. So that's where the primary focus is. Even at Investor Day, I said that that 1% unregulated may grow to 5% over time. It will still remain a very small part of our business. So that itself would not be sufficient to absorb those tax deductions that we spoke of. So preferred shares would be still not an efficient financing vehicle. I think the key point there, Ben, is that, look, we're going to focus on regulated. And then potentially, as I said at Investor Day, we could get as much as 1% growth out of our nonregulated business, but it would be immediately adjacent to our regulated business here in Ontario. So a good example of that is our IV business, electric vehicle charging, energy management services that could speak about. So is there something we can do with our customers that build on the service that we provide to them today.

So again, I don't expect us to take a large step out, and I think that's where the question is. That is not where we're looking. We are looking to build on our regulated rate base and the regulated business that we have today. We find that keeping that efficient and effective will be the best outcome for Hydro One and for all Ontarians.

Operator

Our next question comes from Julien Dumoulin-Smith with Bank of America.

Mark Poweska - *Hydro One Limited - President, CEO*

Chris, I'll start, and then I'll let you in on that, Chris. And thanks, and welcome to the call there. You're right that the deferred tax asset is -- we've got a payer link from the Ontario Divisional Court are going through with the OEB and interveners on the timing and the duration for collecting those costs. So on LDCs, we are open for rolling up LDCs and I think there's a desire overall, and we see in government and other places, because there's savings to the rate payers broadly in Ontario of LDC consolidation, and there's been a whole bunch of studies and reports on that. And so we'll continue to look at that. We do have a competitive advantage on LDC consolidation, particularly the smaller rural ones, where we can reduce their operating costs quite significantly because we have assets in equipment and people in those regions surrounding for our rural operations, which surround a lot of those LDCs. So absolutely, we will continue to get back. We see there's a good opportunity, not just for Hydro One, but for rate payers broadly in consolidating the LDC sector. Chris?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes, I think Mike handled the imperative to continue with audits consolidation. It has not been impacted in terms of pace, either faster or slower by the deferred tax asset decision, What I will say independent of that is the deferred tax asset decision does give us increased FFO. And one of our key areas from the rating agencies is our FFO to debt. So that does increase our financing potential at the HoldCo. Over the long term, we'd still look at 50% debt to 40% equity. So that's not going to change, but we do have some additional cash flow, as you say, Darius, they could fund an acceleration of LDC consolidation, but that hasn't been the limiting factor. The limiting factor is a willing seller. We are a willing buyer. So the more that we can do there to facilitate or encourage consolidation the better. So financing is not the limiting factor, but it has helped.

Dariusz Lozny - *BofA Merrill Lynch, Research Division - Research Analyst*

Excellent. That's very helpful. One more, if I may. Just I'm looking a little bit further out into the future. Now as I look at your projected CapEx slide. And I see there's a planned step-up beginning in '23 at both transmission and distribution and I understand that, that coincides with when you expect your next series of rate plans to be in place. So I was wondering just if you could comment on your confidence in being able to achieve approval of the somewhat meaningfully higher CapEx plan in '23 going forward relative to the current plant?

Mark Poweska - *Hydro One Limited - President, CEO*

I'll also add this again, and Chris can maybe speak to it. When we filed our last applications, we did project out beyond on our Tx, particularly that we would require additional investments into 2023 and beyond. There's a couple of significant investments in there like the replacement of our smart meters, which turn imperative for us to do. So we think we have a good case based on the health of our condition of our assets as well as the imperative around some fairly significant investments in things like our AMI, which is the smart metering infrastructure.

So we're going through the Jira process right now. And the first 2 phases are our customer engagement to test scenarios on investments in -- right across. And so far, we've had positive feedback from our customers that they recognize and see the need for us to invest in our assets to maintain and improve the reliability of the system. So as we put together our case for this, we feel confident that we've got support of our customers and repairs in that, too. Chris?

over time. So you can see that 2022 is the anomaly in that graph. Otherwise, you would have seen a steady increase over time, which has always been part of the business plan and the requirements of the system in Ontario. I'll remind you that 70% to 80% of all capital expenditure is deployed to maintain the system.

Operator

Our next question comes from Linda Ezergailis with TD Securities.

Linda Ezergailis - *TD Securities Equity Research - Research Analyst*

Congratulations on a strong quarter. I'm wondering if you can help us understand with the recent ratifying other 2 Power Workers' Union agreements, how might this change your cost prospectively? And can you help us understand the nature of any flexibility that these agreements have in terms of job design and outsourcing?

Mark Poweska - *Hydro One Limited - President, CEO*

Sure. Sure, Linda. It's Mark here. So we agreed on base salary or base wages in line with what we're seeing with other utilities across Ontario and actually a little bit lower than what we're seeing. So it does help to start to close that delta between us and the others that the OEB has been pointing to. But more importantly, as you point out, we made some good progress with the PW on additional flexibility, which will result in further efficiencies in the company. So some examples of that are specific agreements relating to flexibility and hours of work. So our ability to move certain and finish times around to align better with the work, crew composition. So the makeup of the crews and who does what on a crew as well as job duties and contracting. We also have a new home worker classification for clerical and technical personnel, which includes a 10% wage differential. So looking forward and our experience with COVID, this gives us the ability to have a more flexible work arrangement in the future, which are employees like, but it also drives out savings for the company and -- which we like.

Other things like per diems and mill expenses, we've shifted away from receded mills to a set per diem amount, which allows us to better plan and control those expenses as well as increased eligibility for moving expenses. So widening the circle around where we will pay for people to move.

So there's some good improvements there as well as several diversity and inclusion initiatives that we include in there such as paid leave for indigenous employees on National Indigenous Peoples' Day and hiring haul, indigenous employment target of 4%, which the union is supportive of. So I think a lot of times, people focus on what were the wage increases, but there was a lot of other elements that were positive for both us and the employees.

Linda Ezergailis - *TD Securities Equity Research - Research Analyst*

That's helpful context. Maybe also just rounding out the discussion a little bit about your investment opportunities. There is in Ontario, a drive for economic stimulus spend and being mindful of a number of moving parts, there I'm just wondering what sort of incremental opportunities that are different than your base plan might arise as a result of that?

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industrial, which really brings the electricity rates for those types of businesses to below the U.S. average actually. So it helps us to be more competitive on the electricity pricing for those companies, which will, I believe, help with recovery and growth of the economy businesses, which is good for us as well as Ontario.

Operator

Our next question comes from Mark Jarvi with CIBC Capital Markets.

Mark Thomas Jarvi - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

First question is on the implementation of the tiered pricing versus the default time review. Just curious if that changes at all your sensitivity to low variations or weather if there was a high adoption?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. Good question, Mark. We don't anticipate because the rate set for the step rates are basically the average. And so whether people will change their behavior and use more or less, it's pretty hard to tell at this point. The purpose of the -- giving customers the option was really important. And when we pulled our customers, over 60% of them said they wanted to choose and they want an option on whether they had time or use or the step rates. And so we were pleased to see the government do that. As far as whether it will drive upload or not, it's hard to tell at this time.

Mark Thomas Jarvi - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

And I was also just curious, in a quarter like this where peak load was bit higher consumption with hot weather in July and August, if that would have changed at all in terms of how results would have paired out.

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. It's a good question. The step rates are -- were set based on what the average would have been. So we haven't actually done the analysis on what that would have meant for this past quarter. And loads were impacted a lot by weather, as you know. And -- but they're kind of masked by COVID as well because a lot of people are at home. And so whether that will stay that way for a long period. It's hard to tell at this point, Mark.

Mark Thomas Jarvi - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

Okay. And then I believe the OEB came out a few months ago and indicated they might put behind the meter storage allow that into rate base. Just curious if you guys see that as a meaningful opportunity and maybe how that might dovetail with ongoing efforts with your energy management services efforts?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes, we think that would be a positive. And behind the meter storage where it provides multiple uses or benefits to the customers and to the system is ideal for us. And an example of that is actually we're installing a battery storage system in [Aero] and First Nations, which we are rate basing and system such as reliability or power quality.

Mark Thomas Jarvi - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

So just based on those few instances, as you look forward and you think about the next rate application, are you guys increasingly confident there'll be -- that you plan to put more into your plan there? Or is it still just sort of a slow steady evolution?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. At this point, it's a slow, steady evolution. Well, in the rate application, we have to apply in accordance with the rules today. And again, these are pilots. Part of the OEB reform, which I'm pleased with the new leadership that's come in place and they've started to move on the recommendations of the discerning report of a few years ago. And 1 of those is to look at DERs and kind of the meter and what the future of those looks like. They've also hired London Economics to look at that, and we're expecting some reports at the end of November. So I think things are going that way. But at this point, the regulations don't allow for it, but there is a recognition that, that is the way of the future.

Operator

(Operator Instructions) Our next question comes from Rob Hope with Scotia Bank.

Robert Hope - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just 1 follow-up question just in terms of government relations. Just with the announcements on the changes and in electricity rates yesterday. Just wanted to confirm that you guys weren't approached on any other alterations that could have impacted your allowed ROE -- earned ROE, sorry?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes, Rob, there was -- there's been no discussion with me and -- or our GR team and government on those types of changes.

Robert Hope - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And then just a second one. When you take a look at how costs have been progressing through 2020, offset it a little bit by COVID, of course. How have your kind of productivity savings plans been altered through the year? Are you tracking ahead of schedule, below schedule? Could we see a good amount of work being done on this front in 2021 as well?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes, I'll let Chris answer that one.

COVID-19 is you have to do things differently. So we are seeing better use and uptick of technology. And as Mark talked about, our agreements with our union partners, will provide further opportunity to again derisk our targets on productivity and potentially see them going forward. This year, it will be pretty much in line with prior years in terms of the increase in productivity.

Operator

Our next question comes from Andrew Kuske with Credit Suisse.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research and Global Co-ordinator for Infrastructure Research*

Maybe just as it relates to Orillia and Peterborough, if you could just give us some color and commentary on the experience thus far and maybe the game plan that you had laid out and what's a 100-day game plan and where you are in that process?

Mark Poweska - *Hydro One Limited - President, CEO*

Yes. I'll start about the experience so far. So after we close, we do have a transition plan for both of those, and it's about a 12- to 18-month transition plan as we integrate our operations, our technologies, the employees, the customers. And so far, it's going well, and we're on plan for that. I attended to kick off in radio with the mayor and the employees up there, and they were very excited to after a long period to get the transaction completed and move to the next phases. So integration efforts will continue over the next few quarters, but we're on plan and on target with what we set out at the beginning right now, Andrew.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research and Global Co-ordinator for Infrastructure Research*

Okay. And then in Waterloo region, you're helping out with some transmission efforts there, I think, on a substation. Could you just maybe give us some color on with the intent there? Is this part of a partnership kind of approach? Is this hard to get to know them a bit better for some longer-term aspirations? Any kind of color would be appreciated.

Mark Poweska - *Hydro One Limited - President, CEO*

Andrew, we're going to have to get back to you on that one because I'm actually not sure what you're referring to there. I'll have to check with my team what we're doing in Waterloo.

We do work with a lot of our LDC partners when they need some help to work on some assets or share resources and that be maybe -- I'm not sure, Andrew.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research and Global Co-ordinator for Infrastructure Research*

Okay. Fair enough. And then one final one. Just with General Motors Canada announcing either restart intentions in Oshawa, probably doesn't change anything from the infrastructure side because a lot of the infrastructure is already there. But do you have a view on what that means on just volume positive, I would assume, but any preliminary views?

looking at that closer.

Operator

Our next question comes from Elias Foscolos with Industrial Alliance.

Elias A. Foscolos - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Before I ask my question, I just want to pass on my condolences and my condolences to the family of the Hydro worker that passed away.

So moving beyond that, probably a question for Chris. Given your strong balance sheet, and I'm looking at the reduction of the preferred shares, is there any other, what I would call, financial engineering that you might consider such as a normal horse issuer bid or something like that in time or something that I can't think of that we might keep our eye on?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thanks for the question. Good question. We've always thought of that. Where it makes sense, we would do it. Again, we -- that's just 1 option that we would compare future opportunities too. So our regulated business is better and more accretive to investors to look at even from what the future will be So it's something we'll look at over time. It's not off the table, but it's not in place at this point.

Operator

Thank you. And this does conclude our Q&A session for today. I'd like to turn the call back over to Omar Javed for any further remarks.

Omar Javed - *Hydro One Limited - VP of IR*

Thank you, Jan. The management team at Hydro One thanks everyone for their time with us this morning during what is a busy period. We appreciate your interest and your ownership. If you have any questions that weren't addressed on the call, please feel free to reach out, and we'll get them answered for you. Thank you again, and enjoy the rest of your day and continue to be safe, please.

Operator

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