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Q4 2018 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hydro One Limited fourth quarter 2018 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, IR***

Good morning, everyone, and thank you for joining us. I'm here in Toronto with Hydro One's leadership team, including our Acting President and CEO, Paul Dobson; our Acting Chief Financial Officer, Chris Lopez ; our Chief Operating Officer, Greg Kiraly; our Chief Legal Officer Jamie Scarlett and our Chief Human Resources Officer, Judy McKellar.

We'll provide some brief comments on our fourth quarter results and then spend the majority of the call answering as many of your questions as time permits. There are also several slides which illustrate some of the points we'll go over in a moment. This should be up on the webcast now, or if you are 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 annual MD&A, which we filed this morning regarding the various factors, assumptions and risks that could cause our actual results to differ, as they are applied to this call.

With that, I turn the call over to Paul Dobson.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Thank you, Omar. And thank you to everyone for joining and for taking your time to review our year-end results. If you don't get a chance to ask a question by the end of this call, please keep in mind that Omar and his team remain available to you.

Chris will review the financial figures in a moment. But let me start by highlighting that we ended both the quarter and the year on a strong note. 2018 was a year of change and transition. Despite the challenges we faced the whole team at Hydro One demonstrated great resilience in responding and producing results for our shareholders and our customers.

There is no better example of our continuing transition to a customer-focused organization than one in which all employees' brave extreme conditions to ensure the heat and the light stay on. There is no better example of a commercially oriented firm and one that continues to increase its productivity and reduce operating expenditures so that customers and shareholders alike can benefit.

Hydro One is a resilient organization. Following on last year's strong performance on productivity, in 2018, we generated additional savings that drove cost out of our system. With approximately $136 million of productivity savings in 2018, our total productivity savings from 2015 have reached a $0.25 billion.

Without question, we are a more efficient organization. Whether it was execution on the innovative vegetation management program, better procurement, optimized fleet management for finding competitive solutions to services such as information technology or cable locates; the organization left no stone unturned to become more productive.

Our forestry teams completed nearly 3x the distribution line work they did in 2017, but with only a marginal increase in cost. We do more with less. We were also exceptional in our ability to do what we said we were going to do to maintain and strengthen the aging electrical infrastructure in the province. We deployed $1.6 billion in capital expenditures and put into service $1.8 billion worth of new assets that will go towards ensuring the long-term reliability of Ontario's electrical system.

This was consistent with the $1.8 billion of aggregate in-service plans we put forward to the Ontario Energy Board, proving a continuation of strong project discipline, execution in terms of scope, schedule and budget adherence. We keep our promises. These efforts bore fruit. Residential and small business customer satisfaction was the highest in 5 years, while transmission customer satisfaction reached an all-time high.

Billing accuracy also reached an all-time high, while overdue accounts receivable fell to half of what they were in 2015. We are customer-focused. Despite the storms, 3 in which we had to reconnect over 1.4 million customers in aggregate, we improved our overall reliability of the distribution network by 14%. In our transmission business, our crews worked tirelessly and innovatively to quickly restore power following several storms.

Maryville station that serves the Ottawa region was destroyed by a tornado in late September. Our teams restored power within 48 hours with a temporary solution and rebuild the facility within 12 weeks. We serve our communities.

Following the tragic helicopter incident last year, we made a further commitment to safety. In 2018, we implemented the Journey to Zero safety initiative and achieved our target rate for safety incidents, which has improved by 35% since 2015. The teams are acutely focused on Company's safety performance and safety is part of our daily conversation throughout the business. We learn and adapt.

2018 also brought difficult circumstances for our neighbors south of the border. We were proud to send 2 teams of forestry technicians to Chico, California and support a local utility in the restoration efforts following the devastating wildfires in the region. Our crews played an important role in system inspection and quality control over the course of about a month. We share and we help.

I'm happy to report that our teams were recognized for their exceptional efforts. We won 3 Edison Electric Institute Emergency Recovery Awards for outstanding power restoration efforts in Ontario and one Emergency Assistance Award for providing restoration support in the Northeast U.S.

We were also humbled to learn Hydro One was recognized by Forbes on its list of Canada's Best Employer for 2019. The list was created from a survey of over 8,000 people working in the business across Canada -- businesses across Canada. In light of all the challenges we faced in 2018, our performance in the survey showed our team has remained resilient, engaged and continues to enjoy the role they play in this important Company and in the province of Ontario.

Last week, our Board of Directors released a new framework for executive compensation. The framework is designed to attract and retain an experienced leadership team with continuous focus on performance. Furthermore, appointing the President and CEO continues to be a top priority for the Board of Directors.

Finally, I would like to take a moment to review Avista developments. After the Washington regulator issued a denial of our proposed merger transaction in December and Idaho's regulator did the same in January, Oregon released a notice of a ban. On January 23, Hydro One and Avista announced our mutual agreement to terminate the merger. While this was not the outcome to which we were working, we can honestly say we put forward our best efforts and learned a tremendous amount. We also gained great relationships with the Avista team. We have nothing but respect for Avista and wish them all the success they deserve.

Our focus for the future will remain, as it has been in the past, continue our journey to achieve world-class health and safety performance, improve our customer experience, serve our communities, reduce our cost by driving efficiencies and continuously raising the bar on reliability through improvements and innovation. We do this for the benefit of our customers, the communities we serve and our shareholders.

Before I turn it over to Chris to discuss the financials, I want to personally recognized Patrick Meneley and Judy McKellar for their outstanding contributions to Hydro One. Pat announced recently that he will be leaving at the end of the month. I would like to acknowledge Pat for his impact across Hydro One. Pat was a key contributor during the time he was here, streamlining both the Corporate Development and Strategy divisions and setting them up for continued success.

Judy will be retiring at the end of March after an illustrious career at Hydro One spanning 37 years. Judy's dedication to the Human Resource function has made this Company into one of Canada's best employers. She help set the very foundation of the Company's collaborative culture and paved the way for transition to a commercially oriented, customer-focus oriented -- organization. We wish you all the best in the next chapters of your career path and in your well-earned retirement Judy. You both will be missed here at Hydro One. We are fortunate to have a deep bench of well-qualified and experienced leaders who will continue Pat and Judy's good work.

With that I'll pass it over to Chris.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Thank you, Paul and good morning everyone. We saw an increase in both earnings per share and adjusted earnings per share, compared to the fourth quarter last year.

The positive results were primarily related to favorable weather, higher transmission revenues and lower income taxes. Similarly, on a full year basis, both metrics increased compared to 2017. Our fourth quarter revenue, net of purchased power, was higher by 5.3% year-over-year, driven by both the transmission and distribution businesses. Transmission and distribution revenues were primarily affected by higher consumption of energy resulting from favorable weather.

In addition, the transmission revenues reflected the increase in OEB approved transmission rates that also took into account the formulaically adjusted return on equity or ROE, which increased from 8.78% to 9% for 2018. For 2019, ROE has been set at 8.98%, reflecting the prevailing interest rates and the utility spreads during the rate-setting period.

There was a substantial shift in operating, maintenance and administrative or OM&A costs for the fourth quarter. While the year-over-year increase in the quarter is large, at 26%, this does not indicate an increase in run rate, rather the reasons for the shift are the deferral of expenses from prior quarters as the teams were busy with storm restoration efforts during the year and expenses or recoveries of expenses that were one-time in nature.

On a full year basis, OM&A increased by 3.7% compared to 2017. The primary driver for the higher annual OM&A was increased vegetation management costs as the crews adopted the new program and delivered almost 30,000 kilometers of work along power lines which was nearly 3x more than what's done in 2017.

There are a number of one-time costs or cost recoveries this year and last year that impacts the comparability of OM&A. These include, a reversal of provision for payments in lieu of property taxes following a favorable reassessment of regulations in 2017; project write-offs, and higher cost related to the Avista transaction which are non-recurring.

If we adjust for these one-time costs, the increase in OM&A from 2017 to 2018 is 1.2%. In other words, we've done more work for a marginal increase in expense. Since the IPO in 2015, this represents an overall reduction in OM&A of approximately $41 million or 4%. This is closer to 10% if you adjust for inflation. This is reflective of the substantial cost -- is reflective of the substantial work done to increase productivity and eliminate cost.

Below the operating cost line, our quarterly financing charges increased by 3.4%. The primary reason for the increase was higher interest expense on long-term debt resulting from an increase in the weighted-average long-term debt balance outstanding, which was partially offset by an unrealized loss recorded in 2017 on the revaluation of a deal-contingent foreign exchange contract.

On an annual basis, financing costs increased by 4.6% primarily due to a full year of convertible debenture interest expense that were issued in August of 2017. This convertible debenture was redeemed an instalment receipts delisted as of February 8, 2019.

Income taxes for the quarter decreased by $37 million. Lower income tax expense for the fourth quarter of 2018 compared to 2017 was primarily attributable to an increase in tax deductions arising from higher in-service additions coupled with an increased allocation to a high depreciation class as well as higher pension and OPEB contributions for tax purposes.

The Company is required to accrue taxes based on the tax liability without considering the temporary differences as prescribed by the regulators. On a full year basis, income tax expense increased by 4.5%. The effective tax rate for the full year was 12.6% compared to 14% in 2017.

Moving over to investing activities, the Company placed $952 million of assets in-service in the fourth quarter which is 29.9% higher than last year. This increase reflects the timing of station sustainment investments to several transmission stations as well as system capability reinforcement projects for the distribution network.

For the full year, assets placed in service increased by 13.9% to more than $1.8 billion, due primarily to substantial completion of major development work and an increase in the volume of work. This is consistent with the $1.8 billion of aggregate in-servicing plans put forward to the Ontario Energy Board.

In terms of our regulatory update, following Hydro One's Motion to Review and Vary regarding a 2017 deferred tax asset ruling, the OEB announced it would be sending the motion back to an OEB panel for review and decision. We are waiting on the panel decision and continue to record revenue using a revenue requirement that is inclusive of 100% of the tax savings resulting from the Government of Ontario's decision to sell its ownership interest in Hydro One.

On the transmission front, we filed our inflation-based application for 2019 rates on October 26, 2018. On December 20, 2018 the OEB issued a decision declaring Hydro One's revenue requirement and uniform transmission rates for 2019 as Interim. We expect to file our 3-year 2020 to 2022 rates under the OEB incentive-based regulation in Q1 of 2019.

On the distribution side, the Company on December 6, 2018 submitted its final submission on matters relating to the Accountability Act and its impacts on the revenue requirement. We are expecting a decision on the distribution rate case. Similar to the treatment of the catch-up revenues in the transmission business in the third quarter of 2017, we expect, subject to OEB approval, to record catch-up revenues for the distribution business for 4 quarters of 2018 upon receipt of the decision.

On January 31, 2019, the Ministry of Energy Northern Development and Mines issued a directive to the OEB to amend NextBridge's electricity transmission license and allow it to proceed with the East-West Tie transmission line. This development unfortunately ended our bid to build the Lake Superior Link project. We are disappointed with this outcome, but we will continue to pursue similar projects that we believe will benefit all stakeholders, add value, and contribute to Ontario's economy. We want to thank everyone involved in the project.

On the Peterborough Distribution acquisition; on November 14, 2018, the Competition Bureau issued a no-action letter, meaning that the transaction can proceed from the Competition Bureau's position, pending OEB approval. For the Avista transaction, as Paul mentioned, both companies mutually agreed to terminate the transaction.

Subsequent to the termination, the Company paid to Avista, a contractual termination fee, as required by the merger agreement, of USD 103 million or CAD 138 million. This charge, along with revaluation of the foreign exchange contract to Neil and financing charges resulting from the redemption of the convertible debentures will be recorded in the first quarter of 2019.

I'll stop there and we'll be pleased to take your questions.

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

Thank you, Paul and Chris. I would request the operator to please explain how she'd like to organize the Q&A polling process. Please go ahead. Christy.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Linda Ezergailis with TD Securities.

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

I'm wondering if you could give us an update on your discussions with the rating agencies in lieu of some of the recent developments and how their -- your perception of their focus on various considerations like your corporate strategy going forward and the termination of the Avista merger and you refocusing on other things potentially as well as your CEO search and corporate governance considerations?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

So I think, Chris, I'll let you talk to any specific discussions with the rating agencies.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Okay. I think, Linda, most of it's out there in the public already. I think the S&P have been fairly clear that they will monitor the relationship between the company and the province. So they're looking at that angle of it. They are very keen to see the CEO put in place and the strategy confirmed. So that's really where S&P sit. Moody's haven't really put out anything as of late in terms of areas of focus. So I'd suggest they're the 2 main points at the moment, is the naming of the CEO, confirmation of the strategy, that has not changed or has not changed dramatically. And then, S&P specifically have talked about monitoring the relationship between the province of Ontario and the Company.

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

And just as a follow-up more broadly, and I realize some of it is unknowable and maybe you can't comment on it entirely. But how -- what are the legal and practical steps to getting to a conclusion on executive compensation and the CEO search. I'm not really able to point to Precidents. So maybe you can help us out a bit.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure. Yes, sure. Linda. So the -- as you know, it has been a top priority for the Board since they started executive compensation and the CEO search. And you can appreciate that both of those items is the exclusive responsibility of the Board and that neither myself nor my colleagues on the management team have been directly involved. But I can tell you that active discussions between the Board and the province are underway and we expect that we will see a resolution very soon. Other than that, I can tell you that the Board is working extremely hard on this priority, and so we'll have to wait and see.

Operator

Our next question is from Ben Pham with BMO Capital Markets.

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

I'm wondering when you think about some of the cost savings you surface in 2018. And if you were to assume limited regulatory lag, then where will you guys on the realized ROE? Where you above the allowed on distribution transmission?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Chris, do you want to take that?

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Yeah. So, on transmission, we were above the allowed; and on distribution, it would be marginally above, I would expect; but the transmission itself was above.

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

Okay, all right. Thanks for that.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

And the main -- Let me just clarify that, the main driver of that, as we've seen in the results, the cost performance has been as expected, but the weather this year has been very favorable. So that has contributed to that.

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

And that assumes you get what you applied for in the distribution rate case for '18?

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

No. Actually, we don't have the distribution revenues for 2018 in these results. So we haven't reported those at this point.

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

So I guess if you were to -- you get the rate case and then you walk back, then it looks like both of your segments actually did quite strongly in 2018?

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Correct, correct. And again, the main contributor to that would be the favorable weather.

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

And maybe just staying on the cost side, I remember a big part of the IPO was you know O&M as a percent of assets were quite high in distribution and maybe in line in transmission relative to North America. And I'm just -- I just wondering now as you surfaced $0.25 billion of costs, I mean what's the thought process going forward? Are you close to the industry averages now or is there still a lot of hanging fruit that you can surface next few years?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Well, I think -- yeah, I mean, I think the team has done, as we've emerged from being a crown corporation for the past 3 years, putting a much more commercially focused lens on the business, been able to surface a lot of these savings and bring these ideas to bear. I think there are probably more to go. As I said in my remarks, we've looked at a lot of things, but there is a lot of things that we can still look at and so expect to see those savings continuing. We're doing our best to surface those savings into the future. So I don't know, Greg, if there are other specific initiatives that you want to talk to give the people a sense of what we're doing.

Gregory K. Kiraly ***Hydro One Limited - COO***

Yes, sure, I can highlight a couple of things. We've seen some really nice unit cost gains and some project cost savings. We do a lot of benchmarking and certainly our unit costs are coming down, whether it's in vegetation or corrective maintenance, preventive maintenance, et cetera. We think there's more upside potential. We have saved quite a bit in our procurement. We've reduced our fleet by over 1000 vehicles. We are applying technology. All of our linemen out in the field have electronic tablets now and that's how they receive their work. So we eliminated a lot of back-office kind of paperwork and the administrative work associated with that and there is more upside to that. And we've actually factored literally hundreds of millions of dollars into our both distribution rate case as well as our transmission rate case going forward. So that's out there in the public domain as well.

Operator

Our next question is from Andrew Kuske with Credit Suisse. Your line is open.

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

The question really relates to your capital program on a longer-term basis. So if I look in '21 and beyond, you forecasted this $2-billion-plus number with a skew to sustaining capital. And when we look at your net plant, you're about, give or take 20 billion of net plant. How do you think about just the sustainability of that CapEx on a longer-term basis and then what kind of productivity improvements do you anticipate to have from that sustaining capital?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

So I'll start and maybe I'll ask either Chris or Greg to comment on that. When we look at our capital programs, we're very conscious of the impact of adding capital and the impact on rates. So we're really trying to find a balance between what is it the system needs for reliability and safety purposes, because it is an aging -- an aging system. We need to invest in the system. So what is the balance between that and the impact on rates? And I think we've come up with a plan, a future plan and a projection that our prudent investment and really represent only what we need and that the impact on customer bills is as small as we can make it and maybe I'll ask either Chris or Greg to comment a little bit further on the capital plan.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Yeah, the comment I would have in there is, I think Andrew you're getting at where are the other productivity savings embedded in. There are some productivity savings already embedded in those plans and you could see those in our OEB submissions. So that clearly laid out about how much productivity is already included. Will we get more? We're going to certainly strive to get more and look to refine that plan as and when we can. But there is already a substantial amount of productivity in there. A lot of the sustainment is driven by end of life assets. So at the end of the day, a significant portion of the assets in the transmission fleet and distribution fleet are approaching end of life. So investments that we're asking for to sustain that level of aging. We're not improving on it. We're actually sustaining it. So it's -- that's where -- really where it's coming from, it's a required replacement of end of life assets.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

And that's again -- that's again what we consider to be the right balance between rates and investment that the system absolutely needs.

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

And then just more specifically on the distribution improved reliability that you saw in the quarter. How much of that was really attributable to weather versus just underlying operating improvements.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Maybe, I'll let Greg talk to that one.

Gregory K. Kiraly ***Hydro One Limited - COO***

Sure. We're excited about that. That represents the most potential that we have. Currently we're fourth quartile in distribution reliability. But we're extremely focused about improving reliability for our customers. So, we reduced our SAIDI or average duration of outages by over an hour, so an over an hour reduction in 2018. We're shooting for another hour this year as well and then an hour in the year after that. And we've got our new vegetation management program that has contributed to that. We focused on some of our worst performing electric distribution circuits and doing corrective maintenance and we're also doing grid modernization. Much of our distribution grid, unlike our transmission grid, is not automated and as we put smart switches out there and modernize that distribution grid, we're going to reduce the quantity of outages and we're going to improve the duration of outages. So this is proven over and over the decades when you look through the utility industry. We're doing best practices in terms of distribution, reliability and we're very excited about it. So, it's having a positive impact.

Operator

Our next question is from Rob Hope with Scotiabank.

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

I want to go back to the ROEs for both distribution and transmission and I know there is a lot of moving parts. But could you give us maybe an understanding of how much of the ROE performance was related to weather versus cost savings?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure. I'll ask Chris to address that.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

I would say substantial amount. We don't provide the guidance on weather, I think you know that Rob. But overall, I would say substantial amount came from weather. The cost was as we expected. So weather was really driving a significant part of that portfolio.

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

And then, when you take a look at, if you did have the 2018 rates in effect, how much of a benefit would that have been relative to your existing ROE that you did in 2018?

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

So, I don't have that specifically, with me here. It's probably something we can handle offline, but you could probably calculate it based on the revenue requirements that's been posted with the OEB. So our revenue would have increased by $75 million.

Operator

Our next question is from Robert Catellier with CIBC World Markets.

Robert Catellier ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

I just want to get back to the executive compensation issue. There is a line item in the letter from the Board to the government about top management under retention agreements and the likelihood that they might depart after those agreements expire in 2.5 months. Has there been any update that you can provide us there? Have there been any indications that these, that the management team will depart when these retention agreements expire?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Well, other than what we've already announced around Pat and then Judy's retirement, there's been no other developments there. I will say though that we have developed very viable succession plans and we've got good bench strength, as I mentioned in my opening remarks, as the leaders at VP level. We've identified good internal candidates you know as replacements, even if that's on an interim basis in some cases, while searches commence. So we are feeling that the Company is going to be able to certainly continue on while the search and the placement of a CEO comes in and then that new team is born.

Robert Catellier ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

Do you expect that the resolution of the -- that particular file will improve the odds of some of these executives staying with the Company?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

I think those are really personal choices that each of the executives will need to make. So I can't comment on what each individual person is going to do. I do think though that people will look at not just compensation but look at a number of other factors and dimensions when they're thinking about whether they stay or whether it's time for them to move on, such as the people that are working with the strategy of the company and whether there's an opportunity here to make a real difference and then how they'll develop as leaders as well. So there is a lot of things that will go into their personal decision about whether they stay or they don't.

Robert Catellier ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

And then just on the province's initiative to reduce power costs, what are you hearing or what's the sense you're getting of what direction that might take?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Yes, we've had a number of discussions and brought forward ideas to government on that topic. The OEB sets the rates throughout the province but we certainly, and I've said this before, we fully agree and support the provinces commitment to reduce power rates in Ontario. You've seen the data. I think everybody on the call has probably seen the data. The people in Ontario have seen power rates rise by something like 70% over the past 10 years, mainly due to the global adjustment. This is an industry-wide issue to tackle and Hydro One -- here at Hydro One, we only make up a small portion, a very small portion of the customer bills. The transmission is about, which is most of our business, is about 7% of bills. So a very small portion and overtime, you look at our rates over the past 10 years, our rates have not really increased much more than inflation whereas again global adjustment cost of energy has increased substantially, that's why this is an industry-wide issue. But we are still contributing. The executive and Board compensation not being including in the rates is contributing, the dividend that the province gets from Hydro One contributes to rates -- rate reduction as well, that's about $250 million. So in some ways we're -- you know we've contributed significantly already. So we're not stopping there. We've been working hard on more -- being more efficient and productive. Our OM&A costs has actually reduced overtime even against inflation. So there is more that we're going to continue to contribute to that cause, because I think it's the right cause and we will continue to work with government on those ideas.

Robert Catellier ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

And then finally, just, congratulations on the safety improvements. That's it from me.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Thank you very much. I'm Proud -- we are proud of strides that we've made. But having said that too, we know we're not where we want to be. We know that there is more that we can do in safety and it is a goal of this Company to be world-class in safety performance. And we've got ideas and plans and investments we're going to make in safety well into the future and it'll be a continuous strive towards that goal. But thank you for the comment.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Excuse me, it's Chris Lopez here. Just a clarification for the last question I received from Rob Hope. The number I've quoted; $75 million was the net income number. The revenue number is higher than that. So the net income number is $75 million.

Operator

Our next question is from Robert Kwan with RBC Capital Markets.

Robert Michael Kwan ***RBC Capital Markets, LLC, Research Division - Analyst***

Just with the Avista deal now terminated. I'm just wondering if you can update or make additional comments just on your U.S. strategy going forward.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure. Sure Robert. So any new strategy or M&A will certainly be one of the purview of the new CEO as they develop the strategy going forward. So wouldn't be really appropriate for me as the Interim CEO to speculate on what that strategy may or may not be. I can tell you that we are not looking at anything at the moment. I would expect the new -- anything in the U.S., any large M&A in the U.S., we're not looking at anything. I would expect though, as the new CEO develops their strategy, many of the elements of our existing strategy and our value certainly would be consistent around; like we just talked about safety or being customer-focused, improving reliability. I imagine those planks of the strategy will continue. M&A will be a question as to how the new CEO and the Board wants to take that forward.

Robert Michael Kwan ***RBC Capital Markets, LLC, Research Division - Analyst***

If maybe I just think about then just general growth or general acquisition strategies recognizing, again, there is no -- the new CEO is not in place yet, but with the management team as well as whatever you socialized with the new Board, can you just talk about overall what did you learn from the Avista process? What would you do differently going forward and any specific comments on the use of leverage in the balance sheet as well as targeted accretion level?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure. Yeah, so the -- we took away a lot of -- one of the benefits of the deal and the whole experience with Avista is, we definitely took away a lot of learnings from that, which would be certainly useful going forward. I think just getting learning from the Avista team and their -- what they do in terms of innovation, how they invest in the community, the relationships that they have with their stakeholders is certainly something that we've taken from them and we'll continue our dialog with them, I expect, into the future. In terms of, again, future M&A leverage on the balance sheet, those sorts of -- accretion, et cetera that'll be -- all of those deals will have to be looked at on a case-by-case basis and we want to make sure that they create value not only for shareholders and certainly we need to consider all of the risks associated with those transactions. So creates value not only for shareholders, but it creates value for customers as well, so the customers at the end of the day are better off as well. And those are the main things that I took away from that transaction.

Robert Michael Kwan ***RBC Capital Markets, LLC, Research Division - Analyst***

Maybe just turning and finishing here with the Ontario side of things. Paul, you mentioned the global adjustment is one of the biggest problems in the bill and recognizing it's not you. But in terms of the discussions you've had with the government, do you get the sense that the government is most focused on this factor and not so much focused on utility side or just across the board actions to reduce the bill in terms of all components?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Well, I can't really comment on -- for the government on what they are looking at. I think though the data is out there and there certainly have smart people in government who are looking at all aspects of Hydro rates in Ontario. And the data out there tells us that the biggest cost and the rise in the cost has been the global adjustment. So I'm quite sure they're aware of that and we all know that to make an impact on customer rates, you really do have to impact that to some degree. And the government also, I would imagine, is also thinking about there are other priorities especially around being open for business in the province and making sure that we've got a very reliable and competitive electricity system in Ontario that will attract business in here -- more business in here. Certainly, when we talk to any big customers whether they're mining companies up north or other industries, Leamington or others, reliability of the system is a key thing for them. They absolutely want to make sure the system is reliable and that's certainly a part that we can play there as well.

Operator

Our next question is from Mona Nazir with Laurentian Bank.

Mona Nazir ***Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst***

Good morning and thank you for taking my questions. Firstly, I was just wondering, net-net, what would be the total cost of the Avista transaction loss, what have had on you. There is the U.S., just over $100 million break-free financing. Is there anything else? I was just looking for a total.

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure Mona. Maybe I'll Chris to talk to that.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Hi, Mona. As we've disclosed in the statement today, the historical cost is disclosed in the financial statements of $89 million and it's a forecast of cost that is required to complete the transaction in Q1 or to complete the termination of around $190 million. So in total, it's around $280 million pretax; and post-tax that would be around $210 million.

Mona Nazir ***Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst***

Okay, perfect. That's very helpful. And then just secondly, I was wondering if you could go into a possible scenario analysis. If an agreement on executive compensation is not reached, so from my understanding, then the government could kind of force their $1.5 million base. Would that be correct?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Well, again, as I said earlier Mona, I'm not directly involved in the discussions, but I imagine the range of outcomes could be a few different things and wouldn't really want to speculate on it. But in talking with Tom who is closer to it, the Board could possibly agree or the government -- they could negotiate with the government and give us some flexibility above $1.5 million. The province could also send a directive as well. So there is a range of outcomes here, I wouldn't really want to speculate on what they would -- what the outcome is. We're not directly involved.

Operator

(Operator Instructions) our next question is from Patrick Kenny with National Bank Financial.

Patrick Kenny ***National Bank Financial, Inc., Research Division - Research Analyst***

Just back to the discussion, wondering if you could walk us through your debt funding requirements here for 2019, how much capital you're looking to raise this year for both your capital program as well as any refinancings coming up?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure. Maybe I'll ask Chris to address that.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

Yeah. So we -- as you gathered from last year, we didn't do a lot of funding or the capital program in the market last year. So, we'll be in the market this year and we'll be in there, sometime in the first half and then possibly in the second, and we'll be raising somewhere between $1.5 billion and $2 billion this year, in the market.

Patrick Kenny ***National Bank Financial, Inc., Research Division - Research Analyst***

And then, not sure how much you guys can comment on the details of the new compensation framework. But, just looking at the short -- the short-term incentives, wondering if net measure is based on aggregate levels or per share amounts? In other words, could there be an incentive here under this framework to grow net income through M&A, even if the deals are say neutral or dilutive to EPS?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

We're not to take that question, Patrick, and look at it -- certainly, that's potentially possible, but we think that the program and certainly as the board has worked on it, it's been their priority to work on it. It's designed around making sure it's the right level of incentive for the strategy and for what the Board wants to do, both on a short term and long-term basis. So may -- yes, sorry Judy is signaling me here. She has a few comments to add.

Judy McKellar ***Hydro One Limited - Executive VP & Chief HR Officer***

Hi. So just want to explain in the compensation framework there are 2 incentive programs. The first is a short-term incentive, which is the annual program and that's always based on a balanced scorecard. Net income is always, of course, one of the components of that in addition to our other top priorities like safety, productivity, reliability, customer service. The second incentive program is our long-term incentive program and that's based of course on things like your EPS model, CSR and the like. And that's over the 3 years. So those 2 incentive programs are based -- the 3 components plus base pay and what you see in the compensation framework. So net income, of course, has always going to be factor in both of those programs. Does that help?

Operator

Our next question is from David Gallison Canaccord Genuity.

David Galison ***Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities***

So, just a quick question on the CapEx spend. So over the next 4 years, it looks like it's down around 3%. I'm just wondering if that's more timing related? If there is any certain projects that were impacted?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Okay. Yeah, sure, maybe I'll let Chris talk to that.

Christopher Felix Lopez ***Hydro One Limited - Senior VP of Finance & Acting CFO***

I think overall, you will see our CapEx spend over time going up in terms of the end of life assets. So any lumpiness that you see in there is in relation to life specific projects that are being completed within the year. So that's the only reason, other than that, it is going up on average. Our rate base is going up roughly 5%, so you could see the CapEx doing the same.

Operator

Our last question is from Jeremy Rosenfield with Industrial Alliance.

Jeremy Rosenfield ***Industrial Alliance Securities Inc., Research Division - Equity Research Analyst***

Just a last question here on sort of approach to managing the relationship with the Ontario Energy Board. From my perspective and in any case, it seems like it's taking a little bit longer than usual for the OEB to reach decisions on the rate cases. And I'm wondering if there is anything that could be planned or could be done in the future to sort of expedite the process going forward. So if there's any thoughts on that?

Paul Dobson ***Hydro One Limited - Acting President & CEO***

Sure. Well, -- yeah, I mean I think the -- with the OEB with respect to us and the OEB. We've got a good relationship. We've heard their feedback about things that we can do better. We certainly given them feedback as well and I think both of us are striving to improve. We think we put forward very strong cases, well considered filings and we've been very responsive. And for what the OEB has underway or had underway, certainly the modernization effort that they put underway to look at both their processes and timelines and how they adjudicate these filings, we participated in that and I think there were some good ideas generated there. And the OEB has also has the Advisory Committee on innovation which is looking to remove to any kind of disincentives for filings encouraging market-based solutions and simplifying regulation to the extent they can. So, we are very happy to participate in those efforts with the OEB and expect that we will see improvements in process going forward.

Operator

Thank you. And that 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, IR***

Thank you, Christy. The management team here at Hydro One thanks everyone for their time with us this morning during what is definitely a busy day. We appreciate your interest, your ownership. And if you have any other questions that weren't addressed in 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.

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.
