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H.TO - Q1 2018 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hydro One Limited First Quarter 2018 Analyst Teleconference. At this time while participants are in listen only mode, later we will conduct a question and answers session and instructions will be given at that time. If anyone requires operator assistance please press *0 on your touchtone telephone. And as a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to Omar Javed, Vice President, Investor Relations. Please go ahead.

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

Good morning, everyone and thank you for joining us. I'm here in Toronto with Hydro One's President and CEO, Mayo Schmidt; as well as our Chief Financial Officer, Paul Dobson; with Greg Kiraly, our Chief Operating Officer; Ferio Pugliese, our Executive Vice President, Customer Care and Corporate Affairs; Jamie Scarlett, our Chief Legal Officer; Patrick Meneley, our Executive Vice President and Chief Development Officer; and Judy McKellar, our Executive Vice President and Chief Human Resources Officer.

We'll provide some brief comments on our first quarter results, and then spend the majority of the call answering as many of your questions as time permits. We will be having our Annual General Meeting later after this call, so we will be a little bit short on time today. 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're dialed in to the teleconference, you can find them on Hydro One's website in the Investor Relations section under Events and Presentation.

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 quarterly MD&A, which we filed this morning regarding the various factors, assumptions and risks that could cause our actual results to differ as they apply to this call.

With that, I turn the call over to Mayo Schmidt.

Thank you, Omar, and thank you to everyone who's joining me today on this call to talk about our first quarter highlights and the progress towards becoming a leading North American utility.

With the IPO well behind the organization, Hydro One moved forward as an investor-backed corporation that is agile and responsive to market drivers, while creating a culture of service excellence that continually adapts to changing customer needs and expectations. The first quarter was a demonstration of Hydro One's potential, realized from strong execution and management's leadership.

I'm pleased to report that Hydro One and Avista have achieved numerous key milestones and the regulatory approval process for our proposed merger including all-party, all-issue settlements and agreements in Washington this past March, followed by Alaska and Idaho in April. Recently, a settlement in principle with all parties in the Oregon proceeding has been reached. We expect to file the Oregon settlement agreement later in May.

The company's also received approval from the Federal Energy Regulatory Commission in January, an antitrust clearance under the Hart-Scott-Rodino Antitrust Improvements Act as of 1976 in March. Hydro One and Avista received the Federal Communications Commission's consent on May 4. Hydro One and Avista continue to anticipate closing the transaction in the second half of 2018.

We see this merger as an important step in our strategic plan to grow and diversify our business for our organization and for our shareholders.

The company has ramped up its focus on delivering business innovation and driving productivity enhancements across of its lines of business. We continue to benefit from material savings through fundamental process improvements and streamlining the key cost centers. Led by strong direction from our executive team, we've seen a significant portion of the savings realized by implementing competitive procurement processes, utilizing industry best practices by sourcing materials and services in advance of planned work. We are now driving productivity improvements in every line of our business.

For the first quarter alone, we have generated approximately $16 million in productivity savings, which is ahead of where we were last year at this time. For example, we have implemented new technologies and practices in our forestry maintenance program that will result in both reduced outages and cost savings that flow back to our customers and our shareholders.

On the labor front, we are pleased to announce a tentative settlement of a 2-year collective agreement with the Power Worker Union, covering approximately 4,000 employees in critical front-line roles. Our respective negotiations team worked diligently over the course of the last several months to arrive at an agreement, which recognizes the significant contribution our employees make in maintaining the supply of power across the province, while delivering value to our customers and shareholders.

This quarter also further demonstrated an established trend of rising customer service satisfaction metrics to achieve market leadership and service. In the most recent survey, for example, distribution customer satisfaction rose 6 percentage points year-over-year. The catalyst was the March completion of the transition of 400 customer contact center employees, contracted over the last 10 years, now brought in-house, participating as key members of the business teams driving customer satisfaction across Ontario.

When compared with the end of 2017, first quarter results for overall customer satisfaction with calls rose 4 points to 94%. Customer issues resolved on the first call jumped 4 points to 89%. Billing accuracy reached a record of 99 7%. Our reputation is being noticed internationally. In January, the company received the Emergency Assistance Award from the Edison Electric Institute for support efforts following Hurricane Irma in Florida last September. Further in March, the company mobilized nearly 175 employees to help efforts to restore power following a storm in Boston and Baltimore that left approximately 1 million people without power.

Our management team and employees are highly supportive of the opportunity to help these types of cross-border events as they are aligned with efforts to capitalize on business growth opportunities and build our brand.

weather event involved a severe rain, ice and winds over 120 kilometers per hour that hit Ontario in mid-April. The company restored power to nearly 500,000 customers in 4 days, a new record for Hydro One as it surpassed the 6-day restoration effort from the last large-scale ice storm that struck in March of 2016.

Hydro One's new record recovery is made possible by implementing management's new methodology and approach for storm preparation that armed our response teams with the tools and information needed to better deploy power line and forestry crews and align the necessary resources in advance.

I'm proud to see how our teams have rallied as an organization against these large storm cells with our operations and field teams working to restore power to our customers very quickly despite the treacherous conditions. Critically, all this work was done without a single safety incident.

The company further strengthened its leadership team by adding proven, experienced and highly regarded business leaders to our team. The company welcomed Paul Dobson as Chief Financial Officer March 1. A Canadian that's come home after 15 years in the utility industry as a global leader, Paul has assumed responsibility for finance, treasury, controller, audit, technology and a regulatory group.

Pat Meneley joined Hydro One as Executive Vice President and Chief Development Officer on March 1. Pat is a highly regarded Canadian executive with significant expertise leading strategy, innovation, mergers and acquisitions.

Now I'd like to ask Paul to provide additional details on the quarter's financial results, and of course, the executive team and myself will stand by for your questions following Paul's review, and then our departure to go to the Annual General Meeting. Thank you.

Paul Dobson - *Hydro One Limited - CFO*

Thank you, Mayo, and good morning, everyone. We saw significant increase in both earnings per share and adjusted earnings per share compared to the first quarter of last year. These positive results were driven by the timing of the transmission rate decision, colder weather and higher ROE in the transmissions business. It should be noted that this is the first quarter in which the basic EPS was higher than the adjusted EPS due to a fair value unrealized gain recorded on the deal-contingent foreign exchange forward contract to convert CAD 1.4 billion to the U.S. dollars. As you may recall, this contract was entered into to mitigate the foreign currency risk related to a portion of the Avista acquisition purchase price that was financed by the issuance of the convertible debentures.

Before I go over the details of our results for the quarter, I would like to discuss the Avista deal, particularly the effects of the recent developments on the accretion. As you recall, we had originally anticipated accretion in the mid-single digits. Last quarter, we disclosed on the call that U.S. tax reform would have a negative impact on accretion of approximately $0.02 to $0.03. This results from a combination of a reduction in the tax yield and from a disallowance of the hybrid structure. In addition to this, the financial and nonfinancial commitments as a result of the rate settlement agreements, we have a further impact of $0.02 from the initial joint application.

We are still highly confident in this deal and highly value the growth and diversification benefits. We intend to find opportunities with Avista's high-performance and efficient team to enhance productivity for both organizations.

In addition, we aim to leverage the Ontario regulatory model and explore opportunities with the various regulators to bring innovative solutions to manage the outcome for the benefit of our customers in both Ontario and the U.S.

Moving onto our first quarter results. Revenue net of purchase power was higher by 7.3% year-over-year, mostly driven by the transmission business. Transmission revenues reflect the decision on our 2017-2018 transmission rate filing, including the rates implemented in the third quarter of last year. Transmission revenues were also positively affected by colder weather, resulting in higher peak demand and higher allowed ROE.

OM&A was down 4.1%, reflecting lower corporate support costs. Included in OM&A was an increased $1.6 million of Avista-related costs, which are excluded in the calculation of adjusted net income. Total OM&A, net of these 2 items, is lower by over 3%. Savings and operating costs, including the corporate support cost already mentioned, were partially offset by some onetime write-offs. Overall, we are pleased with our OM&A performance in Q1.

Below the operating cost line, our financing charge has decreased by 14.6%. As I mentioned earlier, we recorded an unrealized gain due to the revaluation of the deal-contingent foreign exchange forward contract entered into in October of last year related to the Avista merger. These were partially offset by the interest expense on the convertible debentures issued in August to satisfy the equity component of the Avista transaction.

Moving over to investing activities. Assets placed in service are lower in the first quarter compared to the prior year. This reflects some large in-service additions in the same quarter in the prior year as well as the timing of planned in-service additions in 2018. Skewing the comparison is the in-service amount of portions of large -- several large transmission station projects in 2017 and the Bolton operations center on the distribution side.

In addition, the in-service amount for the quarter was lower as we continue to work on some large projects scheduled to be in-service later in 2018, including our Clarington Transmission Station that is required to ensure an adequate, safe and reliable supply of power to support the growing communities in the eastern part of the greater Toronto area.

In terms of our regulatory updates, as we mentioned last quarter, the OEB granted a hearing of the merits of the motion to vary portions of the transmission rate decision, including objections that a portion of the tax savings resulting from the government of Ontario's decision to sell its ownership interest in Hydro One Limited and its subsequent IPO should be applied to reduce the revenue requirement. The hearing took place on February 12 of this year. We are waiting on a 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.

Also on the transmission front, we received some direction from the OEB regarding our previously planned filing of the transmission revenue requirement application under the custom incentive rate setting framework for a 5-year test period from 2019 to 2023. On March 16, the OEB issued a letter directing us to file the application on a 4-year test period from 2019 to 2022. In addition, the OEB conveyed its direction to file a single application for distribution rates and transmission revenue requirement for the period 2023 to 2027, including Hydro One remotes.

Although the matter will be heard as a single application, the OEB's final determination will result in separate revenue requirements for the distribution businesses and the transmission business. As a result of this direction, we are happy to comply and are working towards a transmission rate application for the 4-year period 2019 to 2022, which was delayed -- which has delayed the anticipated filing date to mid-2018. We believe these steps will help streamline the regulatory process.

On the distribution side, as noted last quarter, the OEB set interim rates based on the current OEB approved rates with no adjustments. And on December 21, we filed an update to the 2018-2022 rate application that described the impact to the proposed revenue requirement of various developments, including the updated cost of capital parameters, an inflation factor for 2018 issued by the OEB, and the reduction in the 2018 OM&A forecast and the 2018 to '22 capital forecast, about $106 million.

In terms of the application process, a technical conference was held on March 1 to March 5, and oral hearings are scheduled in the month of June. At this time, our expectations are that a decision would be anticipated towards the end of the year with retroactive grade adjustment. On April 12, the OEB issued its decision denying Hydro One's application to acquire the shares of Orillia Power, citing that it does not satisfy that a no harm test has been met with respect to the financial impact of the transaction to customers. It is Hydro One's view that the OEB erred in its decision, and therefore, we filed a notice to review and vary the decision on May 2. This decision does not change in any way our long-term strategy to roll up Ontario local distribution companies, which we view as highly accretive and have executed successfully.

For the Avista transaction, as Mayo mentioned, we have reached settlement agreements with 3 state utility commissions and an in-principle settlement agreement with Oregon. All of the settlement agreements remain subject to approval by their respective commissions. We have received was mentioned on the last earnings call. We are winning settlement agreements in Montana and approval from the Committee on Foreign Investment in the United States.

I will stop there, and we'd be pleased to take your questions.

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

Thank you, Mayo and Paul. Before we ask the operator to explain how she'd like to organize the Q&A polling process, we're a bit tight on time this quarter as our Annual Shareholder Meeting begins at 9:30. So we're requesting participants wishing to ask questions this morning to keep -- please keep them to a single topic so that as many people as possible have an opportunity to participate. We will be ending the call at 8:45 as a result of our need to go to the Annual Shareholder Meeting.

Please go ahead, Candace.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen on the phone lines if you would like to ask a question at this time please you may press * and the #1 key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue please press the # key. And our first question comes from Linda Ezergailis of TD Securities. Your line is now open.

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

Thank you, its very helpful to get an update on your Avista acquisition accretion estimates. I'm wondering if you could also maybe help us understand the net cash flow impacts of both U.S. tax reform as well as your settlements. And how has this informed any sort of recent discussions by the debt rating agencies? And are they looking for you to make any sort of adjustments to your financing plans or anything as a result?

Paul Dobson - *Hydro One Limited - CFO*

So there has been an impact to our cash flow in line with the accretion metrics that we talked about earlier. We are meeting with the debt rating agencies later in the month, and we will take them through the impact and expect to have a favorable rating from them, from the PAC.

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

That's helpful comments. And just as a quick follow-up, as the close of Avista nears, how are you thinking about your U.S. acquisition strategy given U.S. tax reform, the current regulatory environment, the capital market conditions and any sort of actual acquisition opportunities that might be floating out there?

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Linda, it's Mayo. Thanks for your good question. One is we're really entirely focused on closing Avista. We're working with their team, building up the integration modeling. We've got some very robust thoughts about the -- what will be practical applications of some of the good work that we've done in our business and they've done in their business and applying those cross-border. So the entire focus is on that. We're not actively mentioned, we see the local distribution company market, which there's still 54 local distribution companies in, is highly attractive and, quite frankly, beyond compelling in terms of the financial metrics. And one of this, a small example, but Orillia which we've been working on for some period of time, unfortunately, has just taken a longer period of time than one would anticipate in the regulatory environment. But that's -- the city is just thrilled to have Hydro One come in, in the system and their infrastructure. It's an accretive transaction for us. It's a nice tuck-in. There's lots of opportunities here in Ontario, and KPMG's analysis some years ago demonstrated that a full consolidation of the entire market, that there's generally about $1.5 billion in synergies in this Ontario market. Now that's some years in the future, I'm sure, it will take to see that all occur. But from a position that we're in today, we're the natural acquirer of these businesses. And we work very well with the communities, and quite frankly, we surround every community in Ontario. So -- and we've been very, very good neighbors.

Operator

And our next question comes from Robert Catellier of CIBC.

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

Hi Good Morning, I'll start with Avista. I'm wondering how the politics in Ontario are influencing the regulatory approval process there? And specifically, can you comment on the CFIUS clearance process?

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Sure. Let me start, then I'll ask Jamie to join in, as Jamie has been charged with the workaround of the -- clearing the regulatory hurdles. So just fortunately, myself and the Chairman of the Board have had recent meetings with the Avista group. And certainly, they're very interested in knowing the activities here in Ontario in terms of the election. They are confident it is very high in our organization and the value creation between the 2 organizations. And certainly, it'd be their greatest hope and our expectation that politics won't find their way into ultimately affecting the operations here at Hydro One or ultimately at Avista. So we're monitoring. We're running our business as investors would expect us to. It will not change anything that we're doing in terms of the planning for integration and opportunities we think in terms of cost benefits in the particular business. And we are -- certainly, at this time, we're not anticipating any unintended material effects to either business and that's the conversation we've had with their board and they're satisfied with the conversation. Jamie, do you want to talk about CFIUS?

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

Sure. CFIUS is really a national security review. We don't have any visibility into where that is right now other than it's just moving forward in the ordinary course to have to ask any follow-up questions. I'd be very surprised if Ontario politics was factoring into that review at all. We expect that to be successful to prosecute it in the next little while.

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Yes. I might just, to your question, Robert, follow up with the final point you asked about in terms of the regulators. They're certainly observing and watching the Ontario election and taking a view on it. But to date, the team and Jamie's work has methodically and mechanically and in good order processed through the regulatory authorities' discussions/negotiations and were very positive about the constructive nature of our relationships. And quite frankly, I would just say that this was really laying the groundwork early on when myself and other leaders went out to visit with the governor and the commissioners on very early days to not only pay our necessary respect but also to demonstrate our interest and capabilities in their market. And Hydro One bringing our balance sheet and expertise to their market and sharing best practices is highly attractive to the leadership in all of those states.

Okay. That's pretty good color. And then I just wanted to move on to the LDC consolidation. You struck a bullish note there in your comments about what's possible in Ontario in the accretion. But as you mentioned, there's been some, I guess, some delays with Orillia. So I'm wondering how the Orillia decision impacts your view on either strategy as to how you approach these acquisitions or ultimately the potential accretion. And could you just address the LDC consolidation, please?

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Sure, Robert, I'd be happy to. I think it's a matter for us of we're poised to be available to communities that would like to consolidate and have Hydro One take care of their infrastructure. For us, it doesn't go to price, it just simply goes to the process around the regulatory. And we're going through some change in the regulatory environment where we're going from cost to service to performance based, which we think is quite attractive in multiyear programs which, for us, lay out the financial opportunities well into the future. So I think it's just the case of the market settling into its pace and finding its footing. We're working directly hand-in-hand with the regulators to find that balance, and they've offered some new alternatives to what we've experienced in the past. And in this particular case of Orillia, they've got rate certainty for 10 years and the regulators ask for years 11 and 12. And so we feel comfortable that we can give them, in fact, our view of 11 and 12. And at the end of the day, they stand to regulate us in 11 and 12 regardless. So I think it's just a matter of what these changes we're going through that both the company and the regulator maturing together to get to a more succinct conversation and closing process to find our way to see more of these opportunities. So we remain quite positive in our attitude and our offering with the communities, and we're just being patient at the moment.

Operator

And our next question comes from Andrew Kuske of Crédit Suisse.

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

I think the question's probably for Mayo to start, maybe also for Jamie. Just on maybe some clarity on the governance agreement that Hydro One has at the province versus some of the election noise that's out there right now.

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Sure, Andrew. I would just comment at the highest level. We can, of course, get into any kind of detail you'd like or even off-line. But simply put is we're just going through the ordinary process. We have governance agreement with the provinces. I think you're aware that they're a shareholder, not a manager of the business. They're, of course -- the politics around Hydro as a commodity has been very high. But really, unfortunately, the focus has come on to Hydro One a good bit, but the reality is that the key theme here is really the global adjustment, which is a 10 to 12 years' historical legacy that's causing certain strains on people's budgets. And of course, Hydro One has done our work and, quite frankly, very successfully lowered the cost of hydro for our customers by 31% on average over the -- for the next 3 years. So we're, quite frankly, looking forward to seeing -- getting through the election. We don't have a view or a bias in that election. But the fact is that I think in our view would be once we clear it and the hydro or electricity becomes less of, let's say, a lightning rod, that things will smooth out, but we're not losing our focus as an organization in the meantime. And I don't know if you have any other questions around that, Andrew, but that would be our view at this time.

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

That's helpful. And then just maybe one extension on it. What kind of runway do you think you have on cost reductions looking out into the future to effectively help reduce the bills? Because, obviously, the power costs is one issue and that's not you. You're really on just the T&D side of it. But how much control of what cost do you think you can strip out of the organization and pass on to ratepayers?

Frankly, it's the area I'm most excited about, frankly. When we think about to date, we're $114 million in cost savings, $89 million in 2017 alone. We already, as mentioned in our notes, have had really, really good progress early in the year. I would say our organization's just hitting its stride in terms of finding efficiencies and productivity, and we're going to continue to be able to harvest those opportunities over the coming years, and not months in any sake, but years. I think this has a long trajectory of opportunity for the company. And I think it'll be accentuated by the combination of ourselves and Avista. I think the combination is going to provide some powerful outcomes in both cost savings, productivity. And quite frankly, I'm really excited about the innovation side of the business, where they've had great progress in their businesses. Whether it was Itron or smart city, they've got some real good programs underway. We've got our Telematics. We've got our Move to Mobile, which we've harvested lots and lots of value. In fact, last year, our operations team reduced by over 1,000 vehicles simply just due to our analytic program on use of equipment. So we've got a good highway ahead of us, it's an area we're quite excited about. And frankly, having the performance incentive rates over the course of a 4- or 5-year allows us to not only keep but also to share after a certain point those with customers, which we think is appropriate and highly attractive to us. So it will be, I think, you'll see the theme for the organization for years to come.

Operator

And our next question comes from Mona Nazir of Laurentian Bank.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP & Senior Research Analyst*

Good morning and thank you for taking my question. My first question just has to do and it's a clarification on the Avista accretion. And depending on where you're starting for that mid-single-digit accretion and then netting out the U.S. tax and higher settlements, is it true that you could still have some accretion, albeit very minimal, which I believe you stated on the past call? I'm just wondering if that still holds true.

Paul Dobson - *Hydro One Limited - CFO*

We -- yes, just to reiterate, so we did say mid-single digits, tax impact about $0.03.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP & Senior Research Analyst*

Yes.

Paul Dobson - *Hydro One Limited - CFO*

And then the settlements about, as we mentioned here, about $0.02. So we are right around $0.00 to $0.01 at the moment. That's for 2019. That's -- looking out into the future and years beyond, we still see the deal as being attractive.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP & Senior Research Analyst*

And just -- this question is more for Paul, but I'm just wondering -- Dobson, but I'm just wondering if you could speak about your first few months at Hydro and how that transition has gone? I'm just looking at the company, where are -- speaking about the opportunities that you see?

Sure. Yes, it's -- thanks for the question, Mona. Yes, it has been a -- it has been quite a whirlwind, I must confess. Coming from what I thought was a very progressive company, coming to -- back home here to a utility I'm very familiar with, I've been really, really pleasantly surprised by the amount of innovation, the quality of the people and just the sheer amount of really great ideas that are here, about how we can create value and continue to serve as customers. So just within our own country here of Ontario, there's plenty of opportunities from the roll-ups to the other productivity measures. And then when we look beyond Ontario, I think there are other opportunities there as well. So it's been, like I said, it's been a whirlwind. It's been a lot, to be honest with you, but really excited about the opportunity.

Operator

And our next question comes from Robert Kwan of RBC Capital Markets.

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

Whether it's additional U.S. acquisitions down the road or the roll-up of opportunities, I'm just wondering, when you look at your credit metrics, how much balance sheet capacity do you think you've got or what you feel comfortable with to add leverage to pursue any of these new initiatives?

Paul Dobson - *Hydro One Limited - CFO*

Well, depending on the size of the -- of what we're talking about in terms of other initiatives, assuming the roll-ups, the smaller roll-ups in Ontario, I think we could comfortably accommodate. But if we're looking at something larger, then we would likely have to go into the capital markets and issue equity at that time.

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

And I guess, Paul, do you have kind of a -- can you quantify what larger might mean to you?

Paul Dobson - *Hydro One Limited - CFO*

Well, not at this time. It depends on what the opportunity is. It depends on what the jurisdiction it's in, many factors.

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

And I guess, maybe if I can just turn that around and you think about capital allocation, do you -- have you thought about adding leverage to the balance sheet just with the capacity you've got to buy back stock, or put differently, effectively acquiring your business? And what right now is kind of a mid-teens p multiple, which I would think would seem pretty attractive versus what else you'd have to pay to buy things?

Paul Dobson - *Hydro One Limited - CFO*

Well, at the moment, we're focused on closing the Avista transaction and raising the debt required to close that transaction, and that will get us to the structure that we're comfortable with.

And so when you say comfortable with, would that be where you'd be long-term structure, i.e. you would finance kind of your larger initiatives in line with where the credit metrics would be, i.e. you won't see material double leverage?

Paul Dobson - *Hydro One Limited - CFO*

Yes, I think that's a fair way to characterize it, yes.

Operator

And our next question comes from Jeremy Rosenfield of Industrial Alliance.

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

You mentioned off the top there was a really great response to some of the April ice storms. I was just wondering if you have any ideas in terms of costs associated with the storm recovery and whether that would be above the threshold for which you intend to file for cost recovery or if it's still not above that threshold?

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

Yes, this is Greg Kiraly, Chief Operating Officer. So through the first quarter, we have some storm activity but we were actually slightly below what our storm budget was, both in capital and O&M for the year. Now I can tell you with April and May, that situation has changed and we'll obviously inform you as we -- as those costs come in, but we did have 3 large storms between April and early May that affected literally 1.3 million customers just in those 3 storms. So we definitely will be over our storm-specific budget for the second quarter at that point. But that's all part of our redirection process, right? I mean, we know we're going to incur these storms and we know then we have flexibility within our work plan and we're going to have to look to other areas where we can redirect funds in order to fund those storms. So we're comfortable with it. Yes, we were hit hard with the storms and that will be reflected in the second quarter, but we believe we've got our O&M cost and a discipline around execution such that now we can redirect and recover from any over-budget condition that we might have.

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

Okay. Maybe just a separate question, more strategic. Mayo, you -- obviously, acquisitions of municipal electric utilities in Ontario right within the fairway for the business. Have you ever thought about branching out to municipal water utilities and whether that might be something that could be interesting on the basis that there may be some strategic benefits or some O&M cost savings that could be transported or harmonized between existing business? Any thoughts on that?

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Sure. Right now, the multiples, and I think for the immediate future, the multiples on the water businesses are pretty stemmy. They're very high. So it's an area we're aware of, but not an area that we're actively pursuing. We're really focused on our core competencies, and quite frankly, we're very excited about the fact that we not only have the complementary T&D business like, as an example again, with Avista, but we've added also a run-of-the-river generation, which is fully regulated. And we also get some exposure to wind in that business, so we're also entering into the renewable area and of the fact that it's all fully regulated and one of our opportunities we see is that in those particular markets, those are 1-year applications on regulation and we see the potential to demonstrate an ability to go to multiyear performance-based incentives. So there's an opportunity there. So I guess it gets back, Jeremy, that there's so many such an opportunity-rich environment for our organization right now, but as -- even going back to Robert's question, our focus really has to be on integration. Pat Meneley's team and supported by Paul's group on the last couple of years including Great Lakes Power. So we've got and are developing the muscle in that area, which we're quite happy about. But I think right now, although some years down the road, there may be opportunities to diversify further and no doubt about building and integrating the water utility, those things are all practical applications. But the first thing is right in the center of our core competency, we're going to focus on T&D and regulated and adding these complementary generation opportunities.

Operator

And due to time constraints, we now have time for one last question. And our final question comes from the line of Frederic Bastien of Raymond James.

Frederic Bastien - *Raymond James Ltd., Research Division - SVP*

Guys, just wanted to build on some of the earlier questions around strategy. Are you in a position to now engage in discussions with potential targets to (inaudible)

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Frederic, we think we lost you here, engage in potential and then you dropped off. Operator?

Operator

Frederic, if your line is on mute, please unmute. Once again, Frederic, your line is now open.

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Maybe we could go to the last question, Omar, then we...

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

No, that's the last one.

Mayo M. Schmidt - *Hydro One Limited - President, CEO*

Okay.

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

So I think we'll touch base with you, Frederic, after the call and we'll proceed ahead to close the call. Thank you, Candace. The management team at Hydro One thanks everyone for their time with us this morning during what definitely is a busy period. We appreciate your interest and your ownership. If you have any further questions that weren't addressed in the call, please feel free to reach out and we will get them answered. Thank you again, and enjoy the rest of the day.

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.