REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2023 Hydro One Ltd Earnings Call

EVENT DATE/TIME: MAY 05, 2023 / 12:00PM GMT

CORPORATE PARTICIPANTS

Christopher Felix Lopez *Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer*
David Lebeter *Hydro One Limited - President & CEO*
Omar Javed *Hydro One Limited - VP of IR*

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 - Senior Energy Infrastructure Analyst*
Dariusz Lozny *BofA Securities, Research Division - Research Analyst*
David Quezada *Raymond James Ltd., Research Division - Director & Equity Research Analyst*
Mark Thomas Jarvi *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*
Maurice Choy *RBC Capital Markets, Research Division - MD & Analyst*
Robert Hope *Scotiabank Global Banking and Markets, Research Division - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Hydro One Limited's First Quarter 2023 Analyst Teleconference. (Operator Instructions)

I would now like to introduce your host for today's conference, Mr. Omar Javed, Vice President, Investor Relations at Hydro One.

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

Good morning, and thank you for joining us in Hydro One's quarterly earnings call. Joining us today are our President and CEO, David Lebeter; and our Chief Financial Officer and Regulatory Officer, Chris Lopez.

In the call today, we will go over our quarterly results and then spend most of the call answering as many of your questions as time permits. There are also several slides that illustrate some of the points that we will address in a moment. They 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 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'll turn the call over to our President and CEO, David Lebeter.

David Lebeter ***Hydro One Limited - President & CEO***

Thank you, Omar, and good morning, and thank you for joining us on our first quarter earnings call. This morning, I will provide an update on our recent activities and Chris will then take you through the financial results in greater detail.

First, let me start by acknowledging the efforts made during the significant storm that occurred during the Easter holidays, leaving over 396,000 customers without power. Freezing rain and thunderstorms moved to the province causing tremendous damage, including broken poles, down trees and wires. I want to thank our teams, contractors and utility partners for their outstanding efforts in assessing damage, prioritizing work and making repairs to store power. While being away from family and loved ones during a holiday is difficult, it is these times when our customers need us most. I'm proud of the team for stepping up to put our customers first and get the power back on safely and without any recordable injuries.

It's been an eventful 3 months since I've moved from the COO role to the CEO role. In the last call, I articulated my priorities, namely, executing our existing strategy. First, I am pleased to report that we continue with our focus on safety with no high-energy serious injuries or fatalities this quarter. Our recordable injury rate of 0.42 per 200,000 hours is also below that of last year's 0.616 rate and well below the world-class benchmark of 1.0.

Second, last quarter, I committed to aligning the executive team structure to our strategy and filling the vacancies on our executive teams that we can continue to take advantage of the positive environment before us. I'm pleased to report that we have made a few changes in the executive leadership team and our organizational structure. Teri French has been appointed to the new role, Executive Vice President, Operations and Customer Experience. She'll bring together teams responsible for driving operational excellence across our transmission, distribution, reliability and maintenance functions as well as customer and system operations. Teri will also continue to retain responses for Hydro One Remotes.

Andrew Spencer has been appointed to the new role of Executive Vice President, Capital Portfolio Delivery. He will be responsible for leveraging our internal capabilities and collaborate with our key stakeholders and indigenous partners to efficiently deliver our growing capital plan, ensuring Hydro One can support the increasing need for clean energy and economic growth in the province. I'm thrilled that both appointments were internal, which is indicative of the high-quality talent and deep bench strength that exists throughout the organization.

In addition to Teri and Andrew's appointments, we are expanding the roles for Megan Telford and Chris Lopez. Megan is now EVP Strategy, Energy Transition, Human Resources and Safety. She will have responsibility for corporate strategy and energy transition along with key strategic supporting functions, including planning, partnerships, indigenous relations, sustainability, corporate affairs, human resources and health and safety. Chris is now EVP, Chief Financial and Regulatory Officer. He will continue leading the finance, treasury, investor relations, pensions, shared services, growth and corporate development, risk and internal audit functions and will also now lead regulatory practices.

Brad Bowness has made the personal decision to leave Hydro One to pursue other opportunities at the end of June. During his 19 years at Hydro One, Brad has held senior roles in the organization and has been responsible for driving a more agile, customer-focused culture and leveraging technology to deliver on our strategic goals. We have already begun a thorough search for a technology leader to join the team.

Paul Harricks has informed me of his decision to retire from Hydro One at the end of the year. Between now and then, Paul has taken on a new role as Senior Adviser and will continue reporting directly to me. In this role, Paul will be providing strategic support and advice on several key initiatives. Since joining the company as Chief Legal Officer in 2019. Paul and his team have strengthened our relationship with the Ontario Energy Board and jointly led the first-ever settlement on the largest rate application ever filed with the regulator.

Cassidy McFarlane, who has been with the company for 23 years, was appointed General Counsel. These changes represent an important first step in evolving our structure to execute our strategy in a changing environment. We will continue to refine the executive leadership team in response to the industry landscape and customer needs.

My third priority was to remain disciplined to execute on our maintenance and capital investment plans. I'm happy to report that we have been doing just that. Our capital investments increased by 11.1% and the assets put in service increased by 3.5% year-over-year. We also made progress on our regular work programs, both conducting emergency restorations.

Work also continues to advance on our major capital project. For the Chatham to Lakeshore line, environmental assessment is complete and the lead to construct of Section 92 has been granted by the Ontario Energy Board. Furthermore, an engineering, procurement and construction or EPC contractor has been engaged and has executed our construction readiness plans, including continuation of capacity building with indigenous community to ensure meaningful participation during the delivery of the transmission line.

For Waasigan, we were pleased to receive the letter from the Independent Electricity System Operator, or IESO, indicating the need for Phase 2 of the line to support mining operations in North, clean, reliable electricity. As a reminder, Phase 1 of the double-circuit 230 kilovolt line that will run from Thunder Bay to Atikokan. Phase 2 was a single-circuit 230 kV line between Atikokan and Dryden.

We plan to submit a Leave to Construct applications or Section 92 to the OEB for both phases later this year. Energizing the North is one of the critical action items to harness the wealth of minerals in the Northwest and support the incredible growth in the province. As a reminder, 9 First Nations in the region have signed agreements with us and will have the option to invest in 50% equity stake in the transmission line component of the project.

With respect to the other lines in the Southwest region, we are on track and performing pre-development and development-related activities. The value of these will become publicly filed as Leave to Construct for each of the lines. Apart from these projects, we are proud to support the economic engine by facilitating electrical connectivity to the businesses in Ontario. Whether it's agriculture, mining or industrial manufacturing, the connectivity to clean, largely decarbonized power helps the economy in the environment.

As an example, Volkswagen's historic decision to build their first Gigafactory outside Europe in St. Thomas, Ontario is a transformational investment. The plant will produce batteries for up to 1 million electric vehicles per year. Hydro One's demonstrated transmission reliability is the core strength for Ontario as this project like many others require extremely high reliability to operate. This large battery manufacturing plant will stimulate significant investment in the region and Hydro One will be ready there to provide connectivity as needed. This development and the surrounding investment it will generate will be great for the economy, the environment and for investment in our assets.

We are also happy to support the Electrification and Energy Transition Panel led by David Collie. The panel will provide the Ministry of Energy with cross-sector insight and expertise needed to develop an effective pathway to decarbonize the energy sector. Investments in critical infrastructure are necessary to continue to attract economic investment in Ontario. Our investments in the expansion and optimization of both the transmission and distribution systems are the first step to enabling the energy transition for all customers, residential, indigenous, commercial and industrial.

In other updates, we continue to work closely with the Internet service providers in Infrastructure Ontario help deliver broadband Internet access by leveraging our existing infrastructure. We have been hard at work preparing for the significant volume of work that is expected to come. We have made investments in labor and training, strengthened our supply chains, streamlined our joint used process, onboarded contractors and purchased materials in anticipation of this project. We understand the importance of connectivity to everyday life for families and businesses, many of whom are our customers.

While we are excited to take on the challenge, we have not seen the application coming at the pace we had expected. We also continue to engage with local distribution companies or LDCs to facilitate consolidation within the sector. We are in active discussion with several LDCs, but at this point, there are no definitive agreements.

Regarding our collective agreements, Power Workers' Union and Society of United Professionals collective agreements expired on March 31, 2023. Negotiations to renew these are ongoing. We also continue to negotiate with the PWU on the customer service operations and collective agreements that expired in August 2022. As is normal during bargaining, we won't be providing any further comments.

We continue to make progress on our sustainability goals. I'm very proud that Hydro One received Environmental Excellence award from the Electricity Distributors Association for creating a wetland habitat adjacent to our Kleinburg Transformer Station. This initiative restored and enhanced the resiliency of the existing wetland and beautified the lands adjacent to the transmission station.

Hydro One's community investment program focuses on building safe communities in Ontario and direct at least 20% of its corporate donations and sponsorships to indigenous communities, an initiative that benefit indigenous communities. In late February, we are incredibly pleased to announce the 25 charitable organization, indigenous communities and municipalities that each received a grant CAD25,000 from the Energizing Life Community Fund. This is the third year in a row that the fund will support community-led initiatives that promote physical, promotional and psychological safety and well-being for Ontarians.

We are also thrilled to welcome back the Little Native Hockey League or Little NHL, after a 3-year hiatus due to the pandemic. The Little NHL was created to build inclusivity in hockey for indigenous players and focus on supporting communities and young players through safe play. We are pleased to partner with the Nipissing First Nation to return this exciting tournament that celebrates family, community and friendship.

Finally, our management information circular was released a few days ago. Our Annual General Meeting will be held in the hybrid format on June 2 over live webcast and in-person attendance in Thunder Bay. All shareholders are welcome and invited to attend. This year, we have 3 Directors, Bill Sheffield, Blair Cowper-Smith and Russell Robertson, who will not be standing for re-election. I would like to thank them for their valuable services joining the Board in 2018. The new independent director nominees standing for election are; Mitch Panciuk, Helga Reidel and Mr. Brian Vaasjo. You'll hear more about the nominated directors and the depth of skills they bring to the Board after the AGM.

With that, I will turn it over to Chris to discuss our financial results this quarter.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Thank you, David. Good morning, everyone, and thank you for joining us today. I'd like to extend my congratulations to Teri, Andrew and Megan, Paul and Cassidy on their new appointments. Your hard work, dedication and expertise have been recognized. And we are thrilled to have you take on your new roles. I also wish Brad the very best in his future endeavors.

In terms of our financial results for the first quarter, earnings per share was CAD0.47 compared to CAD0.52 in 2022. The key drivers for the change in earnings this quarter were; higher operating, maintenance and administration or OM&A costs, primarily resulting from higher corporate support costs and work program expenditures. Higher financing charges on account of higher weighted average interest rates on short-term and long-term debt. And higher depreciation, amortization and asset removal costs. These are partially offset by the adjustment to Ontario Energy Board or OEB approved rates post-approval of the Joint Rate Application, the JRAP, and lower taxes. In addition to these key drivers, there were several net income neutral items that occurred this quarter as we implemented the Joint Rate Application decision.

Our first quarter revenue net of purchased power was higher year-over-year by 3%. The increase was mainly due to revenues resulting from OEB approved rates, including the recovery of regulatory assets following the implementation of the JRAP decision. The recovery of regulatory assets had offset in OM&A and income tax expense making them net income neutral. This was partially offset by lower peak demand at energy distributed to Hydro One customers, which were down by 2.2% and 3.9% respectively.

On the cost front, operating, maintenance and administration expenses were higher year-over-year by approximately 13.9%. The largest portion of the increase was attributable to higher corporate support costs for both segments and a largely timing measure. These costs increase as we capitalize common costs at a lower rate due to the timing and volume of capital work in relation to the rest of the year. As the year progresses and the capital program ramps up, we expect to capitalize common costs at a higher rate, thereby offsetting the increase this quarter.

We also have higher costs related to work programs, including station and line maintenance, emergency restoration and information technology initiatives. These are partially offset by lower allowance and doubtful accounts or bad debt expense. Lastly, we have the disposition of regulatory accounts that resulted in higher OM&A for both transmission and distribution segments. However, as previously discussed, these are offset in revenue, making them net income neutral. Depreciation expense was higher year-over-year by 6.3% due to the increase in removals associated with higher storm-related asset replacements, higher environmental expenditures and growth in capital assets, which is consistent with our stated capital investment program.

On financing, we saw a 16.2% increase year-over-year in our financing charges. This was primarily due to a higher weighted average interest rates on long-term debt and short-term notes. This includes the financing charges from recent issuances such as the CAD750 million of medium-term notes in the fourth quarter, the CAD1.05 billion in overall issuance of medium-term notes in January under the sustainable financing framework and the CAD1.64 billion in short-term notes issued in the quarter. We used the proceeds to repay CAD600 million of long-term debt that matured in the quarter as well as CAD2.21 billion of short-term notes. The financing charges were partially offset by higher weighted average interest on short-term investments.

We continue to be pleased with the stability of our balance sheet and robust investment-grade credit ratings. Income tax expense was CAD64 million for the quarter compared to CAD79 million in the same quarter last year. The decrease in income tax expense was due to lower earnings compared to last year and higher deductible timing differences. As previously discussed, these decreases were partially offset by the tax on the disposition of regulatory accounts, which are again, net income neutral.

The effective tax rate this quarter was 18.4% versus the effective tax rate last year of 20.2%. This is consistent with the annual guidance we provided earlier this year. As a reminder, we expect the effective tax rate to be 13% to 16% over the next 5 years with the most significant impact in 2023 due to the recovery of the previously shared deferred tax assets or DTA recovery amounts, which will be fully recovered by mid-year.

Moving to investing activities. In the first quarter, we placed CAD237 million of assets in service, which is a 3.5% increase compared to the prior year. The year-over-year increase related primarily to the Distribution segment, which included a higher volume of storm-related asset replacements and customer connections. The increases in our Distribution segment were partially offset by the Transmission segment where assets in service decreased year-over-year due to timing. Last year, we placed a significant portion of the East-West Tie project into service along with other line refurbishments and replacements.

Capital investments for the first quarter were CAD499 million, which is an 11.1% increase from the first quarter in 2022. The capital investments in the Distribution segment were higher due to higher spend on storm-related asset replacements, timing of IT initiatives and the higher volume of customer connections. The Transmission segment also increased with investments in the new Chatham to Lakeshore Line project and higher line refurbishments and replacements, partially offset by timing of customer connections and major development projects.

On guidance, we continue to be committed to and affirm our target of 5% to 7% earnings per share growth rate through 2027 on the normalized earnings from 2022 EPS of CAD1.61. As a reminder, the EPS growth range does not factor in growth from broadband, LDC consolidation and 5 of the 6 transmission lines that have been previously awarded to us, but only have preliminary estimates as well as any amounts from externally-driven variance accounts. Finally, I am pleased to report that in line with our long-term guidance, we declared a dividend to common shareholders of CAD0.2964 per share.

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

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

Thank you, David and Chris. We'd like the operator to explain how they'd like to organize the Q&A polling process. In case we can't address your questions today, my team and I are always available to respond to follow-up questions. We ask that you limit your questions to one question and one follow-up. If you have additional questions, we request you to rejoin the queue.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Robert Hope with Scotiabank.

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

Maybe first on the broadband initiatives. Can you maybe give us an update on how the conversations are going with your potential customers there? When we could see meaningful capital being put to work? And then I guess, subsequently, when you would think you could update guidance for that?

David Lebeter ***Hydro One Limited - President & CEO***

Robert, David Lebeter speaking. We're engaging with all the Internet service providers as well as Infrastructure Ontario, which is the provincial body that's been tasked with implementing this program. As I indicated in my opening remarks, we had expected orders to come in from the Internet service providers sooner than they had. We are getting orders, just not the volume that we expected yet. So we are still anticipating a ramp up later on this year.

It's difficult at this point in time. It's a CAD4 billion program that the provincial government has put in. We anticipate that there could be anywhere from CAD0.5 billion to CAD1 billion worth of work that has to get done on our assets. But until we see enough of those orders to really be able to quantify what that impact is, we're not willing -- we're not able to come forward with updated guidance. We had and still hope to be able to do that by the end of this year or early next year in the first quarter.

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

And then just maybe moving over to the transmission investment as well, understanding that 5 of the 6 lines that you've been awarded are not in your guidance, but maybe taking a look at the next tranche of potential opportunities in front of you. We continue to see Ontario kind of outperform in terms of this near-shoring trend. Where are you seeing the greatest opportunities to further potentially increase your transmission investment?

David Lebeter ***Hydro One Limited - President & CEO***

So obviously, we're really pleased with the Independent -- Independent Electric System Operator last week announced they'd like us to build Phase 2 of the Waasigan Transmission Line, which is up in the Northwest. They've asked for us to bring that in service as soon as possible after Phase 1. And just as a reminder, Phase 1 we're targeting to have in service by the end of 2025. The independent Electric System Operators also recommended to the government, with the Ministry of Energy, they released 3 transmission lines in Northeast Ontario. So we're in discussions with several parties over those transmission lines.

No timing from the government of when they plan to award those or if they're going to use a competitive process to release those. And we continue to work on our 5 transmission lines down in Southwestern Ontario. Those are all proceeding very well. And that's what we have available right now. We're always in negotiation -- not negotiations, we're always working with Independent Electric System Operator on regional plans and the province on economic development where they're having discussions with new economic actors moving into the province.

Operator

Our next question comes from the line of 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***

I guess, the first question is for Chris, and it's really just looking at the volumes you had across the TX and then also the DX business. If it was more normal weather in the quarter, how -- what would that look like in the financials? And then the sort of follow-up to that is just on the OM&A, a bit elevated versus last year. To what degree is that really just getting ahead of things for the remainder of the year? And we're going to see a little bit of a tail off in the OM&A expense?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

We'll start with the volume question first. So the first quarter of last year was an exceptional year on volumes, mainly driven by weather. We did see the normal economic growth that we see higher new connections, higher economic demand. But the weather impact this quarter was not as favorable as the same quarter last year. It was still above the long-term average, Andrew. So this is what you can expect is where we are today. It's just last year was significantly more advantageous from a weather perspective.

Turning to OM&A. What can we expect and why were we up this quarter? We're up CAD40 million, about half of that was corporate support costs. That is timing that will come back. About a 25% is around our work programs, again timing. And the last 25% is all to do with the regulatory account. So our OM&A was higher, but also our revenue was higher. So I would say, 3/4 of the OM&A was all timing. That will come back in the back part of this year.

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

And then maybe just a bigger, broader question as it relates to the ongoing energy transition, and we've seen the Volkswagen announcement and just some other initiatives going on in Ontario. To what degree you're involved in the discussions about sort of the bigger stuff about Ring of Fire being developed on a more accelerated basis? And I ask the question in part because we've seen some other examples in the world where battery manufacturers are really going to mining companies and securing supply on a longer term basis, and all of that seems to fit very well for Ontario. So to what degree are you involved in the conversations, whether directly with the companies or the government itself?

David Lebeter ***Hydro One Limited - President & CEO***

Andrew, it's David speaking. Great question. We're engaged at both levels. We do engage with individual companies that are considering investments, whether that be for new developments or whether that's for decarbonizing their current assets. So we have those conversations. We're also involved in conversations with the government. Obviously, they have different network than we do. So they'll bring us in when they want to understand the transmission capability, the best places to locate, some of the investments they're considering attracting to the province. And we're also in discussions with peers on how the province might develop. So quite a wide ranging group of people that we engage on where investment is going to occur, the pace that it's going to occur and the role we're going to play. Lastly and perhaps most importantly, we're also engaged with indigenous communities and leaders across the province and their vision for how they want to see the natural resources of the province develop and where they're focusing their development opportunities.

Operator

Our next question comes from the line of Ben Pham with BMO Capital Markets.

Benjamin Pham ***BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst***

I was wondering, could you maybe comment on if you think about the next year or 5 years, you have that 100 basis points of expected outperformance or maybe even more than that. Can you detail some of the initiatives you're currently working on or looking to work on that will drive that potential performance?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Ben, it's Chris. Yeah, so the 100 basis points, as a reminder, was in the guidance that we provided. So it wouldn't be above and beyond that guidance. But to hit those numbers, part of it is volumes. And as I said, the volumes are not as good as last year, but they are above what we had expected with a normalized. So that's part of it.

And then the specific programs that we do, it's more programmatic or systematic across the company. We look to offset about 2% of all spend, and it's made up of a number of projects that go across multiple years. But some large ones that you can think of are investments in technology to improve productivity. So we're doing distribution operations, technology investment that will improve the way we execute work across our distribution network. That's a good example that will drive productivity. We're constantly working with suppliers to reduce cost and improve efficiency. And the final one is, we're doing another investment in our HR systems that potentially again reduces costs.

So like I said, there's 30 or 40 initiatives that we're working on at any one time. It's the sum total of that that allows us to get about half of those that over-run from productivity and the other half usually comes from economic demand. And we're seeing that already in the first quarter of this year. There's no change there. We've seen higher new connections and we've seen higher economic demand.

Benjamin Pham ***BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst***

And maybe the smart part of your business outside of rate base and non-regulated side of things and there's a couple of different businesses and levers in there. And anything you can share in terms of commercial updates on electric charging or telecom side of things? And when do you expect to see maybe more of a modest impact on that part of the business?

David Lebeter ***Hydro One Limited - President & CEO***

So I would -- I always reiterate this, we are primarily focused on growing the regulated side of the business. That's where the majority of the focus is. The guidance that we've put out there, 5% to 7% and potentially going up from there is really driven by investments in new transmission lines. That is all regulated.

I think the question you're asking, Ben, is what extra juice is there above that? It's about 0.5%. And that comes from our telecom business and other investments. We've got a business called Ox Energy. That business is looking at helping our larger customers solve some of their energy needs behind the meter batteries and so on. We have a joint venture with a company called PowerFlex, which is owned by EDF. And those two together will deliver about half of 1% per year across the guidance period. We're on track to do that. I don't have any other details at the moment. We're constantly looking at RFPs and different opportunities with our partners there. And we'll give you those updates when we actually sign them and release them.

Operator

Our next question comes from the line of Dariusz Lozny with Bank of America.

Dariusz Lozny ***BofA Securities, Research Division - Research Analyst***

Just maybe at the outset, I was wondering if you could give an update on what are your debt funding needs that you see for the balance of the year? And perhaps what type of rates you're seeing in the market relative to your plan?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Dariusz, it's Chris. So I think I answered this question last quarter. It's still the same because we did an issuance in February just before we actually released our results or shortly thereafter, but we gave the same indication. So this year, in any usual year, we would do CAD1 billion to CAD1.5 billion. But I'll just remind you, last year we did a little less, around CAD700 million. So you can expect us to do a bit more this year. We'll be at the upper end of that range. And the other opportunity we have is we have a short-term debt outstanding that we can term out.

So what does that look like? We've done CAD1 billion already. We could do another CAD1 billion to CAD1.5 billion this year to secure funding into early next year. We've got an issuance that's coming due in April next year. So we could pre-fund that as well. There is one advantage you get today if you're funding long-term, the short-term interest rates that you earn on that really ensure there's no holding costs or a slight benefit. So we'll access the markets opportunistically to deal with that.

Where are the rates at? They are in line or slightly better than what we've got in our funding plans. So we've seen some volatility. I'm not going to say it's easy, but right now rates are back to roughly where we issued earlier this year. So a good indication of -- and we were pleased with those rates. So rates around this mark are advantageous to us.

Operator

Our next question comes from the line of Mark Jarvi with CIBC.

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

Just as you look out and potentially more transmission projects coming down the pipe here, how are you thinking about human capital in terms of being able to deliver on that? Is it something you guys have to staff-up internally? Is there enough out there in terms of labor force and then -- or do you just bring in third-party contractors to manage a lot of these incremental builds?

David Lebeter ***Hydro One Limited - President & CEO***

Mark, it's David. One of the advantages of having a stream of transmission projects coming is we're able to enter into different conversations with our construction partners. So for new transmission build, we typically go to the market and use a contractor. Being able to reach out and talk to them about a series of projects, assuming they perform adequately, of course allows them to go out and secure labor and bring that labor -- will either secure it locally, either in Ontario or from Canada or they would bring it into the country. But they have a stream of work that allows them to do that.

Now obviously, you can't just hire contractors and walk away from a project. So we are increasing our contract management capability, our project delivery capability. But so far, we have had not had a challenge finding the labor resources to do that. We're able to recruit very talented and very competent individuals.

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

And then Chris, historically, you guys have used the commercial paper program quite regularly. Is that something you still want to continue to use? And sort of any alternatives that you might consider here in terms of short-term funding?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

It was very favorable. I mean, part of the reason why our interest costs are up this year as last year. The first quarter of last year was extremely favorable. Borrowing costs on the CP market were almost free. Today, that doesn't exist. Interest rates are much higher. So that was my comment, Mark, around. We would look to term out some of that short-term piece. The rates, if you go out 3 or 5 years, and we know what they're going to be for us over the next 5 years, there are opportunities in the marketplace to reduce your overall interest cost. So we'll stay flexible. I don't expect this to always be the case, Mark. It's a case today because we know all central banks are raising interest rates to slow the economy. That will come to an end at some point, I hope. And then we get to use the commercial paper market again to optimize interest cost.

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

I guess, I'm just thinking that sometimes there's a quarter or two while you use the commercial paper before you come to market to determine. I'm just wondering if there's any alternatives to just shave off some of that borrowing cost.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

So right now, the way it's working for us, Mark, is that if you borrowed longer term, you could invest in that short-term market itself and you either offset the borrowing costs or you end up with a slight gain. So that's the reason why we're out ahead this year thinking about pre-funding next year. So that's a -- does that answer your question, Mark? I'm trying to understand what you...

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

No, that does make sense.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Yeah. So that's exactly what we're doing. And that's why Dariusz asked the same question. And really we're going to take advantage of this backwardation in interest rates to pre-fund our growth for 2023 and 2024.

Operator

Our next question comes from the line of David Quezada with Raymond James.

David Quezada ***Raymond James Ltd., Research Division - Director & Equity Research Analyst***

Just one for me. I'm curious, what your thoughts were around the Canadian Federal budget? I know there was some commentary in there about connecting the electrical grid from coast to coast. Wondering if there's any role for you to play there maybe longer term?

David Lebeter ***Hydro One Limited - President & CEO***

David, David speaking. We are really pleased with the federal budget as well as the provincial budget, which came out shortly thereafter. They're both focused on economic development. They're both focused on driving the energy transition or electrification of the economy forward. The federal budget does have some tax credits for inter-provincial transmission. We believe and are optimistic there will be some amendments to that that allow there to be some tax credits for inter-provincial transmission. So we're certainly engaged in conversations on that. And then there were some tax credits associated with clean energy investments, which we would be a lot of the times we end up supporting those clean energy investments by connecting them to the grid and connecting them to load. So we view it as a very favorable budget that will be beneficial to Hydro One as well as the electricity sector in general.

Operator

(Operator Instructions) Our next question comes from the line of Maurice Choy with RBC Capital Markets.

Maurice Choy ***RBC Capital Markets, Research Division - MD & Analyst***

I wanted to focus on how we should interpret the needs about Phase 2 and Waasigan line. Given that this is somewhat like an expansion that you don't seem to need to bid for, can you share with us, #1, how many phases in total are there for this line? And a bigger question. Of all the other lines that you were previously awarded, are there any other expansion opportunities through additional lines which do not need competitive bidding that can be built under Hydro One's existing award or license?

David Lebeter ***Hydro One Limited - President & CEO***

Maurice, David speaking. Phase 2 was always in the plan for Waasigan. So that wasn't something that was new. What was new is the Independent Electric System Operator reviewing the demand growth projections for economic development in that part of the province and determining when that need had to come online. They awarded it to us logically because it is the extension of an existing line. So we always were optimistic that was going to happen. We just didn't know what the timing was going to be. So we were very pleased when they came out and asked us to complete that as soon as possible after Phase 1. As I said earlier, Phase 1 target completion date is the end of December 2025.

As for the other transmission lines, a lot of it is driven by new economic development in the province, whether that's renewable loads coming on board, whether that's battery storage or other forms of non-wire solutions or economic development such as we saw with the Volkswagen battery plant being located in the province.

So as those opportunities come forward, we are engaged, as I said earlier, to look at the transmission system to determine the most efficient and most cost effective and most reliable way to provide power to those developments. Some of those may or may not result in extensions of existing transmission lines. We just don't know at this point. But we're optimistic there will be more economic activity and new actors attracted to the province.

Maurice Choy ***RBC Capital Markets, Research Division - MD & Analyst***

Is it fair to say that when you get awarded a line, you're not just awarded a line, that's the cost of CAD250 million, it's actually expansion opportunities that go beyond the CAD250 million?

David Lebeter ***Hydro One Limited - President & CEO***

I'm not sure exactly what you mean by that, Maurice. But the way it works is, the province -- the Independent Electric System Operator identifies a need. They then make a recommendation to the province. The province decides if they will direct the award that to somebody. It could be us. It could be somebody else or whether they will do a competitive process, that's up to the province.

Whoever is successful in gaining the rights to build that transmission line does the development work, which is actually picks the route location, does the environmental assessment, determines the cost. And then you go to the Ontario Energy Board to get approval. That's called a Section 92. Once you get that approval, that's your commencement to start building the project. So it's through those that exercise the environmental assessment, the route selection, the forming of partnerships with indigenous and communities and also the negotiation with the individual landowners that are impacted by the route that you come up with the total cost of the project.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Maurice, it's Chris. I'll just clarify one thing because we did put some disclosure in the MD&A to make it clearer. Waasigan was awarded back in 2013 and then the IESO at that time then allocated that to Hydro One back in 2014. 2015 was a government directive. 2014 was the award or the piece from the IESO. In that award, Phase 1 and Phase 2 were always included. So that's what was a little unique about Waasigan

And David's comments earlier was we always knew it would be there and if it ever came, it was ours because that award took place back in 2014. The other lines are all more recent and they're more specific to point A to point B. And if there was an extension beyond point B, then it's likely to go through another process again. I hope that helps.

Maurice Choy ***RBC Capital Markets, Research Division - MD & Analyst***

And maybe just a final one for me on these cost estimates that you're running for all these lines. Can you speak to -- obviously, you've seen a lot of issues in terms of cost increases across infrastructure land. Are you somewhat seeing some of these costs stabilizing? And if not, what areas are still somewhat rising in terms of cost?

David Lebeter ***Hydro One Limited - President & CEO***

Hey, Maurice, obviously it's been a bit of a roller coaster with supply chain. First of all, it was availability of materials, then inflation kicked in and we've seen some escalations. We got out of the gate we believe ahead of most people. So we saw this coming. And what we did is we reached forward. We placed orders further in advance. We locked up manufacturing capacity further in advance, we normally would. We increased our inventory of materials, critical materials, knowing we had these projects coming forward. And where we could, we tied the cost of materials or equipment that we were buying to indices. That allows the manufacturers of the equipment that we're buying to actually go out and hedge their investment in raw materials. It allows them to secure those materials in advance.

And through those efforts, we've been able to manage our cost increase to a reasonable level. We have obviously experienced cost increase, but we believe we're doing the best job we can to manage that down. We've also done other things, such as standardizing our range of materials, which helps to drive out costs. We've qualified new suppliers again, which drives down costs. So quite a range of activities we're undertaking to manage the cost escalation pressures we're feeling on these projects.

Operator

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 of IR*

Thanks, Shannon. The management team at Hydro One thanks everyone for their time with us this morning during what is definitely a busy day. We appreciate your interest and your ownership. If you feel you have any further questions that weren't addressed on the call, please 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.