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H.TO - Q2 2019 Hydro One Ltd Earnings Call

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AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

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Mark Poweska *Hydro One Limited - President & CEO*

Omar Javed *Hydro One Limited - VP of IR*

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Hydro One Limited Second Quarter 2019 Analyst Teleconference. (Operator Instructions) As a reminder, this conference call is being recorded.

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

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

Good morning everyone, and thank you for joining us. I'm here in Toronto with our President and CEO, Mark Poweska, and our Chief Financial Officer, Chris Lopez.

We'll provide some brief comments on our second quarter results and then spend the majority of the call answering as many of your questions as time permits. There are also several slides that illustrate some of the points we'll go over in a moment that should be up on the webcast now or, if you're dialed in to 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 at this call.

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

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

Thank you, Omar, and thank you to everyone for joining us today and for dedicating your time to review our second quarter results. If you don't get a chance to ask a question near the end of this call, please keep in mind that Omar and his team remain available to you. After I review the highlights of the quarter, we will turn to Chris to review the financial results.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

role that we played creating a safe and reliable electricity system to support Ontario's growing communities and thriving economy.

In my first few days on the job, I committed to working together with our Board of Directors and management team to set a clear vision and strategy for a strong and successful Hydro One. During the initial stages of the strategy development process, I've focused on listening to and learning from our stakeholders. Visits with our shareholders across the electricity sector have provided valuable insights that are informing our path forward.

As we continue to refine our corporate strategy, our direction remains clear. We must continue to focus on operational excellence, at the heart of which is building a strong and enduring safety culture. We must deliver exceptional customer service while improving power reliability, and we must take cost out of the system. Working together, I know that we can enhance a powerful organization that continues to meet the needs of our customers and our shareholders. I look forward to presenting our strategy to you later this fall.

I knew I was joining an organization with passionate people, but having been in the role now for the quarter, I am deeply impressed with what a results driven and high-performing team we have. A strong and stable leadership team is critical to our success. While we had a period of planned executive transition last year, which extended into the second quarter of 2019, I am pleased that we continue to not only attract but also retain high-caliber talent.

We now have a dedicated management team in place to help us on the next phase of our journey. I'm delighted to share the three appointments to our executive leadership team that I've made over the last quarter that have enhanced the bench strength of our organization.

As you will recall, in early May I appointed Chris Lopez as our Chief Financial Officer. Chris has a proven track record for delivering financial success, with more than 20 years of experience in the utility industries.

Saylor Millitz-Lee was promoted internally and assumed the role of Executive Vice President and Chief Human Resources Officer in July. Saylor is an accomplished human resources professional with extensive experience within both Hydro One and in the private sector. As our chief human resources officer, Saylor will lead the development and implementation of effective strategies and programs designed to attract, motivate, and retain talent and deliver business results through our talented workforce.

I'm also pleased to announce that Paul Harricks has been appointed as Executive Vice President and Chief Legal Officer. Paul is a highly experienced corporate lawyer with widely recognized expertise in the energy and infrastructure industries in both Canada and internationally. He's led the energy sector industry group at Gowling since 2010, and also led the firm's infrastructure sector group.

Our positive momentum over the past year is due in part to our strong leadership at the Board level. On behalf of the executive team and the Board, I'd like to thank our past chair, Tom Woods, for his dedication and steady leadership through a period of significant transition. He's left the board well-positioned to continue its important work, and we thank him for ensuring a smooth transition at the Board level.

I'm also pleased to welcome Tim Hodgson as our new Chair. Tim, an existing member of our Board, is a highly qualified leader with deep business and policy experience. Tim's proven capabilities will enable him to provide leadership to the board as they continue to carry out oversight responsibilities of Hydro One. We look forward to working with him.

Earlier this week, we released our 2018 report on sustainability, in which we laid the foundation to building a strong, long-term sustainability program, and we are proud of the significant progress we are making. This report is available on our website.

During 2018, we strengthened our ability to manage our carbon footprint and adapt to changing climate conditions. The results of our efforts earned us recognition from Corporate Knights Magazine, which ranked Hydro One 16th in its annual list of the best 50 companies for setting a high standard for leadership in sustainability in Canada.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

customers and stakeholders to build a bright future for all.

Investments went well beyond towers and wires. New technologies and new partnerships were among the tools we used to modernize the grid, delivering services the public and industries need in order to build their communities and to grow the economy.

Ties were strengthened with indigenous communities across the province, and we increased our procurement spending with indigenous businesses to CAD 39.4 million. This was an increase of 62% over the previous year. We know that our long-term performance depends on us incorporating sustainability in all aspects of our business, and I look forward to the progress we will continue to make over the next year.

On the customer service front, I'm pleased to report that our trend of increasing customer satisfaction scores continues. The scores among residential and small business customers hit a 10 year high during the first six months of 2019 at 85%, a 9% increase over 2018 results. This improved level of satisfaction is the result of better understanding our customer needs, preferences, and better reliability due to our forestry program as well as investments in infrastructure and pure weather-related outages.

We continue to find new ways to improve the experience for all customers, implementing new digital solutions and using data and analytics to proactively communicate and assist them better. Over the last year and a half, we nearly doubled the customer base that used the paperless billing solution. While this has a marginal positive impact on cost savings, it is more environmentally friendly and provides greater convenience for our customers.

Our focus on reliability within our distribution system created a significant improvement of 18% over the same quarter last year as measured by duration of outages, also known as SAIDI. A key contribution to this improvement in reliability was the continued focus on our environmentally conscious vegetation management program. As a risk-based technique, we are able to focus on trimming hazardous trees that may cause power interruptions by coming into contact with power lines.

Not only is the new program more environmentally friendly, it's also better for the communities, more efficient within our operations, and improves the service we provide to our customers. Our focus on improving the experience for customers and communities was recognized by an award from the Canadian Public Relations Society. This national award of excellence was presented for our community relationship management in support of critical forestry in the Ottawa area throughout 2017 and 2018.

Our expertise in forestry was also recognized by the Edison Electric Institute with an Emergency Assistance Award for our response efforts following the devastating California wildfires in 2018. We deployed 40 forestry staff for one month to inspect electrical systems.

Finally, we continue to have a positive relationship with the government of Ontario, as we are aligned on key priorities of meeting and exceeding electricity needs of all Ontarians. I am pleased to report that our commitment to advocate on behalf of our customers led to the independent electricity system operator awarding us with a new 230 kV transmission line from the Chatham to Leamington.

Construction should be completed by 2025 and will bring 400 additional megawatts of power needed to meet the growing demands of the greenhouse industry in Southwest Ontario. This additional load should have the added benefit of lowering electricity rates for all Ontarians. We are proud that our strong and cost-effective execution capabilities have been recognized with the award of this new line.

With that, I'd like to pass it over to Chris.

Christopher Felix Lopez - Hydro One Limited - CFO

Thank you, Mark, and good morning everyone. I'd like to take this moment to welcome our new colleagues to the leadership team. We are all excited about the great opportunity that Hydro One offers, and look forward to your contributions to a truly unique organization.

AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

In the transmission segment, the average peak demand in Ontario declined by 8.6% when compared to the same quarter last year. In addition, there was a decline of 1.1% in electricity distributed to Hydro One customers on the distribution side. While the mild and calm weather affected revenues, it also allowed us to seize the opportunity to do more work in the quarter to improve the reliability and de-risk the electricity system for our customers.

Revenues were also affected by the accelerated depreciation measures or incentives introduced in the 2019 federal and provincial budgets and enacted during the quarter. The impact from these laws, however, is net income neutral as there is a corresponding offset to tax expense. Overall, revenues net of purchased power were lower year-over-year by 5.4%.

On operating expenditures, we took advantage of the milder weather and lack of storm activity to enhance the reliability of the electricity infrastructure by undertaking more or accelerating work in our vegetation management program. The team covered 7,649 kilometers in vegetation compared to 6,181 last year, which represents an increase of 24% year-over-year.

Although this is an increase in OM&A for the quarter, we believe the expenditure is prudent as it allows us to de-risk future quarters so we can remain on track to meet the vegetation management program targets set to transition from a 10 year to a 3 year cycle. Our vegetation management work has contributed to better reliability with our distribution business, with a decline in the System Average Interruption Duration Index, or SAIDI, of nearly 18% year-over-year.

With respect to the storm activity, last year we capitalized a significant portion of cost due to storm-related expenditure. This year, the milder weather resulted in less storm activity, which meant that restoration events that were not deemed storms were expensed instead of being capitalized. The result was an increase in emergency power restoration cost within operating expenses.

Although we have higher expenses in the quarter, we remain on track with regard to our annual program to take cost out of the system and, at a minimum, offset inflation.

During the quarter, we were pleased to issue CAD 1.5 billion of long-term debt at historically low rates. While the secured financing was favorable, interest cost did represent an increase from last year when we had carried an increased commercial paper balance. In addition, this year we did not have any unrealized gains from forward contracts that were present last year on account of the financing related to the Avista merger. The increased financing costs were partially offset by the savings as a result of the redemption of the convertible debentures in February 2019.

Similar to last quarter, we experienced a negative effective tax rate of 3.9% versus 13.4% in the second quarter of the prior year. The quarterly income tax decreased by CAD 38 million, which resulted in a tax recovery of CAD 6 million. The decrease in income tax expense was primarily attributable to the accelerated tax depreciation enacted during the quarter, incremental tax deductions from deferred tax asset sharing as mandated by the OEB, and lower income tax -- income before taxes in the quarter.

As mentioned earlier, the lower taxes pertaining to the accelerated tax depreciation and deferred tax asset sharing are offset by lower revenues, making them net income neutral with no impact to our regulated return on equity. At this stage, we are not changing our previous guidance of 2% for the effective tax rate in 2019.

Over the next five years, we also continue to expect the effective tax rate will be in the range of 8% to 11%. While the decrease in effective tax rate will be net income neutral, it may have an impact on the timing of future cash flows.

Moving over to investing activities, the company placed CAD 276 million of assets in service in the second quarter, which is lower compared to last year by approximately CAD 200 million. Last year, a substantial portion of the in-service additions was due to the completion of the Clarington transmission station, which accounted for CAD 197 million of the in-service amount.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

amount of capital approved by the OEB, which will in turn improve reliability for all customers.

On the regulatory front, our application for transmission rates for the 2020 to 2022 years under the incentive ratemaking framework was filed on March 21. We just finished responding to over 650 interrogatories containing more than 1,500 questions from OEB staff and interveners, which is normal course. We anticipate a hearing in the fall of this year and expect a decision in early 2020.

With respect to the deferred tax asset, we have filed an appeal with the Ontario Divisional Court and the hearing is expected to take place on November 21.

Finally, we continue to work through both the Orillia Power Distribution and Peterborough Distribution merger applications. Technical conferences will be held in October, and we hope for a quick resolution thereafter.

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

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

Thank you, Mark and Chris. We will ask the operator to explain how she'd like to organize the Q&A polling process. Please go ahead, Crystal.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And our first question comes from Linda Ezergailis from TD Securities.

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

I'm wondering if you could help us maybe understand prospectively either the seasonality of some of your OM&A activity and costs, or what an appropriate run rate might be for either the second half of this year or some sort of annual run rate going forward.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thanks, Linda. It's Chris. Yes, I think the seasonality, really when -- last year, if I looked at last year, for example, we had fairly volatile weather. And that does impact our ability to complete our normal course work. This year, we've had the opposite of that.

The weather was closer to normal but without the volatility, which allowed us to do a lot more of the planned work, and we had an increased capacity to do that. When the crew is not working on unplanned work, then we can ramp up the planned side. And that's what we've done. So that's why you've seen an advancement of costs in the first half of this year.

Overall I think, to my earlier comments, at a minimum we will offset the impact of inflation. So if you looked at the total OM&A for the year, it should be flat, with the exception of you have a few one -- or changing structure for Hydro One, so the one that's obvious is our change in executive compensation. That will result in a reduction to last year's run rate. So you will see that towards the end of the year. So your back half should more than offset any increase that you're seeing in costs in the first half of this year.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

And then the split between Q3 and Q4?

Christopher Felix Lopez - *Hydro One Limited - CFO*

I don't have that detail in front of me, Linda.

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

Maybe I could take that offline. Thank you.

This is a question maybe more for Mark. You've been in this seat, I realize, just for a few months now. But you are going through a re-filing for the acquisition of Orillia. You're waiting for a decision on Peterborough. What are your thoughts on whether Hydro One might continue to make acquisitions of smaller tier utilities? And if you do, what sort of approach might you take that's a bit different prospectively, if at all?

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

Yes. So you're right. We are going through the regulatory process for the purchase of Orillia and Peterborough. And as I look at our strategy and we develop a strategy, I think that there is synergies to be made and opportunities for further consolidation of LDCs. And we will look at those as we look at our strategy.

As you know, the ones that we have been doing have been taking some time to get through the process, and part of that is around the multiples we're paying for those as well as showing that we're holding the ratepayers harmless. And so based on our learnings from Orillia and Peterborough, we will be clear up front if we do do a future acquisition on what that looks like.

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

And maybe you can just -- someone can help me understand what the timeline might be in terms of your appeal for the deferred tax asset decision. It's going to be heard in November. But can we think of kind of a normal timeline for how that will unfold after November to ultimately get to a decision?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. Hi, Linda, it's Chris. I would expect a decision in the first part of 2020.

Operator

Our next question comes from Robert Kwan from RBC Capital Markets.

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

I'm just wondering, Mark, if you can talk about the engagement you've had or how much time you've been spending in engagement with the government on the just trying to help them deliver bill reductions, whether that's work at Hydro specifically. But one of the other things you talked about was just streamlining the entire electricity system by having companies and the agencies work together to avoid duplication, really just drawing on your prior experience working in an integrated utility.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

Yes. We support the goal of reducing costs in the system, obviously. And we are working and have been working with our peers, with the regulators, and with the government on looking where there are opportunities on that.

I want to remind people that we are 14% of the total system cost in the province of Ontario. And when you break that down a little bit further, that's actually, of the 25% of the customers that we directly serve through our distribution and transmission system, we represent 38%. And we're only 7% of the bill on the remaining 75% of the customers in this province. So I just wanted to make sure we put that in perspective.

The government has outlined certain items that they've already publicly announced, which I believe contribute towards their reduction that they're looking for. Examples of those are moving the conservation program to the ISO, canceling some of the power purchase contracts for contracts where construction hadn't begun. So I think that, if you look at what has been announced, they're part way down the road.

We are working with the others in the sector to look at where there are opportunities across the whole sector. And we're doing that through us re-engaging with some of the associations, which we haven't been part of for the last while, such as the OEA or the EDA and the Ontario Energy Network. So we are working with our partners on that to look for where those opportunities are. And I look forward to doing that going forward.

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

Maybe just turning to the acquisitions and thinking more broadly, I guess just thinking about the risk of the OEB looking through to the holding company, what's your thoughts on acquisitions outside of Ontario as well as non-regulated assets? Just trying to see really how do you get to use your balance sheet capability on the acquisition front.

Mark Poweska - Hydro One Limited - President & CEO

Yes. So we're still in the process of developing a strategy. The one thing that's pretty clear to me is that it'll have a heavy focus on operational excellence and on Ontario. I can say that I don't foresee us doing M&A in the U.S. in the near term, and we will be heavily focused on Ontario.

I like the way we're allocating our capital to the regulated business in this company. And I believe that there is good growth in that business, primarily through organic growth and investment in the assets. And what I've seen so far, looking at our asset management assessments of the health of our assets, which a lot of them were built in the 1950s, is that the system requires a large amount of investment. And that's the case we're making in front of the regulator.

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

So it sounds like you want to largely stay in Ontario, largely stay regulated. Is it fair -- or what's your willingness to use material double leverage given the risk of a look-through?

Christopher Felix Lopez - Hydro One Limited - CFO

Hi, Robert, it's Chris. Again, we'll look at that in the strategy, but I do not see our approach, double leverage or anything like that, being a material part of the strategy. It will be primarily the regulated business here in Ontario, ways to expand that footprint into other areas that are complementary. So we'll definitely look at that. We'll look at if there is any debt capacity at the hold co level, anything we can use that for. Potentially there's some opportunities there, but nothing substantial that I can see, Robert.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

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

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

And maybe just following up on some of the last comments about other types, your primary focus is Ontario. But what's your sort of interest or thought process right now about looking at other transmission projects outside of Ontario, taking some of your expertise and looking at that, whether or not you'd want to think about that on a standalone basis or, if you did engage on something like that, if it'd be through partnerships?

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

Yes. As I said we're developing a strategy right now and we're looking at where are all our opportunities for growth. You're right in that we have a lot of expertise around execution of transmission and distribution type projects. And as we look at our strategy overall and where there are opportunities, that's something that we'll need to consider.

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

Are you ready to sort of engage on anything now, or do you still want to refine your strategy before you sort of get people moving towards those types of initiatives?

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

Yes, we'll be assessing if there are those types of opportunities now. And as we refine our strategy, we'll decide on whether we'll pursue anything like that.

We are pursuing the ones which we know about in the province. So I talked about the Leamington line earlier, and so we will be constructing that line. And we're working on the planning of some other lines in the north to open up the Ring of Fire.

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

Then maybe this question's for Chris. But just on the accelerated depreciation, any increased or any additional commentary or discussions with the rating agencies, or views around -- for the treatment from the OEB on the cash flow impact and how you guys see managing that going forward?

Christopher Felix Lopez - *Hydro One Limited - CFO*

We haven't had those discussions yet. It's premature. I think they will be discussed in the upcoming transmission application. So I think the clarity on that will come early in 2020. And that would certainly be the case for TX. On the DX side, it's likely that that clarity does not come until the next resetting in 2023.

Operator

Our next question comes from Rob Hope from Scotiabank.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

With September almost upon us and bond yields continuing to grind lower, just want to get your sense on the formulaic Ontario ROE and how that could be set, and whether or not that truly reflects the cost of capital.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Hi, Chris here. So we do calculate that number. It does fluctuate a lot, daily at the moment, given the headlines out of the U.S. and China, mainly driven by trade. It's probably too soon to speculate. Earlier this year it was -- late last year it was up at the 9%. Earlier this year, it dropped. It's probably at its lowest point right now absolutely, but too soon to call that.

As you know, the number will be set at the end of September this year. So at the next quarterly call, we'll certainly have a view on what that is, reminding everybody that that does affect the TX application. It does not affect DX, which has already been set and is locked away until 2023.

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

And then maybe just as a follow up, though, because you did mention that it is volatile right now and not necessarily accurately reflecting the cost of equity, would you have an appetite to potentially look to go at an altered ROE at some point?

Christopher Felix Lopez - *Hydro One Limited - CFO*

No, we're not entertaining that at this point.

Operator

Our next question comes from Ben Pham from BMO.

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

I guess the benefit of a lower interest rate, potential ROE, is really your cost of debt. And what are your thoughts around your financing needs on the debt balance of this into next? Are you looking at maybe some pre-funding activity?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. So we did the CAD 1.5 billion early this year, so our financing requirements for this year are done. We could take a little more in the back half if we wanted to. That's optionality. More than likely, it will be next year.

But you're quite right. So the offset in this is if you're in a declining rate environment, your cost of debt, as you renew, that benefit stays with the equity holder. In a rising rate environment, you get the benefit of a higher ROE, but you also have the risk of interest rates increasing, and the equity holder weighs that.

So when you look over the rate period -- and we're not talking 100 basis points or anything in that range. We're talking in the 10s of basis points, not in the 100s. So, yes, we can absolutely offset it through lower cost of financing over the rate period.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

And I wanted to follow up some of the other questions and answers on the strategy. And, I mean, it could just simply be Hydro One reiterating what the previous strategy that's been talked about. But can you update us maybe on the timing of these disclosures? And is your plan to have -- it is a formal document that you're planning to review, or is this going to be more of a quarterly call where you're going through some of the salient points of the new or current strategy?

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

So we're in the development stages, obviously, of the strategy still. And part of that needs to be how do we want to convey this to the market and to shareholders and to stakeholders. And we haven't made that determination yet.

I do foresee giving good information to shareholders and to stakeholders on what that strategy is going to look like and why we're pursuing it. But we haven't turned our head to exactly what that'll look like yet.

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

And do you foresee something before the end of this year, Mark, or this may be more as you think about the 2020 as a full year basis?

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

Yes. No, I foresee sharing our strategy more broadly by this fall.

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

This deferred tax asset and this appeal, I mean, is this really -- it's really more of a cash flow implication than an EPS impact, right, because it's because of the variance accounts?

Christopher Felix Lopez - *Hydro One Limited - CFO*

So I just want to be clear. Are you talking about the deferred tax asset?

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

Yes, the one that you've been denied a portion of that and you're appealing it.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Okay, yes. So what it will be is, if we are successful, there'll be a one-time gain of CAD 885 million, and then it becomes a cash flow benefit going forward. But there will be a one-time EPS benefit, like there was a one-time EPS write-off in Q4 of last year.

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

But there's not like a recurring operating EPS impact?



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

No, but there is a recurring FFO benefit of CAD 50 million to CAD 60 million per year.

Operator

[Operator instruction] And our next question comes from Andrew Kuske from Credit Suisse.

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

Chris, I think you mentioned there was a 24% increase in I guess it was the area that was covered by the vegetation management program. Could you just give a bit of color on what effectively you brought forward into the quarter from a cost basis? And then the follow up question to that is effectively, as you start to see outages decline and reliability increase because of the vegetation management, does that start to shift your capital program to a more proactive one versus being reactive to instances that get caused by outages?

Christopher Felix Lopez - *Hydro One Limited - CFO*

I think your answer to the second question is yes. As reliability improves and there are less impacts from trees, our ability to switch to more of a planned approach versus a reactive approach improves. So that's absolutely true.

In terms of the quantum of what has been brought into the quarter, I think if you adjust for Avista costs, year to date we're about \$20 million higher than the previous year. And that roughly equates to the increase in our vegetation management costs in the first -- mostly in Q2, but in the first half of this year.

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

So if I may, just to follow up on that theme, how do you think about the more productive proactive capital? When does that start to get put into place? And what benefits do you anticipate coming from that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes, I think that'll be over time. It won't be in a particular quarter. So I think you'll see that come out.

And what we've said before is that we don't pick up a lot of cost savings overall in the first cycle, which is the first 3 years of the program, but we will start to see the benefits. And as they occur, it will switch. I think you'll see it materializing over the next 3 years, but the big switch to that more proactive approach and reassigning those savings to other areas will happen at the end of the first cycle.

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

Then maybe a slightly different but similar theme, just on the advanced metering infrastructure wireless project, what benefits are you really seeing from that at this point in time?

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

So the advanced metering infrastructure, I guess overall I think there's things that -- 3 things that really impact our reliability improvement.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

sensors on the system so that we can isolate where there are outages and get better foresight on where there's outages. So I would say it's having an impact. Those three things are really what's impacting our improvement in reliability.

Operator

And our last question comes from Patrick Kenny from National Bank Financial.

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

Thanks for the update on the customer satisfaction levels as well as the new sustainability report; still looks to be quite a bit of room, though, for improvement on the employee satisfaction front. And I didn't see any voluntary turnover data or internal targets in that report, so maybe you could just provide an update on where things are at today, what sort of targets you're looking to achieve over the coming years with respect to employee satisfaction.

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

Yes, I'm not sure I can answer the details -- this is Mark here -- the details about the targets and where we're at right now. I don't have those numbers in front of me.

But one of the things that I'm focused on is ensuring that we have an engaged workforce. And I believe to do that, you need to ensure that you're listening to people and that you're reaching out to people for the solutions. And a big area that I believe that we're going to focus on around that is in the safety front and engaging our employees in improving our safety results as a company.

And so I don't have those numbers in front of you. Omar can get those after, what our current attrition rates are and things like that. But I know, relative to most industries, we're below average as far as attrition goes. I think we're probably in alignment with other utilities. But I can't confirm that, so Omar will have to do that.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes, as a general follow up there, what I will say is that I'm not sure, Patrick, if you're drawing the link between events of the last 12 months. They really have had no impact on staff turnover at Hydro One. And in fact, we're won an employment -- or employer award in that time. So it's not reflective of any concern around staff or turnover. So I would expect the attrition rates to play that out for you that Omar will provide, but I think that's very clear.

Operator

And that does conclude our question and answer session for today's call. 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, Crystal. 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, your ownership. And if you have any further questions that weren't addressed on the call, please feel free to reach out and we'll get them answered for you. Thank you again and enjoy the rest of your day.



AUGUST 09, 2019 / 12:00PM, H.TO - Q2 2019 Hydro One Ltd Earnings Call

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.

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