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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Hydro One Limited's Fourth Quarter 2021 Analyst Teleconference. (Operator Instructions) As a reminder, this call is being recorded.

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

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

Good morning, everyone, and thank you for joining us in Hydro One's Fourth Quarter Earnings Call. Joining us today are our President and CEO, Mark Poweska; and our Chief Financial Officer, Chris Lopez. In the call today, we will go over our fourth quarter results, and then spend the most of the call answering as many of your questions as time permits. There are also several slides that illustrate some of the points we'll address in a moment. 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 Events and Presentations section in the Investor Relations section.

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

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

Thank you, Omar. Good morning, and thank you for joining us for our fourth quarter earnings call. This morning, I'll talk briefly about our fourth quarter and annual achievements, then we'll turn it over to Chris to discuss the financial results in greater detail. 2021 was a year in which we accomplished a great amount. We ended the year with a full year EPS of $1.61 compared to $1.51 in 2020. Apart from the strong financial results, it was a year in which we demonstrated our unwavering commitment to our customers and to the communities we serve. It was a year in which we made a public pledge to focus on sustainability, and outline specific and measurable targets to help people, the planet and communities.

2021 was the year where we filed our 5-year investment plan that will help reduce the impact of power outages, enable the renewal of critical infrastructure, prepare for the impacts of climate change while ensuring our investments advance building a grid for the future.

I'm very proud of our team for accomplishing all this and much more, while facing the continued challenges presented by the COVID-19 pandemic. I am thankful to our crews who worked to restore power to over 765,000 customers after wind storms resulted in power outages in mid-December. The wind storms faced were some of the most significant since 2018. This dedication to customers, along with investments to improve the grid, have enabled us to have record annual reliability in 2021 as we improve the system average interruption duration index, otherwise known as SAIDI, of our distribution network by approximately 11% year-over-year. This was the best distribution reliability results achieved in 15 years.

We also improved the SAIDI for our transmission network by 9% year-over-year, also a significant accomplishment. These wind storms are a reminder of harsh climate in which our crews operate and where our assets are located. They are also a reminder of why we need to continue to invest in our assets to harden our grid and prepare it for climate change.

We are very excited about our 5-year investment plan that we filed with the Ontario Energy Board, the OEB, in the joint rate application for both our transmission and distribution businesses. As mentioned in the last call, we received thousands of questions through the interrogatory process. This was followed by a technical conference in mid-December, where interveners and OEB staff asked clarifying questions on our responses to interrogatories.

We are now in the process of updating our evidence to reflect market conditions, and then will likely proceed to a settlement conference in which we will try to settle as many matters as possible prior to entering the oral hearing on the case. Our expectation of receiving a decision in the second half of this year remains unchanged.

I'm also pleased that we have been meeting our capital investment commitments made in previous rate applications. This year, we deployed $2.125 billion of capital and in-serviced $1.757 billion of assets, which is within 1% of our stated goals for both the transmission and distribution businesses. I'm pleased to say that we have done this while being extremely mindful of costs. Every dollar we invest comes at a cost to our customers and the people of Ontario, which is why we are committed to controlling our costs and improving productivity.

In 2021, we achieved productivity savings of $343.9 million, which represents a 20.2% increase year-over-year. Total productivity savings since 2015 now amount to over $1 billion.

As we look to the future, we see a need to continue to improve customer experiences while controlling costs. To that end, we're exploring innovative solutions to complex problems. We are pleased with piloting several novel initiatives that will help with resilience and reliability in a cost-effective manner.

Following the behind-the-meter energy storage system pilot we talked about in the last call, we launched a pilot project with peak power to study the benefits of using electric vehicle charging technology to improve resiliency and reliability for our customers. 2-way vehicle-to-home charging technology will be installed at the homes of program participants to test the ability of EVs to act as batteries and provide backup electricity through simulated power outages.

In terms of EV charging, we have made significant progress. Ivy Charging recently signed an agreement with ONroute and its partners, Canadian Tire Corporation and the Ministry of Transportation, to install fast charges at ONroute locations along the 400-series highways in Ontario. We are also partnering with the federal government to develop a pilot project for heavy-duty electric truck charging stations, establishing a model that can be used by other utilities and businesses.

These are just some of the ways we are being innovative and supporting the shift to electrification and a low-carbon economy for customers in Ontario. As one of the largest electric utilities in North America, we are uniquely positioned to support sustainability and electrification of the province. Our vision for a better and brighter future for all guides us in these endeavors and our leadership was emphasized with the public release of our sustainability priorities and goals in 2021.

I'm happy to report that shortly after the fourth quarter, we put these commitments into action by amending our credit facilities to include a pricing adjustment, which can increase or decrease our cost of funding based on our performance on certain sustainability performance measures that span people, planet and communities. We are especially proud to be the first organization in Canada to incorporate a sustainability performance measure that is based on increasing indigenous procurement spend.

As part of our commitment to being a trusted partner to indigenous communities, this year, we increased total procurement with indigenous businesses to $58.3 million, our highest spend to date. We are well on our journey to achieve our procurement target for indigenous businesses of 5% of our purchase of materials and services by 2026.

We have a deep responsibility to help build a better and brighter future for the communities we serve. Over the year, we proudly supported local organizations that work to keep our community safe and healthy. We proudly launched Hydro One's Energizing Life Community Fund, which funds projects that promote the physical, psychological and emotional safety of Ontarians. By supporting organizations who energize life for so many, we can build safer and more resilient communities.

Our support of Feed Ontario, to provide the equivalent of 450,000 meals to help Ontarians who are facing hunger was another example of this commitment. This sense of responsibility goes beyond the corporation and has become a part of our individual identities. Hydro One employees themselves raised over $790,000 to support local organizations last year. I'm extremely proud to work alongside such engaged colleagues, and this effort is reflective of our commitment to create a diverse, inclusive and engaged workforce. It is no wonder that we were once again recognized by Forbes in its list of Canada's Best Employers for the seventh consecutive year.

Having a caring and engaged workforce is the key to having satisfied customers. I'm very pleased that our residential and small business customer satisfaction increased to 89% from 87%, and our large customer satisfaction increased to 92% from 83%. These numbers highlight our success in advocating on behalf of our customers and working for their benefit. Our Connected for Life initiative is an example of our focus on what matters. Through various programs since the start of the pandemic, we have helped customers access financial relief programs, resulting in approximately 16,800 program sign-ups, allowing those customers to concentrate on staying safe and navigating these challenging times.

We also invested in technology to meet our customers' expectations for a more personalized service and more access to real-time data to help them make smart choices. Customers are our priority, and I'm again very pleased to report that this year, we shared approximately $24.5 million with our distribution customers on account of the earnings sharing mechanism. This is, again, an example of a constructive regulatory model in which we can and have achieved value for our customers.

Our many successes this year, however, are overshadowed by the tragic death of our teammate to an accident involving a third-party vehicle. Nothing is more important than ensuring our employees come home safe at the end of the day. Though we have reduced the recordable injury rate by 90% since 2004, and achieved a best-in-class rate of 0.74 in 2021, we must continue to do more.

To build a stronger safety culture and eliminate serious injuries at Hydro One, we will continue to implement recommendations made by the employee-led safety improvement team with the goal to eliminate life-altering injuries.

Finally, I'm very pleased to announce that Hydro One was recently added to the S&P TSX 60 Index. We are pleased with this recognition and the addition to an index that represents the large-cap market segment of the Canadian equity market.

And with that, I'll turn it over to Chris to discuss our financial results this quarter. Over to you, Chris.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thank you, Mark. Good morning, everyone, and thank you for joining us today. In addition to our results, this morning, we released our annual report that talks about many of the accomplishments the company achieved in 2021. It is on the website now, and I encourage everyone to review the report.

In terms of our financial results for the quarter, earnings per share was unchanged at $0.27 compared to last year. For the full year, EPS and adjusted EPS was $1.61 compared to EPS of $2.96 and adjusted EPS of $1.51 last year. The significant year-over-year decline in EPS on a full year basis was mainly due to the receipt of the Ontario Divisional Court ruling on the deferred tax assets, or DTA, in 2020, which led to a tax recovery in that year. Adjusting the prior year to this onetime event, we see an increase in adjusted EPS year-over-year.

The main drivers of the higher adjusted earnings this year were consistent with our experience throughout the year. They were higher earnings on account of approved rates, which considers our annual investment in the grid, strong demand experienced in the first half of the year, the benefit from the redemption of preferred shares in the prior year and lower COVID-19-related costs. These drivers were partially offset by higher OM&A on account of increased investment in vegetation management and IT initiatives, higher demand for emergency restoration services and the onetime impacts of higher project write-offs in 2021 and insurance proceeds received in 2020.

While our costs were higher this year, I did want to echo Mark's comments that we continue to be highly productive. As a result of our efforts, we were pleased to give back approximately $24.5 million to our customers via the earnings sharing mechanism as our distribution business performed well this year.

On the productivity front, we achieved $343.9 million in productivity savings in 2021, which brings our cumulative productivity gains since the initial public offering to over $1 billion. We saw meaningful increases in productivity in areas such as operations, fleet optimization, procurements, corporate costs, IT contract reductions and real estate. Overall, productivity was weighted slightly more to capital than OM&A. Through these achievements, we were delivering on our multiyear commitment to keep costs as low as possible.

Turning to the fourth quarter. Earnings per share was unchanged year-over-year, while there was a marginal decrease in net income. Our fourth quarter revenue, net of purchased power was higher year-over-year by 5.4%. This was comprised of approved rates for 2021 and the recovery of DTA amounts following the DTA implementation decision by the OEB in early April 2021. As a reminder, the DTA recovery is cash flow positive but net income neutral due to a corresponding offsetting taxes.

For the transmission segment, revenues were higher by 5.8%, reflecting revenues resulting from the DTA recovery amounts we just discussed and approved rates. Year-over-year peak demand for the quarter was relatively flat, driven by weaker demand in October and December, while November was higher year-over-year. The year-over-year revenue increase was partially offset by regulatory adjustments, including those related to external revenues.

For the distribution segment, revenues net of purchase power was higher by 5.4%. In addition to approved rates and the recovery of DTA amount, electricity distributed to Hydro One customers was also higher by 2.5%. These revenues were partially offset by regulatory adjustments including the annual earnings sharing outlined earlier, which gets recorded in the fourth quarter results.

On the cost front, operating, maintenance and administration expenses were higher year-over-year by approximately 2.2%. The OM&A was higher in the transmission segment due to higher project write-offs, lower insurance proceeds received in '21, higher corporate support costs, and high volume of work on vegetation management. This was partially offset by a decline in OM&A in the distribution segment due to lower bad debt expenses primarily related to COVID-19 costs last year, and lower costs within acquired LDCs, Peterborough and Orillia.

As a reminder, in the fourth quarter of 2020, we reversed the regulatory asset associated with the incremental bad debt provision recognized in the first quarter of 2020. This led to a bad debt expense in the fourth quarter of 2020 that is not present this year. Excluding the bad debt expense from last year, COVID-19-related costs were flat for the fourth quarter year-over-year. Depreciation expense was higher year-over-year by 3.3% due to the increase in capital assets, which is consistent with our stated capital investment program.

On financing, we saw an increase of 3.4% in interest expense in the quarter due to higher debt levels. As Mark mentioned, in January 2022, as part of our commitment to sustainability, we announced amendments to our credit facilities for Hydro One Inc. and Hydro One Limited to include a pricing adjustment which can increase or decrease the cost of funding based on our performance on 3 sustainability performance measures. They are, for community, to increase indigenous procurement spend to 5% of Hydro One's purchases of materials and services by 2026; for planet, to convert all light duty gasoline-powered vehicles, sedans and SUVs to electric vehicles and hybrids by 2030; and for people, to achieve at least 30% female executives and Board members. By linking these measures to our credit facility, we are demonstrating our commitment to our environmental, social and corporate governance goals.

We continue to be pleased with the stability of our balance sheet and robust investment-grade credit ratings. We borrowed last year to fund the $600 million debt maturity in January 2022. As we look forward, we will continue to access the debt markets opportunistically. Income tax expense was $55 million for the quarter compared to $27 million in the same quarter last year. The increase in income tax expense was due to the recovery of DTA amount on account of the DTA implementation decision, which, as discussed before, is net income neutral. In addition to the DTA recovery amount, we also had higher taxes on account of higher pretax earnings.

The effective tax rate for this quarter was 25.5% versus the effective tax rate last year of 14.2%. On a full year basis, income tax expense for 2021 was $178 million compared to a tax recovery of $785 million in 2020. The increase in income tax was primarily due to the $867 million income tax recovery recognized in 2020 following the DTA decision. When adjusted for this, income tax for the full year 2020 was $82 million. The effective tax rate for 2021 was 15.5% versus negative 77.6% or when adjusted for the income tax recovery 8.1% in 2020. This is consistent with annual guidance we provided earlier this year of 14% to 22% over the next 5 years. As a reminder, the most significant impact will be over the 2021 to 2023 DTA recovery period.

Moving to investing activities. Capital investments for the fourth quarter were $532 million, which is a 7.8% decrease from the fourth quarter in 2020. The decrease came primarily from the transmission segment, which had amongst other items, a lower volume of station refurbishment and replacement, lower investment in the Ontario grid control center as it was substantially completed in the third quarter of this year and lower spend on facility sustainment. This was partially offset by an increase in capital investment in the distribution segment. The increase in the distribution segment resulted from higher investment in system capability reinforcement projects, higher volume of work on customer connections and higher volume of storm-related asset replacements, which was partially offset by lower investment in the Ontario grid control center mentioned earlier, IT projects and minor fixed asset purchases.

For the full year 2021, capital investments were up 13.2% compared to the full year of 2020. You'll also note that the future capital investment profile for both segments have been adjusted since our last call. The primary reason was to reflect the acceleration of work from 2022 into 2021 and other timing difference of projects not related to the joint rate application. These modest differences in our project planning do not impact our projected rate base growth. As a reminder, the capital investment numbers for future years remains subject to OEB approval. Despite the lumpy nature of placing assets into service, we are very pleased to have come within 1% of our stated annual objectives for both transmission and distribution segments.

In the fourth quarter, we placed $786 million of assets into service which is a 10.5% decrease compared to the prior year. The year-over-year decrease related primarily to a lower volume of IT projects and the completion of the Woodstock Operations Center in the fourth quarter of 2020 in the distribution segment. In addition, there was a lower volume of assets placed into service for overhead lines and component replacements and IT projects as well as timing of assets placed in service in the transmission segment. These declines were partially offset by a higher volume of assets being put into service to maintain the North American Electric Reliability Corporation, or NERC, standards in the transmission segment, and the higher volume of work on storm-related asset replacement in the distribution segment.

On a full year basis, assets placed into service were higher by 7.2%.

On guidance, we continue to be committed to and affirm our target of 4% to 7% earnings per share growth through 2022. As a reminder, we expect to provide updated guidance post 2022 following the approval of the joint rate application.

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

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

Thank you, Mark and Chris. We ask the operator to explain how she'd like to organize the Q&A polling process. In case we aren't able to address your questions today, my team and I are always available to respond to follow-up questions. (Operator Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Maurice Choy with RBC Capital.

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

My question relates to the political climate as we head closer to June. What feedback have you received from the various political parties on the views of the electricity bill?

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

Yes. Maurice, it's Mark here. So as we all know, electricity is an important part of life and the economy that's -- as we get into elections, it's often something that's discussed, which is -- makes a lot of sense. Really, the policy platforms of the individual parties is really that, it's policy platforms of the government. So I think our role at Hydro One is to continue to do the things we're doing, which is to support our customers to make prudent investments in the system and to continue to drive out cost of the system, and that gets to your question around build and the cost of electricity.

Since 2015, we've driven out almost $1 billion of cumulative productivity savings. In 2021 alone, we achieved $343 million of productivity savings in the sector or in our business alone. And so we'll continue to focus on that. And we'll let the policymakers focus on discussing new policies around overall electricity prices.

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

Maybe just a follow-up on that. You would have probably seen the FAO report that was published last week and in particular, the comments from the Ontario Ministry of Energy relating to the promise to reduce bills by 12%. As you look at that and as you look at your productivity savings, what type of messaging do you foresee yourself framing to not just your rate peers, but also to the leaders about your achievements in contributing to this reduction?

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

Yes. It really goes back to when we launched our strategy, which is an Ontario-focused strategy, a focus on our customers here and running a safe, efficient, reliable business, driving our cost of it. And so we have been sharing that with our customers, with governments, with regional chambers of commerce for the last few years, and we've gotten good support for our strategy and our focus, and we're seeing the results of that. We've reached a record high customer satisfaction, maybe 9% in the distribution customer segment this year. We've improved reliability in both transmission and distribution.

And as I said, we've driven out the cost in the system of -- in the neighborhood of almost $1 billion since 2015. So we've been getting good feedback over the last couple of years from stakeholders, including governments, on the work we've been doing at Hydro One. So that really has been our messaging, and we're going to continue to focus on doing those things and continue to provide great service and drive out cost of the system.

Operator

Our next question from Andrew Kuske with Credit Suisse.

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

I think in the press release, you had this firm response in the third bullet point, thereabouts. If you could just maybe give us a bit of a perspective on the quantifiable improvements you've seen in the last few years as far as the ability to dispatch proactive maintenance activities, the customer satisfaction, really just to give us a snapshot on how things have improved.

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

Sure. Sure. Great question. So we have been working on many fronts of improving our response and our reliability to our customers. And so there's a few areas where -- several areas we do that, either through investments in our system and in improving our system and hardening the grid, and that includes things like innovation on the distribution side to allow us to sectionalize the system to minimize the impacts of storms and outages. It includes our forestry program where we changed the approach so that we're going back and clearing the trouble trees every 3 years rather than every 10 years as well as procedural and storm response.

We've made several changes over the last couple of years, including predictive technologies to understand not only where storms are going to hit, but what the predictive damage will be in those areas, and predeploying crews to those areas so that we can respond in a timely manner. So there's been a lot of improvements over the last few years on all those fronts. And it is, as I said, resulting in improvements both to reliability, which then translates into customer satisfaction.

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 I know you highlighted the productivity savings on an annual basis, and it's nearly $350 million for a pretty significant increase. If you didn't have COVID-related impacts, which really affect costs, and then also productivity of workforce. How much more do you think that number would have been? I mean maybe that's a better question for Chris.

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

Yes. Yes. It is a good question. I think it's hard to dissect it, the COVID implications in that. COVID has had an impact broadly, obviously, on the economy and on the way we operated and delivered our business, but we were able to deliver all of our work programs. And as we said in our opening comments to within 1% of our in-service addition goals for the year. And at the same time, continue to drive up productivity improvements. So Chris, do you have any kind of comments you want to add on to that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. Andrew, the only -- I mean the most measurable item is what we're spending directly on COVID-19. And in 2020, we spent $36 million. So this excludes bad debt, and issue was $15 million. So there was a reduction of $20 million there. So clearly, that would not be there, and then we wouldn't have the $15 million either. So there was an improvement year-over-year, and it'll be another $15 million on top of that. So that would be a direct measure.

And then as Mark said, in terms of how much more productive could you be, that's a difficult question to answer. We've certainly benefited. We've new ways of working when you're working in a combination of on-site and remotely. So there are some advantages to that, but it's a tough question to answer. Like I said, if we didn't have COVID this year, our results would be about $20 million better than it otherwise is today.

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

I appreciate that. And if I could sneak just one more in. And that productivity savings of 20% improvement year-on-year. How do you benchmark that versus the other munis in the province?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes, which is the benchmark -- sorry, Mark. Go ahead.

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

Go ahead. Chris. No, you go ahead.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. So this is quite well laid out, Andrew, in our evidence to the OEB, and really we benchmark across North America, not just munis here in Ontario because there's not a lot of data available there to benchmark programs. And if you look at that evidence, it shows Hydro One as being a top quartile pro forma in productivity. So I would assume that to be the same outcome if you did it specifically for Ontario. But we're very pleased with it. We set those targets at the beginning of the IPO, and we've achieved them every year. I know there are questions every year, can you keep doing it? How does that work? And the company has done new and innovative ways to achieve that every year, and I don't see that stopping.

Operator

Our next question comes from Rob Hope with Scotiabank.

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

Just a first question regarding the munis there. With kind of COVID continuing to drag on, it's having stress on municipalities financing. Any acceleration in talks with consolidation in Ontario? Or is this just kind of an ongoing theme?

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

Maybe I'll start with just some general comments on LDC and consolidation, and then I'll allow Chris to speak to it more specifically because he leads that portfolio. So as we've said in the past, really, our -- we are open opportunities that are in the best interest of customers of the company and shareholders, and we do evaluate the opportunities as they come along. There haven't been a lot of opportunities through COVID. There has been some mergers we've seen, but really kind of adjacent municipalities, but we continue to monitor that. Really, our overall focus on our strategy is to concentrate on our existing assets and making prudent investments in our existing assets.

That said, we do believe that there is opportunities for consolidation of the distribution sector, which is in the interest of customers as it does drive out cost of the overall system. And particularly where we coincide with the service territories of the LDCs, we've proven and shown that we can drive out 50% of the cost. So we continue to advocate for that and to promote the fact that it is in the customer's interest to do that. And then, Chris, can you talk specifically about the progress we're making on some of those?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Sure. Sure. Thanks, Mark. I think you covered quite a bit of it. I mean the most recent ones, Peterborough and Orillia are really good examples of what Mark just spoke about. The costs have already started to come out. We were able to integrate them in -- 2 of them actually at the same time within 8 months. It usually took 12 months to do that. So we've become more effective at getting those benefits not just in terms of cost but also in terms of customer satisfaction quicker. So that's a good news story.

In terms of the balance sheet to municipalities, that really hasn't shown up yet, Rob. I know everybody thought at the beginning that, that would occur. I think the provincial government and the federal government did a good job of supporting municipalities through that. So that really hasn't been a big driver. And as Mark said, really the ones that have occurred have been mergers between municipalities rather than any kind of sale. We are well placed. We have conversations with all 50 LDCs. There are some that really want to go their own way for the next foreseeable future. And then there are about 15 or a handful that are open to a transaction of some sort, and they're thinking about that.

So we'll keep having those conversations. I don't expect anything to be announced in the near term. Just as a reminder, there's municipal elections coming up in the third quarter of this year. I would expect that if you are going to see a transaction, it will be after the municipal elections.

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

And then as a follow-up. JRAP, it looks like there's been a lot of back and forth there. So what are the key points of contention right now? And as you move into settlement, kind of what are the key areas of common ground that you think you'll be able to settle before the year?

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

Yes. Maybe I'll start with what I said on the opening is we are updating the evidence before we get into the settlement conference. And there's kind of 2 pieces to that. One is the cost of delivering the program. We put together our investment plan in 2020, late 2020 and filed in '21. And obviously, the cost of delivering the program that we put forward have gone up since that time, more than what we had assumed when we put our application in. And so as part of the rules and practices of procedure, we are required to update our evidence when there are changes that we become aware of.

And so the -- we all know that the cost of business and services have gone up, and so we're going to update our evidence to reflect that. We do still stand behind our work program that it is a prudent and correct work program to deliver results for our customers and ensure that the system stays reliable. So we're going through the process of that right now, and we are -- we will be updated on that.

The second part of the evidence that we will be updating is to reflect the ISO update to CDM, which is conservation demand management program, and this is really a mechanistic update and adjustment based on the latest numbers from the ISO. So we're going to take some time in the next couple of weeks to update that evidence before we get into settlement conference. I am hopeful and optimistic that there are areas of the application once we get into settlement conference that we will be able to agree on. And just to remind you that the settlement conference is with interveners and Hydro One, where we get together and look for areas where there is alignment and agreement, and then we make a proposal to the OEB to consider settling parts before we move to an oral hearing.

So first step is updating the evidence to make sure it's reflective of the current conditions in the markets and then we will move to settlement. After that, we'll -- if we can't settle all aspects or aspects that we haven't settled, we'll move to oral hearing and then we will wait for the OEB decision. We do expect to get a decision in this fiscal year, so likely in Q4 of this year. That hasn't changed our expectation around that. But we're already going to take some time now to update the evidence.

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

Sorry, just to confirm, when you're updating evidence on cost with inflation, that's on the OpEx and the CapEx side?

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

That's correct.

Operator

Our next question comes from Linda Ezergailis with TD Securities.

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

Maybe just a follow-up question on your inflationary pressures. Obviously, on the CapEx side, steel components and others are becoming more expensive. I just wonder if you can comment also on any shift you're seeing in your labor cost, potentially? And if you've noticed any acceleration of attrition? And if you're refracting any thoughts around retaining and attracting the talent you need to execute on your plan and navigating this energy transition?

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

Great questions, Linda. And a bunch of aspects to that. So maybe I'll start with, are we seeing the great resignation, which is talked about in North America. And we're not seeing it in the way that kind of others are seeing it and it's talked about. But that being said, we do keep an eye on making sure that Hydro One is an attractive place to work and that we offered good balanced work life for people, and that goes to some of the things we're doing around the future work and some flexibility for a bunch of our employees.

We were also named one of the best employers again by Forbes, which looks at a bunch of different aspects that gives us confidence in our overall programs and the work workplace in Hydro One. So we'll continue to focus on making sure that we're able to attract and retain employees. As far as shifts in labor costs, as you know, a large percentage of our labor force is unionized and -- over 90% is unionized. And through several different unions, one of the largest being the PWU and then the second largest being that the Society of United Professionals. And both of those unions, we have labor agreements out until '23. So we have labor stability -- labor cost stability out until '23 there on both of those.

We are going in negotiations with our construction union this year. And so that will be obviously an active negotiation that we'll go through this year, but a large part of our workforce, we do have labor cost stability out until '23, and then we'll go back to the table with those unions and workforce. So I'm feeling that we're in a good position right now and that we've got a good plan going forward on ensuring that we're being fair to our employees, and we're able to attract and retain the right people. At the same time, we're being conscious of costs to our customers.

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

That's helpful. And maybe in terms of looking forward to 2022, can you give us a sense if you're aware, obviously, subject to weather, including the snowstorm Ontario is experiencing today. I'm just wondering if you can help us understand if you expect any change in seasonality of your expenses this year as it might relate new vegetation management, et cetera, just to help us shape what the year looks like potentially.

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

Yes. Good question. I'll let Chris talk about the shape of our expenditures throughout the year, and whether you should expect to see similar to last -- previous years or whether you should see any changes.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thanks, Mark. Linda, the seasonality question is a tough one. I can't predict the weather and what it might do this year. In terms of the overall level of expenditure of the program, it should be slightly less than this year. When we get the opportunity, as you know, we -- when the weather is good, we will advance some of our programs to ensure that we can get them done within the current rate period. Again, this year, we'll look at that, but I would expect the cost to be slightly lower, all things considered. I suppose that's the best way to answer it.

And then what I'd point you to, Linda, is our guidance. Our guidance overall, 4% to 7% is $1.65 by the end of this year. This year at $1.61. So you can get a sense of where the results will be this year.

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

And just another more conceptual question. You announced some sustainability commitments last year, and making some progress on that in terms of linking your credit facility to that. Are we seeing a shift in kind of the marginal investor on the equity or debt side maybe expanding as a result of that? Or do you expect maybe prospectively more of a shift in your investor base potentially as a result of some of the initiatives that you're taking.

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

Yes. I'll start, and then I'll ask either Chris or Omar if they want to weigh in. We view our sustainability program as the right thing to do as a company, and we've done our materiality assessment, and that's how we landed on to find kind of the areas of focus for us, which is, as we've said before, around people, planet and community. Where that lands with investors, and investors that are attracted by that, maybe I'll ask either Chris or Omar to comment on whether we're seeing a shift in investor profiles as a result of that.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thanks, Mark. Yes, I'll comment. No significant shift at this point, Linda. I think the way to approach it is the right thing to do. It is -- the way I see it, it's a cost of entry these days. Every meeting we go to, you'll get asked a question on ESG. So I look at it more that way. And if you pick up the sustainability linked loan, for example, that's not driven by an economic benefit. It's driven by us telegraphing to the market that we are serious about these measures. There's not a big or a material impact financially from that decision. It's more just holding us accountable and sending the message that we are serious about those 3 measures, like everything in our sustainability report.

So I'd look at it that way. We do make concerted efforts to reach out to specialized investors. Prior to COVID, we were out visiting conscientious investors in Europe, Japan and so on where ESG potentially had been a more sharp focus for those investors, and we'll continue to do that. So we'll continue sending that message. But as Mark said, it's the right thing to do, and we'll continue to do it.

Operator

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

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

I just wanted to maybe pick up on sort of the theme of the last one, which was -- in your release, in your opening remarks, you discussed adding some sustainability components to your financing -- pricing of your financing. Just curious if you can talk about -- is there an opportunity there to reduce your already fairly low borrowing costs if you potentially exceed any of the metrics that are embedded in there? Just curious if you could speak to that at all.

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

Chris?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Sure. Yes, Dariusz, maybe I wasn't clear enough on the last answer. But what it is -- that is -- the sustainability to link loan is around our credit facilities, which we've never drawn effectively. So when they're undrawn, the impact is very, very marginal. There is no material impact to our financing costs. I think where you may be going, Dariusz, is around over time, is there an opportunity to enter the green or sustainable bond market. That's continuing to develop. We do believe Hydro One is a very -- it's an opportune company that would take advantage of that when that framework is complete.

So we continue to monitor that. And if we can, we will look at issuing into those kind of terms. There may be some advantages to that, that are more material. But at this point, the sustainability linked loan is marginal. It's not a financial decision. It was more of a question of showing our commitment.

Operator

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

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

Mark, I wanted to come back to your comments around the update that you'll be doing for the grid application. And the comment you said you stand behind the work program. Can you just sort of clarify whether that means you would take up investment dollars? Or would you be thinking of deferrals on spending?

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

No. What I meant by that is our investment and the needs of the system haven't changed. Just really what's changed is our cost to deliver on that program. So we're not changing what we're planning for investments in the system. We're just updating the cost of executing on those investments over the period. So that's really what I was trying to get at. Sorry, if I wasn't clear on that.

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

No. Okay. And then more recently, just if you look at sort of filing for the sort of revenue cap index, inflation north of 3%. Just wondering how you actually expect cost to actually track relative to that inflation number that goes into your revenue requirement step-up for next year.

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

Yes. And maybe I'll start, and then I'll ask Chris to dive in on the details on that, but there's kind of 2 periods. One is when we're in a rate period, there is an inflationary factor that the OEB publishes every year, and we apply to our costs on the OM&A side. And then there's an inflationary aspect in our original application that gets applied to capital. And so during the rate period, inflation gets treated one way. Really, what we're talking about here on the evidence is we assume certain inflationary numbers when we put in our application last year.

And as we've all seen, the inflationary numbers are quite a bit higher than that. So we have essentially assumed a 2% over '21, '22 and '23. And what we're seeing is obviously quite a bit different than that. And so that has triggered in the rules of procedure, what is considered a material change that requires us to update our evidence. And so that's what we're doing right now is we're updating the evidence for the changes that have happened since we applied for this rate period to make sure they're accurate to today. Chris, do you have anything to add to that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

No. I think that's the question -- just a clarifying question to you, Mark. Are you talking about 2022 or 2023?

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

Yes. I was thinking about 2022 at the current rate construct where you'll be taking this year's number and reflecting inflation for 2022 rates and the revenue requirement.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Correct. Yes. Thanks, Mark. So based on that, the short answer is yes, because there's a process we're in a current rate period. So the second -- the way Mark described, we're currently in the prior rate period, and the revenues are indexed to inflation. And the number is around 3%.

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

I guess my question was, when you look at that number, I think it's 3.3%, then the productivity factor, like how do you actually think about the value that goes into the revenue requirement versus what you're actually seeing on your costs? Like are you close to that 3.3%? Or are you actually tracking below that number that goes to the revenue adjustment?

Christopher Felix Lopez - *Hydro One Limited - CFO*

So you're saying all the input costs, are they close to that revenue adjustment?

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

Yes.

Christopher Felix Lopez - *Hydro One Limited - CFO*

So the way it would work, Mark, is right now, I think we answered the question earlier, our labor cost, for example, are under contract today. So we're not seeing that labor cost pressure. But on the material side, we're seeing cost pressure. So it probably doesn't all flow through in this period. And to the extent that we over earn, so part of this year's over earn is no doubt a benefit of that. And then we end up sharing that benefit with right players through the earnings sharing mechanism. So that's what you saw this year. I would expect that to continue next year. Mark answered the question earlier on labor. We haven't seen that cost pressure because we're under a contract today. But on the material side, we are seeing it.

Operator

(Operator Instructions) Our next question comes from Matthew Weekes with iA Capital Markets.

Matthew Weekes - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

I was just wondering, looking out to 2023 a little bit, and I know it's still early days with the JRAP and working through redoing some of the evidence. But I was wondering if you could comment, given the rate rebasing and cost in service and then looking at things like labor costs being renegotiated in 2023. If you can comment on the outlook for 2023 earnings, and maybe what Hydro One can do or what it has done in the past based on history to keep earnings flat on a year-on-year basis.

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

Matthew, so we've said several times, and we'll do this is we will update our guidance post approval of the joint rate application to give you a better clarity on what we foresee earnings growth through the next rate period. And so I don't want to speculate on that until we're through the rate period, and we have the final decision from the Ontario Energy Board.

That said, we do have levers that we try to pull to make sure that we're making sure that our earnings are in line with that guidance. And there's things on the financing side, we can do. There's things on work programs. And we talked about the productivity on how we can drive our productivity numbers. So there are levers that we pull to make sure that we're meeting that guidance, which we will give after we do have the final decision. Chris, do you want to add anything to that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

I think you covered it, Mark. Again, Matthew, we'll provide guidance on like 2023 and beyond. So we provided 3-year guidance before. So once the decision comes out, we'll show you what our guidance is for the foreseeable future. But as Mark said, yes, once you're in a rate period, we do have some levers to execute between the years, say '23, '24, '25. At the beginning of a rate period, clearly, you've been rebased. So the benefit to our repays is they get the benefit of our productivity. So I think that's the question you're asking.

So this buildup of productivity over 5 years on distribution, and where you're seeing some good results and great earnings sharing, that's the result of 5 years of sustained effort. We give that back and then we start again. But we still have some flexibility there, like Mark said, through financing, through execution of our work programs that we can make it a fair agreement and contract between our customers, our shareholders and all stakeholders, and that's really what we're looking for.

Operator

Our last question comes from Patrick Kenny with National Bank Financial.

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

Just had a question on your unregulated BD opportunities. Just curious if you could provide an update on customer demand for EV charging, behind-the-meter battery storage, say, today versus your prior expectations. And maybe how you're seeing these initiatives develop through the year and into 2023?

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

Yes. There's a few areas, obviously, that we've talked about in the past around additional growth outside of our regulated business. One of those is the energy management services business, and we did sign a deal with EDF or one of the EDF companies to install some behind-the-meter battery storage in our large industrial customers. And that's really to take advantage of the ICI program here in Ontario, and to help support those customers on reducing their overall rates. So -- and how that works really is us and our partner at Powerserve, we will -- we do the installation of that and then we share with the customer our savings on that, on their bills. So we do see that there is opportunity. There's over 3,700 ICI eligible Class A customers in Ontario. And so there is an opportunity to grow that business at the right level.

If I think about the EV charging, our biggest area is in our Ivy business there where we're building out the charging network across Ontario, and we signed a partnership late last year with ONroute so that we are installing chargers at the ONroute stations. And for those who are from Ontario and the ONroute are major service stations on the major 400 highway across Ontario. And so they offer multiple services. So it's a good location for us to make sure that those charges get high usage rate.

So we're at the -- still at the front end of that business of installing the chargers. As we've said before, really, that business is around promoting the adoption of EVs, which we think has a broader benefit for the larger grid, overall, and our regulated business to make better use of the overall grid. So we'll continue to build that out. We do expect by the end of this year that we will have most of the charges we've committed to dope out.

And then if I think about EVs and EV chargers from the regulated business perspective, there's some things we're doing there, which I think are innovative and are in alignment with what the OEB has asked us to do as well as the ISO to look for non-wires alternatives to supplying services to our customers. So we have been installing Tesla Powerwalls behind the meter in people's houses to support grid reliability. We're now doing this EV home charging pilot to test using EVs to support the system, both from a reliability as well as a system quality perspective. So I'm excited about those opportunities because they are starting to look at the grid differently from a regulated perspective, to say, there's different ways of us meeting the reliability to our customers than the traditional wire solution.

So there is opportunities both in the unregulated business through Ivy, but also in the regulated business through some of these pilots we're doing, and we're hoping that we'll see good success in those pilots, but that will become one of the tools in our toolkit in the regulated business to meet our customers' needs in the future.

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

Great. And maybe just a related follow-up question. Given we've seen a trend -- recent trend here in the gas distribution world of linking new build customers to 100% renewable energy. Wondering if there's an opportunity to replicate this type of offering for your electric customers. And what this could mean from an overall growth or, say, market share perspective within the DX business?

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

Yes. Good question. That's -- I think there's some things the ISO and the government are looking at for identifying for customers who want to be able to claim that their business comes from 100% noncarbon electricity. And so the government is looking at a carbon credit-type program where a customer can do that. That's really in the market construct design, which is out of our purview. We'll continue to promote tie into the grid because we are 94% noncarbon electricity supply in Ontario, supplied by others, but we transmit and connect customers for that.

So I believe that there will be a trend where big businesses and customers do make commitments to noncarbon power. We're at a good starting place in Ontario at 94% already. And I think through some of the programs that the government is starting to look at with carbon credits and things like that, that they can get the rest of the way the other 6%. I'm not sure if I answered your question because I'm not as familiar with what's going on in the gas with the new build that you're pointing to, but hopefully, that answered it.

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

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.
