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EDITED TRANSCRIPT

H.TO - Q1 2017 Hydro One Ltd Earnings Call

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CORPORATE PARTICIPANTS

Bruce Mann *Hydro One Limited - VP of IR*

Mayo Schmidt *Hydro One Limited - President & CEO*

Michael Vels *Hydro One Limited - CFO*

Greg Kiraly *Hydro One Limited - COO*

CONFERENCE CALL PARTICIPANTS

Mona Nazir *Laurentian Bank Securities - Analyst*

Linda Ezergailis *TD Securities - Analyst*

Rob Hope *Scotiabank - Analyst*

David Galison *Canaccord Genuity - Analyst*

Ben Pham *BMO Capital Markets - Analyst*

Andrew Kuske *Credit Suisse - Analyst*

Robert Catellier *CIBC World Markets - Analyst*

Robert Kwan *RBC Capital Markets - Analyst*

Frederic Bastien *Raymond James - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Hydro One Limited first-quarter 2017 results investment community teleconference. As a reminder this call is being recorded. I would now like to introduce your host for today's call, Bruce Mann, with the Hydro One management team. Please go ahead.

Bruce Mann *- Hydro One Limited - VP of IR*

Thank you very much and good morning, everyone; we appreciate you joining us. I am here in Toronto with Hydro One's President and CEO, Mayo Schmidt; our Chief Financial Officer, Michael Vels; and also Greg Kiraly, our Chief Operating Officer. I will provide some brief comments on the first-quarter results, then spend the majority of the call answering as many of your questions as time permits.

There is also several slides out there which illustrate a few of the points we will go over in a moment. They should be up on the webcast now; or, if you are dialed into the teleconference you can find them on the Hydro One website in the Events & Presentation section.

As the discussion this morning will undoubtedly touch on estimates and other forward-looking types of information, please review the cautionary language in today's earnings release and our quarterly MD&A, as well as in our annual report which are filed on SEDAR as the various cautions and risks and factors associated with forward-looking information apply equally to the dialogue on the call this morning. So with that I will turn the call over to Mayo Schmidt.

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Mayo Schmidt - *Hydro One Limited - President & CEO*

Thank you, Bruce. Good morning, everyone. The journey of Hydro One's transformation to a customer focused and commercially oriented organization is generating positive results and impacting our businesses with our employees and with our customers. Since the Company's IPO in late 2015, management has focused intently on immediate transformative steps that created the foundation of future value generation.

As we committed, 2016 was a year of change in which we built the organizational muscle and executed programs to further create a high-performance organization. Late last year we significantly enhanced the executional capabilities putting in place a strong leadership team that has a proven track record for delivering value to both shareholders and customers.

2017 will reflect the impact of having this strengthened leadership team in place for the past seven months. And we continue to meet our commitment to you to advance our leadership role in the Province and beyond.

We are seeing results of our internal efforts on the innovation front in implementing new systems such as Move to Mobile, in improved planning and execution in our forestry group and in the capital deployment where, for example, our transmission business delivered rate base growth that was exactly on plan for 2016.

We are also poised for growth in new markets where our deep scan over the past number of months has identified opportunities that we believe would be accretive on every measure. Our operational excellence plan and significantly strengthened leadership allows us to act with confidence as value creating growth opportunities present themselves in and outside our existing Ontario footprint.

During the first quarter we built on executional capabilities and further sharpened our focus on customer service. We also moved forward on the regulatory front where on March 31 we filed our five-year incentive-based rate filing with the Ontario Energy Board which involved significant efforts over the past year. Certainly enthusiastic and embrace Ontario's incentive rate approach to making positive value for customers and shareholders alike.

The financial results reported this morning are not fully comparable with last year. Let me take you through several points to illustrate the degree of operational efficiencies we have continued to achieve. For the first quarter of 2017 our reported net earnings were $167 million, which are down from the reported amount in the first quarter of last year.

Mike will preview the results in more detail in just a moment, but suffice it to say that they were affected by milder weather, lower regulatory allowed ROE and some non-comparable bad debt adjustments last year, as well as some planning and implementation initiative-related costs in the first quarter that will help to create momentum as we roll into 2017 and beyond.

On the operations front we are building momentum following a solid cost reduction record in 2016. In February we went live with the new and existing productivity enhancement, Move to Mobile, which is portable, wireless field automation platform which now covers all eight of our operating zones across Hydro One's service territory.

We now have more than 1,800 employees in the field equipped with wireless tablets connecting them to the Company's core operating systems, including customer service programs and records. And the system is being used to process hundreds of field operation work orders every day.

While we are still fine-tuning the software and adding additional attributes, the tool is already helping our teams achieve improved scheduling, more efficient deployment of field crews, improved data accuracy and safety by making real-time information and equipment conditions available to our people in an accurate and timely fashion.

We expect strong operating efficiencies, significantly reduced paperwork and instant data access for all facets of our operations in the field and office. The system has been very well received by our field staff and we expect to gain significant benefit as it matures during the year.

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Move to Mobile is just one of the many examples of successful investments in innovation that are improving the reliability and performance of Ontario's electricity transmission distribution systems and providing more effective service to customers. During the quarter capital investments totaled $350 million and we placed $228 million of investments in service, up 42% from quarter one last year.

During the first quarter we executed several initiatives improving customer experiences while reducing our service cost. Since launching the Company's enhanced paperless billing services last year, we have tens of thousands of residential and small business customers enrolled with many also opting to receive customized usage alerts and billing arrival notifications. This increases our connection with customers and reduces billing costs.

In addition, Hydro One's new enhanced web portal and home energy assessment tool now offer customers the ability to set personal preferences and receive detailed insights into their energy use together with conservation recommendations.

I'm also very pleased to report to you that our billing accuracy for customers is now at record levels. A combination of continued enhancements to our system, processes and quality assurance controls are propelling us forward. Improvement of every step in the meter-to-bill process, combined with ongoing fine-tuning of our smart meter network enhancing remote meter reading capabilities, led to a time of use billing accuracy exceeding 99.4% for every month in the first quarter of 2017.

Because of the rural nature of our territory together with structural challenges in the Province, many of our customers have some of the highest electricity bills in Ontario and we understand their concerns. We have continued our intensified local outreach to customers and communities and that will accelerate in 2017.

We took an aggressive approach advocating for our customers with the provincial government recommending bold solutions that they could implement to alleviate the impact of electricity prices that many of our customers are experiencing.

In a very short time measured in just weeks, we achieved the objective of our advocacy for the Fair Hydro Plan when the Province then announced in early March. This plan substantively reduces the underlying cost of electric power to all customers and, by better balancing delivery charges across rural and urban geographies, it provides a greater degree of savings specifically to Hydro One customers.

We also secured up to $200 million of provincial funding to further support rural and financially challenged customers under a new Province wide program which Hydro One will be the administrator. We have also significantly improved the Company's merger and acquisition integration capabilities where over the past several months the team successfully integrated two local distribution companies, Haldimand and Woodstock, and we welcome Great Lakes Power acquisition to the organization and agreed to purchase Orillia Power.

Our enhanced integration capabilities resulted in positive experiences for customers and will reduce costs for the entire system. Today there are still more than 60 separate standalone LDCs in Ontario and there remains significant opportunity to lead the continued consolidation of the electricity sector.

Outside of their home markets, Canadian companies have been advantaged as buyers of US energy assets and we have seen a strong trend of recent transactions. Canadian buyers are viewed as attractive owners of assets with favorable social and governance policies. As one of the largest pure play electric transmission and distribution companies in North America, Hydro One has strong financing capability including strong credit rating and access to capital markets.

I expect the intensity of our work effort will continue in 2017; we will refine the effectiveness and efficiency of our capital investment deployment as we accelerate the work required to upgrade the electricity grid in Ontario. We will continue to work with our regulator, the Ontario Energy Board, maintaining reliability in the system through appropriate investments. We are transitioning both businesses through an incentive-based regulatory construct in a manner that will benefit both customers and shareholders. We are reinvesting our savings back into what is one of the largest pure play transmission and distribution businesses and North America.

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Lastly, the payment of our first common share dividend following the late 2015 IPO on April 20 of last year, as expected, on the one year mark, I am pleased to report that our Board of Directors has supported management's recommendation for a 5% dividend increase effective immediately. The quarterly dividend has been increased to $0.22 per share or $0.88 on an annualized basis. This increase reflects our confidence in the continued long-term growth prospects of the Company as we create lasting value for our customers and shareholders alike.

Now before I turn it over to Michael to discuss the financials, I do want to pause and personally thank Mike for an outstanding working relationship and recognize him for his many impactful contributions across Hydro One during his two-year tenure with our organization.

As you are aware, we announced in April that Michael is moving to a new opportunity on May 19, back to the food sector where he spent 20 years of his career leading change and driving results before coming to Hydro One. Mike was a key contributor and co-led what was an outstanding IPO process and has been a catalyst player to transition our organization from a crown agency to the fully commercial Company that we are today. We know Mike will be highly successful in his new venture. So, thank you, Michael, and over to you.

Michael Vels - *Hydro One Limited - CFO*

Thank you, Mayo, thank you for those kind words and good morning, everyone. Turning to the third slide which is on our website, our first-quarter revenue net purchased power was lower by 2.7% compared to last year. This is reflective of several items, the first being much milder winter weather this year and particularly impacted peak demand in the transmission segment.

Secondly, as we indicated late last year, the allowed return on equity that changes depending on the movement of interest rates, declined from 9.19% in 2016 to 8.78% in 2017.

Thirdly, also affecting the quarter is that we have not yet received a decision on our 2017-2018 transmission rate filing which was made on May 31, 2016. We are expecting to receive this decision later in the second quarter.

We have as a result not yet been able to record our increased revenue rates this year and, assuming the decision as we applied for, increased rates for 2017 will only go into effect at the point at which we receive the decision. As a result we expect that we would begin to book catch-up revenue later in the year in respect of our first half. As a result, this quarter we are incurring costs during the quarter while the revenue will be recorded in later periods.

Comparisons of OM&A expenses, which increased by $15 million from last year, are affected by a $[60] million favorable adjustment, bad debts in the first quarter of last year which did that recur to the same level in this quarter.

In addition, during the quarter we also incurred several costs associated with planning and organizational change initiatives including consulting support that is not expected to recur at the same levels in subsequent quarters. After considering these factors we continue to be pleased with and confident in our ability to take cost from the business in a sustainable and consistent manner.

Below the operating cost line depreciation increased due to rate-based growth while interest expense was impacted by modestly higher debt balances. We also had somewhat higher interest cost as we termed out $950 million of commercial paper late last year which had been outstanding in the first three quarters of 2016. While the rates at which we termed this debt out were near historic lows, the fall in interest cost is of course still higher than the sub 1% levels we pay on commercial paper.

Moving over to investing activities, as you can see, we put $228 million of assets into service during the quarter, up 42% from first quarter last year and in line with our targets as we continue to improve the execution across our engineering and construction functions.

In slide 4, in terms of financial strength, you can see that we exited the quarter with a very strong balance sheet, conservative leverage and solid investment grade credit ratings. Our weighted average cost of debt is a relatively low 4.3%, our redemption schedule continues to be fairly smooth with an average term of 15.6 years and we continue to have significant liquidity available to the Company.

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On slide 5 I will make a few comments on our recent regulatory filings. Firstly on the transmission side, as I mentioned, we expect to see a decision from the OEB later in the second quarter associated with the 2017-2018 rate filing we filed back last May 2016. As a reminder, this was a two-year filing and the next transmission filing, which we expect to make in the first quarter next year, will be a five-year rate filing under the OEB's incentive regulatory model for the 2019 to 2023 term.

Secondly, as we noted, we completed a five-year rate filing for our distribution segment under the OEB's custom incentive regulatory framework for the 2018 to 2022 period. In that application 2018 is considered the rebasing year where cost of service for test year rate model is applied to determine the revenue requirement, after which an incentive-based rate model is applied to determine the revenue requirement for each of the subsequent four years of the term.

A few comments regarding the filing. First, the allowed ROE used in the calculation of the 2018 revenue requirement in our filing will ultimately be based on the rates that are updated by the OEB in late 2017 based upon then-current interest rates. If we were to calculate those rates today we would actually see an increase in the allowed ROE of about 22 basis points to approximately the 9.0% level.

Secondly, while the March 2017 announcement by the Ontario government of its Fair Hydro Plan is expected to make overall electricity bills more affordable by providing mechanisms funded by the Province, we effectively equalize delivery charges across differing geographies, reduce the cost of the global adjustment factor portion of the underlying electricity prices and provide additional relief to other certain customer sets. It is not expected to affect the underlying rate design that rolls up to form the overall revenue requirement of Hydro One. In other words no impact on our income statement.

OM&A levels in the application across the five-year term reflect meaningful efficiency improvements and cost reductions despite upwards pressure from inflation, a growing rate base and increased regulatory compliance costs. This is to minimize the extent to which operating expenses contribute to increases in customer rates.

The filing also reflects efficiency and timing driven capital savings to further help mitigate customer rate impacts while at the same time ensuring that the capital program addresses the necessary system renewal costs associated with an increase in pole replacements, station refurbishments, line sustainment and other investments to deal with assets at the end of their life, together with construction in the later years of an integrated system operation center which replaces the current aging backup power system control and telecommunication centers currently operated by the Company.

The rate filing also includes an earnings sharing mechanism under which we would share with customers 50% of any earnings that exceed the allowed ROE by more than 100 basis points in any year of the term. With that I will stop there and we would all be pleased to take your questions.

Bruce Mann - *Hydro One Limited - VP of IR*

Operator, before we ask you to organize -- or explain to the participants how you would like to organize the Q&A polling process, I need to mention quickly that we are going to be a bit tight on time this quarter as our annual shareholder meeting starts at 9:30. It is not even in the facility we are in physically right now.

So we are requesting that those participants wishing to ask questions this morning, if you could please keep them to a single topic, that we as many people as possible-opportunity to participate in the time we have available. So, Christy, if you would go ahead and explain we are ready to go.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mona Nazir, Laurentian Bank.

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Mona Nazir - *Laurentian Bank Securities - Analyst*

You spoke about how you are poised for growth in new markets -- opportunities in and outside of Ontario. I just wanted to kind of touch on your preference, whether it be to continue to consolidate the Ontario market, maybe perhaps smaller scale. Or do you think the opportunities in the US are more attractive? And also on that, just wondering what size of targets you are comfortable taking on or looking at whether that be in regard to customer size or rate base. Thank you.

Mayo Schmidt - *Hydro One Limited - President & CEO*

Sure, this is Mayo; terrific question. We've had really good success in picking great partnerships here in Ontario, whether it be the Orillia, which was -- the teams will join ours, the Great Lakes Power. So we are seeing opportunities to continue to see the consolidation of the LDCs here in this Province. But we also see and have put ourselves to the task of reviewing opportunities both here in Ontario and also in the US.

As you have seen, our behavior is very much been a disciplined process. And as we have reviewed the opportunities we see terrific opportunities in the US with good partnerships. When we think about size, I think the first thing we think is -- most importantly is the type of Company that we would look for a relationship with south of the border.

We are particularly, as you would note, in the T&D business. Regulatory with [ancillaries of gas] are very important to our organization as we look to grow and create geographic diversity and strength on a North American platform.

From a scale point of view we, as you've seen in other ways, we step into good opportunities. So we haven't put a size requirement on any opportunity, but I think that through our processes of integration we have been very thoughtful about making sure that combinations are beneficial to both parties and accretive on every measure and simply value creation for parties.

But we do see opportunities that, as we have looked in both here in Ontario and in the US. So we are quite positive about 2017. And this is consistent with when Michael and I started the IPO process and began to build the muscle of the organization of 2016, this is a natural evolution for us as we get into 2017 to become inquisitive.

Mona Nazir - *Laurentian Bank Securities - Analyst*

Thank you.

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Securities - Analyst*

First of all, I want to congratulate Mike on two years of a successful contribution at Hydro One and wish you well on your next opportunity.

Michael Vels - *Hydro One Limited - CFO*

Thanks, Linda.

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Linda Ezergailis - *TD Securities - Analyst*

With respect to the dividend, nice to see a good bump this quarter. Can you talk us through maybe the Board's updated approach? I see that the payout ratio target hasn't changed. But should we expect kind of a regular annual announcement with Q1 results every year? Or might the Board consider discrete bumps if there is accretive acquisitions announced? And what would be required to shift the growth rate away from 5% whether it be maybe successful regulatory outcomes or, again, accretive acquisitions changing the growth outlook, etc.?

Michael Vels - *Hydro One Limited - CFO*

Linda, it is Mike. Maybe I would be a little cheeky and say all of the above because you are pretty well covered the waterfront in terms of the factors that the Board would consider. So first of all your question about regular timing, we said pretty consistently that the Board assesses the dividend quarter by quarter. We consider that this was an appropriate time.

At the beginning of the year, as Mayo said, we have good visibility on our rate base growth which is at this point we anticipate over 5%. We have rolled out some good operational improvement efficiencies. We are comfortable with our M&A integration capabilities and the senior management is going to execute other acquisitions.

So from a long-term perspective we feel that a dividend rate increase, or the Board did, at this point in time, consistent at least with what we consider to be a minimum organic rate base growth, would be appropriate.

Beyond that, clearly as we can accelerate our performance either in terms of growing our rate base, improving our operational efficiencies, the accretive effect of new acquisitions, I think it would be entirely fair to say that the Board would consider all of that in considering dividend policy.

We have been very clear we are not going to change the 70% to 80% payout ratio range. And as a result, I think it is fair for shareholders to anticipate that as and when our earnings rate accelerates to stay within that range, the rate of our earnings growth would accelerate at the same time.

Linda Ezergailis - *TD Securities - Analyst*

Thank you.

Operator

Rob Hope, Scotiabank.

Rob Hope - *Scotiabank - Analyst*

Congratulations, Michael, all the best on the new role. Moving over to the cost side, consulting costs were highlighted a number of times in the MD&A. Would these have been included in the revenue requirement or would this be outside of that in positioning Hydro One as -- strengthening its ability to tackle cost reduction under incentive regulation and potentially benefit returns there?

Michael Vels - *Hydro One Limited - CFO*

It's Mike. Mayo may wish to just talk in general about the excitement we have about some of the studies we are doing and starting to uncover the second and third layers of opportunity in our business. But just specifically to the narrow question of is it included in our revenue requirements, there are several types of costs in there.

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To the extent that we have incurred any costs to review and ascertain acquisition opportunities that would never be in our revenue requirement, there is a small amount for that. The remainder of it relates to operational studies and customer service improvements. Those are expensed and charged to our income statement in this period.

The Company will take the cost for that and we have not included those costs in our future revenue requirement as we don't anticipate them to continue at the same level. Greg or Mayo may have some comments about some of the operational benefits of the costs we are incurring.

Mayo Schmidt - *Hydro One Limited - President & CEO*

I do, Michael. And thanks, Rob, thanks for that great question and I will use this opportunity also to ask Greg to add in just a second. But the thing that I would point out regarding those certain costs that were in the first quarter, it is really been a case where we have transitioned to a full change in the executive leadership team.

And then as you would note, in the last few months we have changed significantly at the VP level and have strengthened that level of our business which goes to the billing -- excuse me, the planning, engineering. And we have seen certain effects, strong effects in improved customer service, which I commented on is at record levels, reviewed all the customer facing policies. We redesigned the website, redesigned our billing.

We have had significant work done on introducing the global adjustment which is a reduction in our customers of an average of 31% of their bills and have accelerated the Move to Mobile. So I will ask Greg to comment on that, because the bulk of this resides in his -- within his group as Chief Operating Officer. And I think you will find some good insights here in Greg's comments.

Greg Kiraly - *Hydro One Limited - COO*

Yes, thanks, Mayo. Good morning. So we are achieving in year savings in a number of areas. Certainly some of our procurement functions where we have consolidated vendors and we are implementing process and technology improvements. Mayo already mentioned Move to Mobile where we are going to achieve efficiencies both in year and on an ongoing basis. We have outsourced certain functions and we are achieving savings there.

And then we are achieving some fundamental unit cost efficiencies as well as some less than planned corrective maintenance volumes. We did need to bring on some consulting expertise over the last few months that helped us realign our org structure and develop some governance processes and start to build what I call the operating model.

So we are strengthening our team and building that model and standardizing our work processes. So as we develop internal capabilities to take on those tasks, we will then transition those consultant costs out of the business.

Rob Hope - *Scotiabank - Analyst*

That is helpful, thank you.

Operator

David Galison, Canaccord Genuity.

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David Galison - *Canaccord Genuity - Analyst*

I would also like to congratulate Michael and wish you the best of luck. So my first question is really just back to the consolidation. And more just in the Ontario market, just wondering what type of level of I guess conversations and volume of conversations that you are sort of having with the different municipalities. And how should we think about maybe the profile of acquisitions going forward?

Mayo Schmidt - *Hydro One Limited - President & CEO*

Sure, thanks, Dave, this is Mayo. The way you would think about that provincially is there really are multiple conversations occurring at all times. As you are familiar, as been very public is the Peterborough which is just north of $100 million enterprise. We have certainly been -- seem to have had discussions with that group. And hopefully there is a very positive and good outcome with that organization.

But I think as consistent with Haldimand, Norfork, Orillia, we have had really, really good results in terms of the integration processes. There is just over 50 LDCs. The Provinces themselves have done a study that talk about the consolidation -- providing significant synergies between the businesses and being very accretive. So depending on the size of the local distribution business, these go beyond compelling.

So the issue is -- it's just a size issue; when you take the smaller LDCs it is difficult for them to affect individually the financial results here at the organization. But on block there is a very good effect. So it is an area that we are focused on and it is an area that we have a competency in. So it certainly doesn't take us away from our core business practices.

We certainly have well within our capability of looking south of the border for growth prospects. Paul Barry who is, I'd say, one of the strongest M&A talents in North America today, has been working rigorously with his group to look at opportunities and I think what we are seeing we are very pleased with.

David Galison - *Canaccord Genuity - Analyst*

Thank you very much.

Operator

Ben Pham, BMO.

Ben Pham - *BMO Capital Markets - Analyst*

You mentioned a couple items that looks like that is understating your [EPS power] for this quarter and you had the weather impact in particular and then also with the timing on transmission I guess you can add in the ROEs in that side of things. But are you able to quantify or have you quantified the impact of all those three pockets in terms of how EPS could have shaken out this quarter?

Michael Vels - *Hydro One Limited - CFO*

No, we don't separately quantify those, but I can give you a feel for relative quantum in terms of priority. The largest impact for the quarter compared to last year would have been the impact of weather. The second probably -- well for sure actually is the non-comparability on the bad debt experience compared to last quarter. And then beyond that the impact of the low ROE, the increased costs, and other various items would be sort of a fairly distant third impact.

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Ben Pham - *BMO Capital Markets - Analyst*

Okay. And I guess with the ROE, you mentioned before every 50 basis points about $0.05 or so on EPS?

Michael Vels - *Hydro One Limited - CFO*

That is approximately correct, yes.

Ben Pham - *BMO Capital Markets - Analyst*

Okay and that is the least impactful then. And my second question just on the weather side, and I'm not sure you have done studies on this relative to your peers. But I'm wondering with the weather impacts you have seen this quarter and over the last few years, are you guys a bit more sensitive to weather impacts and maybe better utilities in Canada and maybe more generally across North America?

Michael Vels - *Hydro One Limited - CFO*

I am not sure -- well, every utility will be different because some utilities have decoupled their delivery rates, for example, from the consumption rates and certainly our distribution business is moving that way. Within a few years approximately 70% of our distribution rates will be fixed and not exposed to consumption differences at all.

On the transmission side, similar to many other utilities, our revenues -- pricing is fixed based on utilization of peak load and, as a result, weather patterns can impact that from month to month both positively and negatively. And that would not be dissimilar to a transmission business per se. So, yes, it varies depending on the business model of the utility.

I will say that, as we have noted, many utilities, as they have been reporting this quarter, have actually identified the milder weather throughout the regions in which they operate as a factor. We see it from the perspective of long-term value, it is a fairly -- it is a short-term timing difference and not something that we are particularly concerned about.

Ben Pham - *BMO Capital Markets - Analyst*

Okay, well, thanks for taking my questions. And I also wanted to extend my congratulations, Mike.

Michael Vels - *Hydro One Limited - CFO*

Thank you.

Operator

Andrew Kuske, Credit Suisse.

Andrew Kuske - *Credit Suisse - Analyst*

I guess when we look at the electricity environment in Ontario it is obviously very political and we have got to run up to the next election with the outside date probably being just another year from now. So do you feel that you are largely insulated from some of the political risks just given the timing of your rate filings that you have both on the TX and on the DX side?

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Mayo Schmidt - *Hydro One Limited - President & CEO*

Andrew this is Mayo, thanks for your question. Fortunately and appropriately the organization is operated under a governance agreement which has the Province as a shareholder and not as a manager of the business. And I have got to say and would certainly comment that they have acted exactly in that manner.

We have run the business as a commercial organization under an independent Board -- strong independent Board of Directors with a diversity of skills, acted on our own. And I think one of the key things I would say is our organization's ability to put together a plan to go to the Province, which is the Fair Hydro Plan, in effect what is almost a $3 billion per annum reduction for multiple years over the course of only just a couple of weeks is rather extraordinary.

So, I would say if there is -- frankly if there is an influence it has been our influence here in the Province at home. And whether it is turning the power back on for residents, putting affordability programs in place, getting conservation programs in place, that has really been the focus.

So from a political there certainly is a lot of noise in the marketplace, but it is not running our business and frankly I think it will take its course. But we don't see it will have any effect. I think the regulator will consider our application on the merits of the application. And I would say that with our 400 engineers in the business and our almost 200,000 kilometers of lines, we have done deep analytics that has been very well received.

We told the Ontario Energy Board we would only apply for exactly what the system needs and we have also reduced our cost as a major contributor here in the Province to a rebuilding of the line. So we are confident about this year is going to be a dynamic year for our organization. We are very positive about what is an front of us. And we are not distracted by the events of an election.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, that is great, thank you.

Operator

Robert Catellier, CIBC World Markets.

Robert Catellier - *CIBC World Markets - Analyst*

You have kind of answered this through your response to various other questions. But I just want to ask it specifically. And the question is how do you expect the departure of Michael Vels will impact companies to pursue more significant M&A? And what adjustments will you need to make?

Mayo Schmidt - *Hydro One Limited - President & CEO*

So, thanks, Robert. It is Mayo. Mike has been a terrific contributor here and of course Mike and I arrived very early. And I think like any leader would do and the Board would expect is that we spent our time over the course of, Michael and I, the last two years is building a very, very strong team.

And that is across the business whether it is in finance, Paul Barry in the M&A group; Ferio Pugliese in the customer and government relations and communication areas; Greg Kiraly has been introduced this morning who is driving the operations who probably has about 80% to 90% of the operational excellence program in his responsibility.

So there is no doubt that Mike will be missed. He would be an extraordinary asset for any particular business. But to his credit and the credit of the leadership team, we have got the entire new leadership team has been here for seven months, we rebuilt at the BP level on planning and operations. And we feel very confident in the strength of the teams here at the organization.

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So, Mike has left his group in very good shape to continue on without missing a beat. Chris Lopez has come in as Senior Vice President of the finance group, he has got a background in the T&D businesses coming out of the West at of TransAlta.

So we feel that we are in really good shape and have strong attributes and particularly I think about, as we mentioned, on the growth side we have got, I'm certain, one of the strongest M&A teams in North America today. And so we have good resources. So we are feeling confident about this year.

Robert Catellier - *CIBC World Markets - Analyst*

Okay, that is helpful. And then I just have a follow-up question for Michael. I believe you said, and understandably, you don't expect the Fair Hydro Plan to have an impact on the income statement. But I am wondering would there not be a positive impact on the bad debt expense or is it just not material enough to have any significant influence?

Michael Vels - *Hydro One Limited - CFO*

No, that is a very insightful comment. Clearly no direct impact on us because the improvements in the bills are funded by the Province. But to the extent that our billings are lower, our accounts receivable would clearly reduce.

Secondly, many of our at-risk customers will now receive bill relief and will also have greater access to those affordability programs and help them to improve their conservation measures through the fund that we have helped set up and will continue to administer.

So at the margin clearly we are hopeful that our bad debt expense would improve. But you are 100% correct, I wouldn't place a high degree of materiality on it. Our collections group and our customer group is actually doing a fantastic job and has been doing so for the last 18 months since we started to reduce our receivables and get our book in shape. So, yes, some marginal improvement, but we are in pretty good shape today.

Robert Catellier - *CIBC World Markets - Analyst*

Okay, thank you. And congratulations on your news.

Michael Vels - *Hydro One Limited - CFO*

Thank you.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

If I can come back to the acquisition topic and you mentioned 2017 quite positive on the outlook for acquisitions. I guess two parts here, just first can you talk about the balance and your approach between your desire for geographic diversification in the US versus, as you described it, core competencies in the Ontario LDC rollup in a regulatory framework in Ontario that really provides synergy upside that almost every other North American jurisdiction doesn't have.

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And then as you think about just the US and timing, how are you approaching US utility uncertainty particularly with respect to tax policy and impacts? Is this an opportunity to step in when others are stepping back? Or do you want to be more prudent and just kind of take a step back and not move in until you get clarity on the tax issue?

Mayo Schmidt - *Hydro One Limited - President & CEO*

Yes, thanks, Robert. It is Mayo. Consistent with your thinking, we think about the businesses where we have core competencies, transmission, distribution, and in fact that would apply to gases. As I might note that a number of our executives here, including Greg's background, is in the gas business and I think clearly comfortable with those businesses. And as you are probably aware in the remotes in the far north we are also involved in regulated generation.

So things like hydroelectric gas and the T&D in a regulated basis are all interesting businesses for us. And we are not -- as we look at the US tax regime and frankly I think it plays a bit to the strong suit for Canadian companies right now. We are attractive partners for US counterparties.

Secondly is if it appeared to us if there is an effect it is going to be to the advantage of Canadian companies in forms of interest tax deductabilities. So 2017 is really, as we indicated over the last year and a half when Michael and I were meeting with many different parties, that 2017 was a transitional year for us where we believe that we would be active in the market.

We don't intend to force anything to happen, but where we find great partnerships of organizations that are in a good position that complement our businesses we have the confidence and would certainly act on that.

And over the course of any transaction, the months that it takes to get to a final outcome and then go through a regulatory process, we will also examine the regulators in the markets in which we seek to have geographic diversity. And we also like the idea of entering markets where there is a multiple of opportunities that can be executed on over the course of the years to come.

So we think about this three-dimensionally, it isn't just a single opportunity. But when we find the right partnership, how that partnership can grow and what it can do collectively together as a larger more impactful business.

So we are hopeful but we certainly are going to force anything to happen, that wouldn't be our style. But where we see positive accretive transaction with a good partner we would be very pleased to take advantage of that opportunity with that partner and gain for both parties geographic diversity. Because I think any US partner seeing our low-cost of capital, the quality of the organization we are and the quality of the regulator we have would see us as a very good partner.

Robert Kwan - *RBC Capital Markets - Analyst*

That is great. Thank you, Mayo, and best wishes to Mike with the new opportunity.

Michael Vels - *Hydro One Limited - CFO*

Thanks, Robert.

Operator

Frederic Bastien, Raymond James.

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Frederic Bastien - *Raymond James - Analyst*

Just want to build on the M&A topic a little further. Is there anything stopping you from making a big acquisition outside Ontario right now? Does the Province ownership need to go from a majority position to a minority position first?

Mayo Schmidt - *Hydro One Limited - President & CEO*

So what I would say is I don't qualify my comment as the word big because we are not suggesting what size necessarily. But in our construct there is not a circumstance by which we would have a limitation. We just simply think over the course of the natural evolution of finding a partner, executing on a mutually beneficial transaction that that natural time will give the Province the time necessary that they may choose to take their final steps in terms of the sale of shares.

And that is of course entirely in their hands and they will advise us when they are prepared to do so. But, no, we don't see that we have restrictions. I mean the only restrictions would be there is a maximum of 10% ownership in Hydro One. And the Province would maintain over the course of time a 40% ownership. But we don't see that in any way that ties our hands and they are a shareholder, not a manager, of the business and quite frankly they have been a stellar shareholder.

Frederic Bastien - *Raymond James - Analyst*

Thanks, Mayo.

Mayo Schmidt - *Hydro One Limited - President & CEO*

Thank you, thanks, Frederic.

Operator

Thank you.

Bruce Mann - *Hydro One Limited - VP of IR*

(Inaudible) I wanted to say thanks to the operator and the team here at Hydro One. I would like to thank everyone for investing some of your time with us this morning. We know it is a busy period. We are having our annual shareholder meeting at 9:30 Eastern Time. If you are interested there is a webcast of it, you can find it on our website, just go to the IR section and then Corporate Governance.

To the extent you have any questions that weren't answered on the call this morning, please feel free to reach out to myself or my colleague, Omar. Our contact information is on the release and also on the website and we will get them answered for you. So thank you again for joining us for your interest and enjoy the rest of your day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does concludes today's program and you may all disconnect. Everyone have a great day.

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