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CORPORATE PARTICIPANTS

Christopher Felix Lopez *Hydro One Limited - SVP of Finance & Acting CFO*

Ferio Pugliese *Hydro One Limited - EVP of Customer and Corporate Affairs*

Gregory K. Kiraly *Hydro One Limited - COO*

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

Omar Javed *Hydro One Limited - Director, Investor Relations*

Jamie Scarlett *Hydro One Limited - EVP & Chief Legal Officer*

CONFERENCE CALL PARTICIPANTS

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

Benjamin Pham *BMO Capital Markets Equity Research - Analyst*

David Galison *Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities*

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

Linda Ezergailis *TD Securities Equity Research - Research Analyst*

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

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

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

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

PRESENTATION

Omar Javed *- Hydro One Limited - Director, Investor Relations*

Good morning, everyone, and thank you for joining us. I'm here in Toronto with Hydro One's President and CEO Mayo Schmidt; as well as our Senior Vice President of Finance Chris Lopez; Greg Kiraly, our Chief Operating Officer; Ferio Pugliese, our Executive Vice President of Customer Care and Corporate Affairs; and Jamie Scarlett, our Chief Legal Officer.

We'll provide some brief comments on our fourth quarter results and then spend the majority of the call answering as many of your questions as time permits. There are also several slides which illustrate some of the points we'll go over in a moment. They should be up on the Webcast now, or if you've dialed into the teleconference, you can also find them on Hydro One's Website in the Investor Relations section under Events and Presentations.

Today's discussions will likely touch on estimates and other forward-looking information. You should review the cautionary language in today's earnings release and our quarterly MD&A, which was filed this morning along with the Annual Report, regarding various factors, assumptions and risks that could cause our actual results to differ as they all apply to this call.

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

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

Thank you, Omar, and good morning, everyone. Before I begin and continue this call, I would like to acknowledge the tremendous loss we experienced in December. The entire Hydro One family came together in the days and weeks following the tragedy to comfort the teams and the families and commemorate the loss and the lives of the teammates we lost on December 14th. James, Jeff, Darcy, and Kyle are in our thoughts as we continue to support their families and loved ones. Nothing is more important to myself, this company and our employees than the health, safety and wellbeing of every single person at Hydro One.

With respect to the business, as you will see from today's discussion, significant strategic initiatives are underway at Hydro One. We are focused on bringing optimization and innovation to our core to improve customer service as well as drive operational excellence, while diversifying with new businesses and creating growth.

2017 was a transitional year with sustainable growing earnings affected mainly by a lower return on equity and unusually mild weather during the first three quarters of 2017 followed by a return to seasonal weather in the fourth quarter.

These external factors were offset by management's intense focus on operational and productivity improvements. As a result of our performance on these fronts, we had a successful fourth quarter upon which Chris will elaborate further.

Privatizations have made it possible for us to enact powerful changes at Hydro One. It has delivered a significant cost savings for our business, improved customer service and created a greater emphasis on corporate social responsibility.

We're doing more for less. Our focus on operational improvements resulting in cost savings has been resolute. We became a public company with new leadership in November 2015. In 2016 and 2017, we delivered approximately $114 million in productivity savings. Last year alone, we achieved $89.5 million in savings through improved management and efficiency programs.

Our operations team deployed the largest field force innovation project, which we have spoken about before, known as Move to Mobile. We ran competitive procurement processes for materials and equipment and leveraged our scale. We optimized our fleet by using data analytics and telematics to identify underutilized vehicles and remove them from service, which has led to a significant fleet reduction of approximately 10%.

Launched in October of last year, our forestry team is now positioned to achieve greater performance on vegetation maintenance with the introduction of the optimal cycle protocol that reduces our tree-trimming cycle from 10 years down to three years. The initial results of this innovation approach are positive, having achieved positive outcomes in 2017.

Hydro One continues to invest in the reliability and performance of Ontario's electricity, transmission and distribution systems, address deteriorating infrastructure, facilitate connectivity to new generation sources and improve service to customers.

For our transmission business, that translates into a 41% improvement in the duration outage index SAIDI when compared to the five-year average. In the fourth quarter, we placed $733 million worth of assets in service compared to $699 million in 2016. This represents an increase of 4.9% and precisely in line with our expectations that were filed with the regulator.

We saw a considerable improvement in customer service results in 2017. Customer satisfaction is the highest it has been in four years for our distribution customers. And we have also seen a 10% increase in our transmission customer satisfaction.

We've been gaining significant momentum in introducing customer-centric initiatives designed to improve our customers' experience while driving our accounts receivable levels to the lowest in our history, a $40 million reduction. Customer disconnects for nonpayment have declined by 57% as we work with people whom we serve. Billing accuracy was at an all-time high of 99.3% for 2017.

In November, Hydro One announced that our customers will start receiving a completely redesigned electricity bill. Over 600,000 customers now have the new bill, which is being rolled out as planned and on budget. The new electricity bill is clear, easy to understand and features the most important information customers are seeking front and center. Customers ask us to improve the bill, and it is already delivering greater value to our customers as well as long-term savings.

We've already seen a drop in the number of calls at the customer contact center relating to understanding the bill. We also expect to see additional savings as the new bill helps us to convert customers to paperless billing.

This year, Hydro One's board of directors approved the company's strategy, which places a greater emphasis on becoming a customer-first organization by leveraging innovation to optimize our operations, diversification and growth. While it is a journey, we are on our way to becoming a leading customer-centric commercial entity with a culture or operational excellence and continuous improvement that drives great value.

As we position Hydro One for the future, we see great opportunity on Ontario's long-term energy plan as well as the move to modernize the regulatory framework, which represents the shift toward putting customers' choice first.

We plan to invest in innovative practices to grow and modernize the transmission and distribution grids, improve reliability and efficiency as well as build a platform for connecting distributed energy resources.

We will evaluate new businesses that meet requirements for resiliency, reliability, sustainability, quality and security more cost effectively than ever.

A major milestone was reached in November in Hydro One Limited's acquisition of Avista Corporation. On November 21st, Avista shareholders approved the acquisition with approximately 98% of the votes cast in the meeting voting in favor of the agreement. The vote overwhelmingly demonstrates Avista's shareholder faith in Hydro One and their belief in our journey to become a North American leading utility.

As expected and highlighted in our last earnings call on January 16th, we received approval from the US Federal Energy Regulatory Commission, or FERC, on the merger application. As we continue to expect to obtain the necessary regulatory approvals, we are confident that bringing together our two companies will deliver long-term value. And we anticipate a joint closing in the second half of 2018.

As our primary Canadian regulator, we continue to be engaged with the Ontario Energy Board to review our various applications that are currently pending for review. While we have a strong viewpoint on the merits of the decision with respect to the transmission application, we continue to enjoy a productive working relationship with the OEB. We look forward to the ruling of our distribution application, which will transition Hydro One into the incentive rate-making framework.

Developing and maintaining proactive, respectful and sustainable relationships with the First Nations and Metis customers and communities is part of our company's longstanding commitment to indigenous people, communities, and businesses. We would like to welcome Ontario's First Nations communities as Hydro One shareholders.

Hydro One is committed to working with Six Nations to improve -- to move the Niagara reinforcement project forward under the principles of open communication and cooperation. This project will not only strengthen the working relationship between Hydro One and Six Nations, but will also provide long-term economic benefits for the community. We are participating where appropriate in consultation sessions for the project with Six Nations.

We also continue with our successful First Nations Get Local program, where we focus on face-to-face engagement with the First Nations customers in their own communities. As a result of our commitment to First Nations communities, Hydro One was awarded the Progressive Aboriginal Relations Bronze Certification in 2017. We are proud to be recognized for our corporate commitment to strengthen and increase indigenous procurement, employment, training and community investments.

Hydro One's executive leadership team grew in January with the appointment of Paul Dobson as Chief Financial Officer effective March 1st. Paul was most recently CFO of Direct Energy Ltd in Houston, Texas, where he's responsible for overall financial leadership of a $15 billion revenue business with 3 million customers in Canada and the United States. He has extensive leadership experience in finance, operations and customer services in the utility sector.

I am very pleased that our extensive North American search has attracted such a high-caliber leader with a proven track record of success. Paul will help us build on the strong foundations set by Hydro One's leadership team since the IPO.

Our North American reputation for storm restoration continues to grow. In January, the Edison Electric Institute presented Hydro One with an Emergency Assistance Award for the outstanding work of over 200 of our team assisting customers impacted by Hurricane Irma in 2017.

Once again, employees demonstrated their commitment to helping people when they need it most, when teams headed down to Vermont in November after a severe wind storm tore through most of the state, causing widespread power outages through the Green Mountains Power vast distribution system.

Remarkably, we dispatched the team in less than 12 hours after receiving a call from the North Atlantic Mutual Assistance Group to assist with the restoration efforts. We will continue to show North America that we are one of the leading utilities for power restoration.

Our Annual Report was released today. I would encourage you to visit our Website to review the report which features our strategy, 2017 achievements as well as our management discussion and analysis.

I thank you for allowing me the opportunity to detail Hydro One's fourth quarter highlights as well as some of the key features from the year. The utility sector is changing rapidly, and Hydro One is well positioned to lead the industry in customer service, operational excellence, innovation, new businesses and growth.

I'd now like to turn the call over to Chris for some additional color on the financial results. Chris?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Thank you, Mayo, and good morning, everyone. We saw a significant increase in both earnings per share and adjusted earnings per share compared to the fourth quarter last year. The positive results were driven by the transmission rate decision, cooler weather and cost management.

Our fourth quarter revenue net of purchased power was higher by 2.8% year-over-year. Seasonal weather resulted in higher consumption and distribution revenues for the period.

Transmission revenue for the quarter was also reflective of the rates implemented in the prior quarter following the decision on our 2017-18 transmission rate filing, higher disposition of certain OEB-approved variance accounts and higher export service credits.

For the first three quarters, both the distribution and transmission revenues were impacted by the milder weather, causing the 2017 year-over-year net distribution and transmission revenues to be relatively flat compared to last year.

In addition to these items, revenue in the quarter and annual results were impacted by the OEB-approved allowed return on equity, which was formulaically adjusted downward from 9.19% to 8.78% late in 2016, reflecting the prevailing interest rates at that time. For 2018, the allowed return on equity has been reset to 9%, reflecting steadily increasing interest rates during 2017.

On the OM&A front, costs this quarter decreased by 15% from last year, reflecting increased efficiency and cost-management improvements as well as some nonrecurring items. We experienced lower vegetation maintenance expenditures due to the new optimal cycle protocol that Mayo talked about last quarter and earlier today.

The change in scope to target trees and areas with a strong likelihood of causing an outage led to increased efficiency in our forestry programs. We also realized lower support service costs and lower bad debt expense attributable to reduced write-offs and improved accounts receivable aging as we continue to effectively manage our receivables.

In addition, we had three items that positively impacted the quarter, including a reversal of a provision for payments in lieu of property taxes, following a favorable reassessment of the regulations, insurance proceeds received on failed equipment at two transformer stations and a sales tax recovery of our previous year's expenses. Although these are in part nonrecurring savings, they reflect our continued focus on improving our processes and identifying cost-reduction opportunities.

Looking at the full year, OM&A levels were slightly lower than the prior year and, net of the Avista acquisition costs, were lower by 3.6%. This is due to similar factors as discussed for the quarter, partially offset by one-time storm restoration costs associated with Hurricane Irma restoration efforts in Florida, which are fully recovered in revenue with no impact to net income. As Mayo mentioned earlier, the lower OM&A costs include productivity savings in 2017, reflecting the aforementioned improved management and efficiency programs.

Below the operating cost line, we had an increase in financing charges resulting from a full quarter of interest expense on the convertible debentures issued in August to satisfy the equity component of the Avista acquisition. This was partially offset by lower interest expense due to a decrease in the weighted average long-term debt portfolio and weighted average interest rate.

For the year, an increase in the weighted average long-term debt outstanding, including the long-term debt assumed as part of Hydro One's Sault Ste. Marie acquisition combined with the interest expense on the convertible debentures, contributed to an 11.7% increase in financing charges. The increase in depreciation was due to rate-based growth.

Moving over to investing activities, assets placed in service are up this quarter from prior year by 4.9%, which was driven by the transmission segment. For the year, transmission assets placed in service are lower than the prior year due to substantial investments in two major local area supply projects being placed in service in 2016, the Guelph Area transmission refurbishments and Toronto and midtown transmission reinforcement projects. However, the transmission efforts placed in service in 2017 were in line with the OEB-approved target.

While the distribution segment had lower in-service additions in the fourth quarter compared to last year, for the year, assets placed in service increased by 4.1%. Some of the projects driving this increase are the Move to Mobile project that has provided over 2,000 staff with improved processes and tools that ultimately enhance customer service and drive down per-unit costs, an upgrade to the outage response management system and a new operation center in Bolton.

Capital investments of $431 million were made during the quarter, which is lower than the prior year. Our capital investments in 2016 were elevated due to major projects such as those in Guelph and midtown Toronto mentioned earlier today and the Clarington Transmission Station project. Our capital investments in 2017 were further impacted as we managed rate-based additions in our distribution business over 2016 and 2017 to OEB-approved levels.

In terms of our regulatory update, as we mentioned last were, we filed a motion to review and vary portions of the transmission rate decision, including objections that a portion of the tax savings resulting from the Government of Ontario's decision to sell its ownership interest in Hydro One Limited and its subsequent IPO should be applied to reduce the revenue requirement. We also filed an appeal of the decision to the Ontario Divisional Court, which was stayed pending the outcome of the OEB review and variance motion. On February 12th, 2017, the OEB held an oral hearing on the motion to review and vary. We have made our submissions and answered questions of clarification.

We continue to record revenue using a revenue requirement that is inclusive of 100% of the tax savings resulting from the Government of Ontario's decision to sell its ownership interest in Hydro One based on our belief that the OEB's direction to include only a portion of these savings in revenue requirement was based on four principle errors in the tax savings determination, which are clearly articulated in Hydro One's position.

On November 23rd, 2017, the OEB approved the 2017 rates revenue requirement of $1,438 million. On December 20th, the OEB approved the 2018 rates revenue requirement of $1,511 million, which included a $25 million increase due to updated cost of capital parameters.

On the distribution side, on December 1st, 2017, the OEB set interim rates based on current OEB-approved rates with no adjustment. On December 21st, we filed an update to 2018-2022 reapplication that described the impact to proposed revenue requirements of various developments, including the updated cost of capital parameters, an inflation factor for 2018 issued by OEB and the reduction in the 2018 OM&A forecast and 2018 to 2022 capital forecast.

In terms of the application process, we received interrogatories from the OEB staff and interveners in late January and have filed all responses in February. A technical conference is scheduled for March 1st, 2018. At this time, we cannot estimate when the decision would be anticipated.

In regards to the Orillia Power MAAD application, Hydro One filed its final argument on the motion to review and vary the OEB's decision to delay a decision on the application until Hydro One defends its cost application proposal in the 2018 to 2022 distribution application hearing.

On January 4th, 2018, the OEB granted the motion and referred the MAAD application back to the original OEB panel for reconsideration based on both procedural unfairness and the impact that a lengthy delay will have on the operations of Orillia Power. In February, the OEB asked us for further evidence regarding our expectations of the overall cost structures following the deferred rebasing period and the effect on Orillia customers.

For the Avista transaction, as Mayo mentioned earlier and last quarter, we filed joint applications with five state utility commissions and the US Federal Energy Regulatory Commission, or FERC, to request regulatory approval of the transaction and filed a preliminary proxy for shareholder approval of the merger with the US Securities and Exchange Commission. Approval has since been received from FERC.

In the coming months, we will file additional applications with a number of other US agencies, including the Federal Communications Commission and the Committee on Foreign Investment in the United States.

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

Omar Javed - *Hydro One Limited - Director, Investor Relations*

Thank you, Mayo and Chris. I will request the operator to please explain how she'd like to organize the Q&A polling process.

QUESTIONS AND ANSWERS

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

Good morning, everyone. The Annual Report does a good job of highlighting the productivity savings that have been captured in 2016 and 2017. Looking out to 2018, do you expect a similar acceleration of the -- capturing these productivity savings, or can you comment on what opportunities are in front of you for 2018?

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

Rob, I'd be happy to. And it's actually a good question. The organization really has gone through a transformation of culture. And in that culture is really learning how to be effective in terms of sustained productivity. And we've always seen this as continual improvement. So we certainly expect to have the momentum and the projects necessary to continue to deliver savings to the organization.

And I might ask our Chief Operating Officer Greg to make a couple comments because, as you might guess that upon arrival of the leadership team just September of 2016, in order to get their teams in place, get projects underway, get the analytics done and then take action on those projects, and you're beginning to see that activity and the momentum being achieved in the 2017 period, but, Greg, if you might just comment, please?

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

Sure. Thank you. So in 2017, we saw a number of productivity improvements, as Mayo already mentioned. And as a result of technology improvements, our Move to Mobile program, that reduced the unit cost on a number of activities, whether it's a pole replacement or a new service connection for a customer. Move to Mobile will continue to generate additional productivity savings in both 2018 and beyond.

We've outsourced some functions, like underground cable locating, and cut our costs in half. We implemented our telematics solution, which reduced the number of fleet vehicles that we have. We believe there's more opportunity there as well. So overall, the trajectory is on the increase for productivity savings in 2018 and beyond that will eclipse what we achieved in 2017.

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

But, Rob, I might also add and ask Ferio to make a comment here because, in our customer side of the business, it isn't just only a matter of properly servicing our customers, but we've made some significant improvements and gains. And I'd really like him to illustrate this for everybody's benefit. It's been a terrific year on the customer side of the business also.

Ferio Pugliese - *Hydro One Limited - EVP of Customer and Corporate Affairs*

Yes, thanks, Mayo. And just some color around that, I think most notably we've seen the greatest improvement in just the reduction of our accounts receivable as a result of the overall collection policies. What we've seen there is a total decline of overview accounts receivable by about 33% year-over-year, roughly $77 million. And bad debt expense is now tracking favorably with that. And that's down 25% year-over-year or below budget.

The reduction in the adjustments to those policies has also led to a reduction in the total disconnections. And I highlight that for color because what that is doing is also giving us productivity improvements on the operations side because that's less trucks being rolled out to undertake disconnections. So net-net, we're seeing the bad debt expense and accounts receivables down, less disconnections, more people attached to the grid and today paying their bills.

And in addition, one of the biggest points of focus for us on the customer side has been moving to the digital channel. And so we've seen a good migration of over 110,000 customers enrolled in Hydro One's new e-billing solution. And that's already delivering savings in excess of $05 million, actually closer to $600,000. And those are just initial results.

So that gives you a flavor of some of the initiatives that are underway. As we look into the next quarter, obviously, and into 2018, to your question about what's going on in the coming year, we're going to continue to just lean, put our shoulder to the wheel on those improvements. We've got the call center transitioning back in. And there are some significant savings that we've also identified with the insourcing of that service.

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

All right. I appreciate that fulsome answer. As a follow up, US tax reform on Avista, does this change the expectation of accretion for that deal? And how do you think the utilities will treat US tax reform by state?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Hi, Rob. It's Chris Lopez here. Yes, so in the last call, we had highlighted an impact of $0.01 to $0.02 accretion on the US deal, and that was based primarily on the change in tax rate from 35% to 21%, which is exactly what played out.

There was one additional change that was made by them that was -- that came to fruition. And that was the removal of any hybrid debt structures. And what that really means is any debt structure that's treated as equity or debt in one jurisdiction but the opposite in another. That will further impact the deal by approximately $0.01. So we will revise our guidance to an impact of $0.02 to $0.03. It will still be accretive. And we will look at other options to offset that or minimize that additional impact.

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

Thank you. I'll jump back in the queue.

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

Thanks, Rob.

Operator: Thank you. Our next question is from Linda Ezergailis of TD Securities. Your line is open.

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

Thank you. Just a follow-up question on US tax reform. It appears that deferred income taxes have constituted a significant portion of Avista's operating cash flows. I think it was about a third in 2016. Can you comment on your expectation for how the regulators might provide some smoothing of treatment of that in terms of revenues or what the impact would be to accretion if there was no mitigation on that front in terms of refund or what the amortization schedule might be contemplated as for refunding that?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Hi, Linda. It's Chris here. Well, I can't give you specific guidance at this point. We are working with Avista and the regulator on what possible options might be. Our expectation is that the impact is offset. So any benefit of the reduction in tax rate will go to the rate payer, but the return on equity and the cash flows would be kept to a reasonable number to allow the regulating agency to make it -- allow return on equity.

So again, it's a little too early to call. Moody's did put out a paper, which I know it's public, that talked about, if there was no adjustment and the regulated entity suffered the entire amount, there would be an impact to ratings potentially, but that assumes no change by the regulator, which we do not think is reasonable.

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

Okay. And just to follow up, other credit implications, might this affect how you think about your financing plans going forward? Can you comment on that?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Not at this point, Linda. We don't expect to see that change our financing plans.

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

Okay. Thank you. And maybe just another question with respect to your fourth quarter specifically. Your OM&A for the fourth quarter dropped by 15%. Can you maybe help us stratify what might be attributed to kind of ongoing cost initiatives, like lower forestry costs, lower support services costs versus your reduction for provision of payments in lieu of property taxes as well as I guess there was a bit of a tax recovery in your distribution as well?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

So overall, Linda, what I would say there is that, although the fourth quarter had -- the amount that you called out there, a large reduction in cost of 15%, some of those savings actually reflect savings across the year. And what happens is that the activity is concentrated in the back end of the year. So the way I'd say that is that the -- roughly three-quarters of that benefit would be repeatable in 2018 and beyond, but it would be spread across the year. I don't expect to see large lumpy reductions each quarter, like we just saw. It's just that these programs and these efforts culminated in Q4. So you saw a larger distribution to Q4 versus -- we expect that to happen equally across next year.

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

Thank you. I appreciate that context.

Operator: Thank you. Our next question is from Robert Kwan of RBC Capital Markets. Your line is open.

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

Morning. If I can come back to tax, I think, Chris, in terms of some of the offsets, it sounded like maybe you were describing what might be happening at the operating company level. Just wondering as you elevate that to the holding company, and I think a little bit what Linda was getting to with the deferred tax or the cash tax shielding, what are you seeing in terms of the cash flow impact and what that means to funding of rate-based growth?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

So at the holding company level, the only impact that we have at this point is the reduction in the tax shield on the back leverage. And that's been reduced. So we've highlighted what that is, but we don't expect that to impact our financing plans at this point.

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

Okay. If we just think about US acquisitions more broadly, do you see kind of the uncertainty and the reduction in valuations as more of an opportunity past Avista, or is it a reason to be more cautious, get Avista completely under your belt, operate for a period of time in what seems to be an evolving regulatory environment and how people are going to be dealing with tax, tax offsets and the like?

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

Robert, it's Mayo. Great question. Really, our objective, which we've to date accomplished, was to find a unique opportunity with a high-quality asset in a unique jurisdiction that offered future opportunities. And by future, we mean post the closing of Avista some years down the road.

We see it as a rich environment in terms of growth. We see it as a good environment in terms of potential consolidation in the future. It's given us nice diversification into gas as well as generation, all on respecting our investors' interest in seeing the heavy weighting of regulated earnings.

So it really is to your good point about getting Avista closed, gaining that experience. We've got seasoned professionals that are used to doing integrations in terms of the things that can be integrated and the purposes of finding productivity and efficiencies in the particular businesses.

Even though it runs and it operates as a standalone business, we -- it doesn't mean by any stretch that Scott Morris and I working together won't identify with our leadership teams the unique and special opportunities.

But it really is about, while we get Avista closed, we monitor opportunities. But the other side of it is we're keeping a keen eye on innovation here at home. There's still an LDC market that over the course of time that should consolidate. But we're also focusing on innovation opportunities behind the meter in our own backyard.

So I think a combination of those efforts will -- as well as keeping a strong eye on efficiency and cost reduction in our own business will add to a real full year in 2018 for us, just minding our own opportunities.

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

So is the message to the market that certainly focus on Ontario, focus on closing Avista and getting that kind of settled, not to really expect anything on the US M&A front in '18? I don't know if you're -- are you willing to make a statement on '19 as well?

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

Well, we don't comment on -- in terms of what our intent may or may not be. And I mean that is driven by strategy in terms of reflecting on competitors. But I would tell you that we are absolutely focused on getting Avista closed. It is the number one priority in the organization at this time. And we've got a no harm test, which is we're not going to get involved in alternative opportunities that would impede the closing of Avista. Should unique opportunities come along, they'll be assessed. But we don't see that as in any way distracting our attention from Avista. And that is the thing that we're focused on right now.

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

Yes, that's great. Thank you very much.

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

Yes, thanks, Robert.

Operator: Thank you. Our next question is from Andrew Kuske of Credit Suisse. Your line is open.

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

Thank you. Good morning. I appreciate the granularity on the quarterly skew and the OM&A reduction. But maybe just another question on the OM&A. If you could break it down just between, effectively, the hold co, so the Hydro One Hold Co, versus the underlying operating entities that are regulated, is that possible?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Andrew, I'm just trying to understand the question. I think you're asking -- so which way -- the benefit potential would go back to the rate payer versus the investor? Is that the question, or --

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

That's ultimately where I'm going with it, yes.

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

Yes, so at this point, the entire amount goes to the investor. But I haven't broken it out that way. So I think we can take that call offline. And we can try and give you a little more color around that breakup.

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

Okay. And then maybe just more broadly, when you post up pretty impressive OM&A reductions, and I'm not being patronizing about it, but when you have that kind of an OM&A reduction in the business, does that become a bit of a calling card for other utilities in the province to prospectively align with you from an M&A standpoint in the future because the numbers are -- they're just impressive, and that means a lot of benefits for rate payers and ultimately for shareholders?

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

Andrew, I think it's an excellent point. I think, not only just singularly the OM&A, but the work that's happened on the strategic steps of insourcing call centers, the improved accuracy of billing, the improved response time on inbound calls to organization, there's a whole suite of activities that we've migrated and executed on through the course of the year.

I think it demonstrates a beyond compelling value creation for any other party that participates in our market, and understanding the province has always been fully supportive of consolidation, but we're also dealing with municipalities that have their own local opportunities and challenges that they have to assess.

But we do remain available, and we are often approached on consolidation opportunities in market. And they understand this is a really -- the leadership really is -- the community's been outstanding. They see the value proposition. They are so excited about Hydro One completing the transaction in their communities. So we need to through our regulatory process.

But I think your point's exactly right is it's beyond compelling financial metrics. And we're going to continue to keep a good eye on that and be available for opportunities as municipalities determine their future of work in the area of their own municipalities.

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

And then maybe just one natural extension is just on the scalability of call centers. Obviously, you're one of the largest players in the province. And call centers are tricky to manage from a resourcing standpoint, very difficult for smaller utilities. How do you think about that effort? What's the maximum scalability from a call center and just the customer interface that you've improved quite dramatically?

Ferio Pugliese - *Hydro One Limited - EVP of Customer and Corporate Affairs*

Hi, Andrew. It's Ferio. Good question. As we undertook the insourcing of the call center, part of our negotiations with the PWU on the new contract was to build flexibility into those arrangements to do exactly what you just described there. We do have now flexibility to scale our staffing up or down. We're not tied to fixed FTE levels, as we were in the past. We have the introduction of a flexible workforce, which allows us to control unit costs and variable costs in the call center.

But in addition, it gives us a platform for scalability. So in the event that Hydro One down the road sees an expansion of both regulated and unregulated businesses, we now have the opportunity to scale that into this call center operation.

And we're not limited or hindered by restrictions in the job classifications. It actually allowed the job classifications to be reclassified, redefined so that the agents can actually take on a broader spectrum of work than what they're doing today. And that was a strategic intention with the insourcing.

So it was to be brought in on a unit cost basis lower, improve quality in terms of service to customers, but on the same token to provide a framework for growth that could help sustain other businesses as they come along.

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

That's very helpful. Thank you.

Operator: Thank you. Our next question is from David Galison of Canaccord Genuity. Your line is open.

David Galison - *Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities*

Good morning, everyone. So I was just hoping to turn back to the LDC market. And, Mayo, you had touched on it briefly. It's been a little bit since we've seen some meaningful consolidation there. So I was wondering if you could give a bit of an overview of what you're seeing the landscape evolving there.

And also, maybe touch on -- is part of the reason for limited consolidation is your focus on closing the Avista acquisition?

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

I think it is -- thanks, David -- a combination of things. One is keep in mind that, on the regulatory side, Hydro One itself is moving through -- just finished a two-year transmission, is now on a rate-based incentive for distribution and transmission for five years each. OPG just filed, had a big filing. And you can imagine, the size of their business, their filings in terms of volumes even much greater than ours.

So there's been real heavy regulatory processes over the course of the last 12 to 16 months. And we've got about another 8 to 10 months to clear a lot of that out of the way. And of course, that doesn't even take into account the work that we're doing on Avista within five states. So there's some real heavy lifting that's happening at this time.

We still stay open in terms of being -- having contact and discussions. Peterborough's been one that's been mentioned over the course of time as an opportunity for them to take advantage of Hydro One's scale and resources and should they choose to. So it's not closed off. But clearly our focus will remain on not only Avista, but clearing the regulatory filings that we have underway at this time.

And so I think the good news is it's all happening in the natural order of things. So it's sort of got a nice smoothing over a period of time here. But I think 2018 will be a year of significant volume activity and closing out a lot of the work ahead of us while our teams in the operations side, as Greg and Ferio have commented, keep a keen eye toward continual improvement on the cost-reduction side, which we've really gotten some momentum. And we've seen a significant cultural shift in the organization and have a keen eye toward constant improvement.

David Galison - *Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities*

Okay. And then just when you look at potential opportunities in the US versus further consolidation in the LDC market, do you have a preference either way, or how do you look at those?

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

Well, I think certainly, at home is more of tuck in, and the US would be I say more generally broadly strategic. And you saw with Avista the unique opportunity for us to get involved in gas utility exposure in our portfolio. We've got real good experience in that area. And it's a real good income generator for us as well as the hydroelectric generation.

The opportunities here at home are generally tuck-ins. We surround -- just by nature because we're 99% transmission across the province, we surround every local distribution. So we have our employees living and working in the same communities that we're consolidating. So it's a natural course. And we can -- as we right-size our organization, we can absorb the people that are in the local LDCs into the business while remaining and executing on efficiencies and optimizing our OM&A. It's really a real unique time and unique opportunity over the course of the next couple of years for LDCs in the province.

David Galison - *Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities*

Thank you very much.

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

Yes, thank you, David.

Operator: Thank you. Our next question is from Robert Catellier of CIBC Capital Markets. Your line is open.

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

Sure. Just one quick follow up on the OM&A, I believe the timing on the insourcing of the call center was in December. So was there a one-time improvement in your productivity related to that?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

No, not in the fourth quarter, no.

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

Okay. And then when you look at Avista, how would you characterize the momentum you have there on getting the regulatory approvals? And at this point, is there anything in there that -- other than the tax reporting that you spoke about previously, so is there anything in the concessions or the commitments you have to make to rate payers and regulators that would cause your accretion estimates to vary?

Jamie Scarlett - *Hydro One Limited - EVP & Chief Legal Officer*

It's Jamie Scarlett. The process on Avista is unfolding as we expected it would, we do have five states and they do have their own process we've had to respond to a great number of data requests that took place through the fall and beginning of this year. We're now moving to a phase where we expect to have some consultations with staff in the various states, and at that time, we will have discussions around what sort of concessions need to be made both financial and non-financial none of which at least to date unexpected or have any real effect on our financial analysis that we've talked about so far.

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

And just to make sure, I might be jumping ahead a bit here, but do you think there's any requirement for asset divestitures of any type?

Jamie Scarlett - *Hydro One Limited - EVP & Chief Legal Officer*

No, I don't think there's any requirement of that sort. Remember, that wouldn't be something at the state regulatory level. If there was questions around divestitures, that would be more of a federal anticompetition type of requirement, and we don't think that there's any of those issues at all.

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

Okay. Thank you.

Operator: Thank you. Our next question is from Ben Pham of BMO Capital Markets. Your line is open.

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

Okay. Thanks. Good morning. On the last question on Avista and you mentioned you're not seeing any sort of financial impact that's material relative to your initial expectations, could you comment a bit more on the Alaska regulatory docket and maybe address some of the media articles that have come out? And is there any sort of timing risk to think about there when you look at the overall second half '18 timing?

Jamie Scarlett - *Hydro One Limited - EVP & Chief Legal Officer*

Sure. The Alaska situation, it's a bit of a different process. They don't have a contested hearing process. They opened to public comments. They've had about 100 public comments I would say. A lot of them, as you've seen in the press, have been concerned about aspects of our transaction. I would say that those concerns are universally unfounded. They relate to such things as concern over increase in rates, which of course are regulated in Alaska. So there's no incremental concern there. Concern over there foreign company buying the Alaska business, which again there's no real concern about how it would be operated.

We've reached out to the city and borough of Juno and had discussions with them. And we expect that we will answer those concerns quite readily. We've filed a response that we think answers those concerns comprehensively. Right now, the borough of -- city and borough of Juno has scheduled a session on Feb. 27 to invite comments from the public, which we will attend and respond to questions that are raised.

And most significantly I think this is very important that a number of the comments were made around the future of the Snettisham power facility and also the requirement to do interties with local generation assets. And the regulator in Alaska has recently issued an order saying that both of those issues are outside the ambit of this review. So all of those comments are effectively being put on the side. And what you're left with in Alaska are comments around rates, which I've answered, and around the fact that we are Canadian and not American, which again I think is an issue that will go away.

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

Okay. Thanks for an update on that. And maybe can you comment high level recent increases in interest rates and how resilient you think Hydro One is and maybe thinking about the debt that's needed for Avista and then, when you look at Ontario, the maturity schedule refinancing risk. Is there anything there to think about high level?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Hi, Ben. Chris Lopez here. So on the Ontario side, we're quite comfortable. As you know, the interest rate cost gets flowed through to rate payers. In regard to Avista, it would be the same for the debt as the operating -- as the OpCo. On the back leverage, there is -- as interest rates rise there, that will be an investor cost. But we did have substantial flexibility in the duration of the debt that we hold there. And we can still meet our targets in terms of returns by adjusting the duration between 5s, 10s, and 30s on debt financing on back leverage. So don't see any risk at this point. The interest rates haven't moved enough to cause us any concern. And we don't see that happening between now and the deal close.

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

Okay. Great. Okay. Thanks, everybody.

Operator: Thank you. And our next question comes from Mona Nazir of Laurentian Bank. Your line is open.

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

Good morning.

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

Morning.

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

My first question, and you touched on this, is the improved management efficiency programs that generated $90 million in savings, particularly as we move towards that performance-based model. There's a number of moving parts here. You touched on the positive impact of the Avista accretion, discussed in length the tax implications, the OEB TX decision. And when summarizing all of these items, net-net, I just want to get a sense of your longer-term thoughts for the company. Do you continue to expect to generate kind of mid-single-digit bottom line growth? Is there potentially some pressure to this or some upside, depending on your growth plans?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Hi. It's Chris here. So I think we've outlined our expectations in terms of rate-based growth for the company are still in the 5% range, 5-plus. And so we expect to keep that. We expect to have the opportunity to earn an additional 100 basis points or an increase in return on equity of 100 basis points on the assets here in Ontario. And that's the five-year rate filings that you're talking about. It allows us to earn 100 basis points. And after that, we share any upside with the rate payer. So our expectations are still the same in terms of growth or accretion. That would be in addition to that. And that would be growth in the LDC side, here in Ontario, or down in the US.

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

Okay. Thank you. And just secondly, on the LDC market and the consolidation efforts that are going on there, does the departure tax relief that's set to end this year impact your plans, or it's just more opportunistic, or is your focus really the Avista transaction?

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

I would comment, Mona, that the focus is certainly on the Avista transaction. It does not preclude us nor distract us nor take the necessary resources for Avista away to execute on LDC consolidation. So as we've done Haldimand, Norfolk, Orillia -- we've worked on or closed over 90 local distributions over the course of years. So it doesn't preclude that. And the departure tax, while considered, the meaningful accretion or value creation of the consolidation is so compelling that, even though there may or may not be a departure tax as we look forward into the future, while there is, we still have been able to close over 90 transactions. So we don't see that as an impediment to our success in that area. And that just goes to the compelling nature of the combinations.

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

That was very helpful. Thank you.

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

Yes, thank you.

Operator: Thank you. Our next question is from Frederic Bastien of Raymond James. Your line is open.

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

Hi, good morning. There's a long list of initiatives that you have ongoing to reduce costs. I was wondering if there are any other areas of your business that allow for longer-term savings or if there are any stones that might've been left unturned?

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

Well, I would say there's not stones that we won't be able to unturn and find more opportunity because our leadership team is only here, of course, the bulk of people, since last September, September of 2016. So I think the combination, the continual improvement, we absolutely do expect to find new and unique opportunities to continue to reduce our cost. This is just I think a case of gaining the momentum necessary to have a good start.

You saw things kind of pile into the back end of the year here. But you'll see I think generally, as Chris alluded to, a more smoothing effect as we move forward into the year. But I think a combination of constant improvement and looking to exceed our past performance is always going to be the objective and the strategy here.

And of course, keep in mind that not only a combination of opportunities that, once we have the opportunity to be engaged with Avista, we're still at a time now whereas they would say clean teams are working through things where we don't have -- we respect the anticompetition bureau's regulatory methodologies.

So those -- there's quite a number of opportunities that we're keen to get after here with our teams at Avista to talk about productivity between and even in fact the sharing of efficiencies. Avista's a highly innovative organization. And we've got our own innovation projects underway. And I think a combination of the two is going to lead to some meaningful outcomes for both organizations, both on top line and bottom line growth.

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

Okay. Perfect. That's -- that was my follow-up question on Avista. But you answered it well. Thanks.

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

Yes, thanks, Frederic.

Operator: Thank you. And we have time for one more question. Linda Ezergailis of TD Securities, your line is open.

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

Thank you. Just a follow up on Mona's question around growth. Specifically as it relates to dividend policy, I know it's a board decision, but can you give us an update on your discussions with the board and management's recommendations to the board in terms of factors to consider, whether it be a payout ratio of earnings, a payout ratio of free cash flow, credit metrics, etc.?

And net-net -- I realize there's some uncertainty around US tax reform and the effects that it might have on your cash flows. But net-net, do you see -- like how do you see your dividend policy evolving and how your dividend might be able to grow going forward over the next couple of years?

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

Thanks, Linda, for the question. Our board on a continual basis does reflect on -- as they think about dividends. And I think, in May of last year, we had a 5% increase. As we look going forward, we have the commitment to 70%, 80% payout. And I think over the course of this year will be -- a lot of visibility will be -- as I think about tax reform, we think about the regulatory environment and the Minister of Energy has underway a modernization, which is going to be very productive for customers, there's just a lot of activity in this particular year for the board to consider when it looks at its dividend policy and approval, associated approval.

So I think a combination of continued improvement and driving improvement on income stream will obviously lead them to positive thoughts regarding how they reflect on the dividends. But in fact, as a regulated business and stability of earnings is very important to us --that's why we focused on Avista, for example, because it's all regulated -- I think are some of the strong suits of our organization. So as you would expect, we'll -- our answer would be it'll be considered over the course of time. But I think we're quite positive about the future in the next couple years of momentum.

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

I'll just add to Mayo's point. You asked a question, Linda, about debt ratings. We're committed to maintaining our A rating at the corporate level. So we'll continue to stay within the metrics required to do that. And then the other part I'd add is that, as rate base goes up and earnings go up, I expect the dividend to stay in that range of 70% to 80%. So as earnings go up, I'd expect dividend to go up, to stay in that range.

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

That's helpful. And just a modeling follow-up question, can you provide what your achieved ROE was in 2017 for your distribution and transmission utilities?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

I can, Linda. Give me one sec.

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

I'm sorry?

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

I can.

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

Oh, thank you.

Christopher Felix Lopez - *Hydro One Limited - SVP of Finance & Acting CFO*

Yes, so the achieved transmission ROE, earned ROE was 8.96, and the distribution earned ROE was 9.5.

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

Wonderful. Thank you.

Operator: Thank you. And that concludes our Q&A session for today. I'd like to turn the call back over to Mr. Omar Javed for any further remarks.

Omar Javed: Thank you, Chrissy. The management team at Hydro One thanks everyone for their time this morning. We appreciate your interest and your ownership. If you have any question that weren't addressed in the call, please feel free to reach out. We will 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.