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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Hydro One Limited third-quarter 2016 results investment community teleconference. As reminder, this call may be recorded.

I would now like to turn the call over to Bruce Mann with the Hydro One management team. Please go ahead.

Bruce Mann - *Hydro One Ltd. - VP, IR*

Good morning, everyone. Thanks for investing a bit of your time with us this morning. I'm in here in Toronto with Hydro One's President and CEO, Mayo Schmidt, and our Chief Financial Officer, Mike Vels.

We will provide some brief comments and a bit of background on our results. Then spend the majority of the call answering as many of your questions as time permits.

There's several slides which illustrate a few of the points we will go over in a moment. They should be up on the webcast right now. If they are not or if you dialed in to the teleconference, you can also find them on the Hydro One website in the investor relations events section.

As the discussion this morning will undoubtedly touch on some estimates and other forward-looking information, you should review the cautionary language in the earnings release this morning and also our full-year MD&A regarding the various factors, assumptions, and risks that could cause our actual results to be different, as they all apply equally to the dialogue on this call.

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

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

Thank you, Bruce, and good morning, everyone. It is been one year this week since the IPO of Hydro One and I must say that I am proud of the Hydro One team and what we have accomplished over this brief, but intense, period.

The results we reported this morning demonstrate continued traction as we move through the early phases of the transformation of the Company. Net income of CAD233 million for the third quarter is an increase of CAD45 million, or 23.9%, from last year, principally driven by improvements in both transmission and distribution revenues, cost reductions, and a regulatory revenue adjustment in the third quarter of last year.

I would characterize these results as strong, reflecting improving operating cost control together with top-line growth, which in part reflects the demand benefit from a relatively warm summer here in Ontario. Our success in controlling costs and introducing efficiencies is a key part of our focus of providing our customers with reliable and affordable energy. It is the hard work of our teams in the field, on the line, in the stations, and facing our customers that helped deliver these results.

Shortly after the quarter concluded, the team really stepped up again when in mid-October a large, violent lightning and windstorm rolled through large area of our service territory, taking more than 90,000 of our customers out of service. Our crews responded to more than 525 separate outage events as a result of the storm, replacing polls and transformers to restringing powerlines while our customer care center fielded more than 35,000 calls, updating customers on progress.

The team pull together all available resources working day and night to quickly restore power to every customer in less than 24 hours. Restoring energy quickly and safely during events like this is a key element of our customer promises: ensuring reliable and consistent energy to all of our customers.

I am very pleased with the strength of the senior management team we now have in place at Hydro One following four additions to our team. I will start with Ferio Pugliese, who joined the team as our new Executive Vice President of Customer and Corporate Affairs. Ferio is well recognized in Canada as a customer service market leader and brings great experience building winning teams focused on servicing customers and communities, including most recently as president of WestJet's Encore airline.

Greg Kiraly also recently joined the team as our Chief Operating Officer. Greg is a seasoned utility executive with extensive background in electricity, transmission, and distribution. He brings best practices from large investor-owned utilities such as PG&E, Commonwealth Edison, and Public Service Electric and Gas.

Jamie Scarlet is our new Chief Legal Officer and is widely recognized as one of the top security lawyers in Canada. Jamie joins us after a long and successful partnership at Torys, having also spent time at the Ontario Securities Commission.

Additionally, Paul Barry joins our team as head of Strategy and Corporate Development. Paul has significant strategy, financial, operating, technology, and business development expertise in the US, Canada, and Europe, and has been a senior leader at large investor-owned utilities, including Duke Energy and Pepco Holdings.

Collectively, these individuals have proven track records helping to grow large-scale commercial enterprises, always putting the customer first and driving continual scale and efficiencies and in creating customer and shareholder value, and each of them are great additions to the team here at Hydro One.

There are two updates on the M&A front. First, in mid-October we received the final regulatory approval required to proceed with the acquisition of Great Lakes Power Transmission. We originally announced this CAD370 million enterprise value transaction back on January 29 of this year and following the final approvals in mid-October, we closed the transaction on October 31 as planned.

While the acquisition of Great Lakes Power's 560 kilometers of transmission line and infrastructure covering an area of 12,000 square kilometers, Hydro One now operates 98% of Ontario's transmission capacity. We expect the transaction will be accretive to earnings in the first full year. We look forward to providing excellent service to Great Lakes Power customers and excitedly have welcomed the company's strong group of employees to the Hydro One team.

Secondly, on August 15 we announced a definitive agreement to acquire Orillia Power, which is an electricity distribution company located in Simcoe County in Ontario, servicing a population of more than 30,000 customers. Importantly, Hydro One's existing service territory includes the areas surrounding the city of Orillia. We have also entered into separate agreements with the city of Orillia to construct a backup Ontario grid control center, as well as a regional op center and warehousing facilities which together makes this a real win-win transaction for the city, the employees and customers, and for Hydro One. We look forward to gaining the requisite approval so that we can move forward with this acquisition and related investments over the coming months.

I will close my comments by saying with the leadership team now in place and the organization fully aligned around our priorities, our team is excited to continue forward as we make this significant transition from a government entity to a commercial organization, focused on creating ever-increasing value for our customers and shareholders.

With that, I would like to turn it over to Michael, who will discuss the financials. Then we would be happy to take your questions.

Mike Vels - *Hydro One Ltd. - CFO*

Thank you, Mayo, and good morning, everyone. As discussed in this morning's press release and MD&A, our third-quarter revenue, net of purchased power, increased by 6% year over year and our adjusted earnings per share grew by [22]%.

There are several factors that affected the year-over-year results comparison that I will outline. Some are transactions related to our initial public offering last year, together with several nonrecurring items that together make the year-over-year financial changes less than fully comparable and should be considered when comparing to last year.

In terms of the IPO-related effects, there are two. Neither of these will continue to impact year-over-year comparability after this quarter, as we move past the anniversary of the IPO.

Firstly, we divested of Hydro One Brampton just prior to the IPO, which on a pro forma basis reduces both revenue and earnings as you can see on the slide deck on page 4. The impact this quarter is only for two months as the divestiture was effective on August 31 last year.

The second IPO-related item is the impact of the recapitalization at the time, which increased our leverage to match our regulatory deemed 60/40 debt-to-equity cap structure and has resulted in an increase in interest expense. Although some of that effect has been offset by lower cost of borrowings, given the low rates on borrowings refinanced during the year, and the higher proportion of short-term borrowings that we had outstanding during the quarter.

The combined impact on net income of the Brampton divestiture and IPO recapitalization compared to last year is a reduction of approximately CAD14 million in the third quarter of 2016 and CAD38 million for the year-to-date. In addition to the positive effects on revenue of changes in peak demand in rates compared to last year, there were two one-time items that affected the third-quarter revenue comparison compared to last year.

Firstly, an adjustment was made in the third quarter of 2015, reducing revenues in that period associated with our 2013-2014 transmission rate plan. The independent electricity system operator, IESO, sets annual province-wide conservation and demand management, or CDM, savings targets. These targets are used to calculate system load and, therefore, our rates.

The actual level of conservation savings achieved during 2014 were lower than the estimates which were used in setting our rates and the resulting higher revenues were returned to customers in accordance with the terms of our 2013-2014 rate order. And that return to customers was accounted for in 2015. No such one-time adjustment was required this year as this factor is no longer an element of our 2015 and 2016 transmission rates.

The second item was a -- and smaller -- was a regulatory adjustment in the third quarter of this year associated with an OEB decision on new rates that communications providers will charge for attachment to our distribution network poles. While the CDM adjustment was larger of the two, these items together drove CAD36 million of the year-over-year changes in revenues for the quarter.

On the OM&A side, during the third quarter we continued our focus on operations cost with lower cost and higher efficiencies for both the quarter and the year to date. For the year to date, the stabilization of our billing systems have allowed us to reach more usual levels of accounts receivable, bad debts, and related support costs.

On slide 4, on the regulatory front we continued to be engaged during the third quarter, both on the transmission and the distribution sides of the business. Regarding transmission, we are progressing on the two-year rate application that we filed with the OEB on May 31 in respect of our 2017 and 2018 rates.

During the quarter we completed the interrogatory phase of the proceeding and in early September senior management presented an overview of the rate application. This was followed later in September by a technical conference in which interveners had the opportunity to ask the Company follow-up questions and request additional information related to the filing. The oral hearing phase of the process begins on November 24 and is expected to end on December 12.

We are expecting a decision will be issued sometime in early 2017, at which point we will likely file -- I'm sorry, we have filed a request for the OEB to agree to allow the rates to be effective January 1, 2017.

In the distribution segment, we are progressing well in the development of our next rate application, expected to be filed early in 2017 and which will be under an incentive-based regulatory framework and will cover the five-year period 2018 to 2022. We have already completed extensive customer consultations in respect to this application and gathered some very valuable inputs that will support the rate application and several other processes are underway in preparation for that filing.

Also on the regulatory front, subsequent to the end of the third quarter on November 27, the OEB announced the 2017 allowed return on equity for electric and gas utilities operating in Ontario. The 2017 allowed return on equity of 8.78% is based on the OEB's annual formulaic reset, which takes into account changes from the prior year and forecasted government of Canada long bond rates, together with A-rated utility bond spreads.

Given the decrease in Canadian interest rates from the end of the third quarter of last year, the result is a 41 basis point decline from the 9.19% allowed ROE that was in effect for 2016. Holding everything else equal and given our current rate base, this change in allowed ROE in isolation would drive an approximately CAD30 million reduction in net income in 2017 as a result of reduced customer rates.

On slide 5, moving on from regulatory, as I mentioned a couple moments ago, total interest costs were relatively flat compared to last year, despite higher borrowing, as effective interest rates were lower than last year. Overall, you can see from this last slide that we exited the quarter with a very strong balance sheet, conservative leverage, solid investment-grade credit ratings, and significant available liquidity.

I will stop there and we would be pleased to take your questions.

Bruce Mann - *Hydro One Ltd. - VP, IR*

Operator, if you would take a moment just to explain to the participants how you would like to organize the Q&A polling process, we would be ready to take questions from the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Securities - Analyst*

Thank you, congratulations on a strong quarter. I have a question with respect to the storm in mid-October. Can you comment on any estimate you have in terms of lost revenue from loss load during that period and what sort of costs you incurred and how much of that might be recovered from customers, if at all?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

We don't have an estimate actually to hand, Linda. I can say that it was not a material effect on the quarter and shouldn't adjust your year-over-year comparisons.

Linda Ezergailis - *TD Securities - Analyst*

Okay. Then just as a follow-up, I didn't see anywhere in the release, and apologies if it is somewhere, any sort of update on your five-year CapEx outlook, if any. Or can we just use the prior numbers for 2016, 2017, and 2018?

Mike Vels - *Hydro One Ltd. - CFO*

We've not made any update at this point to our forward-looking estimates on capital, Linda. Having said that, as we, I think, pointed out in the last call, we do have a transmission rate filing that's in front of the OEB at this point. Those capital expenditures are for 2017 and 2018 and in fact our five-year projection in our rate request are higher than the numbers that we have included in our MD&A.

So I think it would be fair, in terms of your estimates, to ensure that you do take that rate filing into account. Those expenditures haven't been approved by the OEB and, as such, we haven't updated our forward-looking information and will likely do so in 6December of this year.

Linda Ezergailis - *TD Securities - Analyst*

Great, thank you. I've already updated for that. I was just wondering I guess more specifically on 2016, if you are tracking to plan or if we could see some changes to that.

Mike Vels - *Hydro One Ltd. - CFO*

I think, if anything, we would probably be marginally above by the end of the year, but we are tracking materially close to our plans.

Linda Ezergailis - *TD Securities - Analyst*

Great, thank you.

Operator

Rob Hope, Scotiabank.

Rob Hope - *Scotiabank - Analyst*

Good morning, thank you for taking my questions. Just on the successes that you are seeing on the cost containment, I was wondering if you could maybe update us on how you are tracking for your distribution business on the ROE relative to the allowed ROE there.

Mike Vels - *Hydro One Ltd. - CFO*

Thanks, Rob. Just so I understand your question; you're asking me how we are tracking on our return on equity for distribution compared to last year?

Rob Hope - *Scotiabank - Analyst*

Or your allowed? Because historically we've seen the distribution business track a little bit below.

Mike Vels - *Hydro One Ltd. - CFO*

Oh, okay; fine. So year-on-year comparison is pretty consistent at around 10% and that's marginally above our 9.19% ROE.

Rob Hope - *Scotiabank - Analyst*

All right, that's helpful. Then maybe just strategically, what would your views be on taking a non-controlling minority interest in a large urban Ontario utility? Would that be of interest to you if there was a path to full control?

Mike Vels - *Hydro One Ltd. - CFO*

Thanks, Rob, for that interesting question. I think the way I think about it is we have many local distribution customers and we have, in many instances, partnered with local municipalities in arrangements that have benefited their own customers and freed up funds for local needs. For example, as Mayo mentioned in our press release, we recently entered into an agreement with the Orillia Council.

That transaction, assuming it is approved by the Ontario Energy Board, will provide investment funds to Orillia. But also Orillia customers will see immediate reductions in their delivery charge: frozen for five years and then for the next five years increases below inflation and below what their experience would've been without us.

That is an example of a win-win arrangement that works for LDCs and their owners. In regards to other potential opportunities, I actually don't think it would be appropriate to comment on the business or the likely outcomes of our other customers' plans at this point.

Rob Hope - *Scotiabank - Analyst*

All right, thank you for the color.

Operator

Andrew Kuske, Credit Suisse.

Andrew Kuske - *Credit Suisse - Analyst*

Thank you, good morning. I guess the question is for Mayo and it's just following up on your theme on slide two with the strengthening of organizational muscle.

If you could maybe elaborate just on the executive team, do you anticipate further additions to the executive team in some of the core verticals that you just added in the last few months? Then maybe the parallel theme is to what degree have you thought about the organizational fat that exists?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

Sure, I'd be happy to comment on that. Let me say that the leadership team, as noted, is fully in place and engaged, already settling into organizing their teams around them. And we have seen certainly some immediate effect and very positive effect to that, which I think the public will generally become more visible over the course of the next few months.

So I don't see adding or other additions that are required at the top of the house, but certainly the leaders are forming their own teams. We are seeing great engagement for the people within their organizations, so I would say largely we are in very, very good shape.

The initiatives that we rolled out and are good to great over the course of the last eight months -- and there were about eight work channels -- have seen a great progress, which you are seeing as an element in the lift we have had in the earnings here. And so I would say that our focus right now, as we have indicated, in 2016 was building the muscle in this organization.

Now we're fine-tuning things. It's really the transition period of time, so I sort of review as a training camp which has I think been illustrated by the successful acquisition and integration of several LDCs followed by quite a number of areas like procurement, as well as our construction operations, which are on track to largely hit their numbers. So we are really, really pleased with the activities in those areas.

And then, Andrew, your last part of the question wasn't clear to me. Could you just repeat that please?

Andrew Kuske - *Credit Suisse - Analyst*

Just on organizational fat, what are your thoughts on just further cost-cutting efforts to maybe trim up the organization and get a bit more, to your training camp analogy, in fighting shape?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

We are certainly -- we have identified capital that we are or OM&A that we believe we can be effective with. I think that the plans that we have been executing on over the course of the last few months will continue to produce results for us as we go into -- and of course, here in November we are almost through 2016 and into 2017. So I don't see any slowing down of the effectiveness of the plans that we have had and that would be as we apply the skills that are being developed in those areas, whether it is procurement, integration, construction.

Forestry has really been -- has made some changes in how they approach some of the lines and has been both -- on cost-saving measures, but also more effective on productivity of dealing with more kilometers in a more efficient manner. So I'd say at the bottom line, we are getting more productivity out of the workforce at this time and we will expect to continue to.

Andrew Kuske - *Credit Suisse - Analyst*

That's very helpful and then if I may, just a question for Michael on just the balance sheet. How do you think about headroom that you have on the balance sheet, still maintaining the A rating? How much more leverage could you put in the capital structure to be maybe more representative of a typical utility, but still maintain the A?

Mike Vels - *Hydro One Ltd. - CFO*

So I will address that in a couple of ways. Firstly, I think it is important to note that as you look at our debt structure, our debt to equity is -- it looks a little lower than in fact what our actual debt to rate base is. We do have non-regulated deferred tax balance on our balance sheet that does boost the equity value and does show up in lower debt to equity number, for example. So we are capitalized at about 60% to 61% of our rate base. It would be our expectation that we would maintain that capitalization at the level which is consistent with our deemed equity thickness.

In terms of incremental leverage that we could take on and maintain our rating, clearly there is some room in our balance sheet but that would depend very much on what the use of proceeds was. And I would prefer not to speculate on how much incremental capacity we have.

If you don't mind, I just want to take on Linda's question regarding the storms. Our accounting group has told me that that number was approximately CAD2 million and, as I said, not that material and quite consistent with the experience that we would have had in respect of storm costs last year.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, great; thank you.

Operator

Mona Nazir, Laurentian Bank.

Mona Nazir - *Laurentian Bank Securities - Analyst*

Good morning and thank you for taking my questions. Just firstly looking at the lower OM&A costs on the transmission side, we saw lower equipment refurbishments and maintenance in the quarter. I'm just wondering was that a timing issue and should it kind of pickup going forward to more normalized levels or is this margin kind of sustainable here?

Mike Vels - *Hydro One Ltd. - CFO*

That is such a great question and we took care to point out that was a result of changes in the work program in transmission. And that is entirely -- whilst there were some efficiencies in our program, the bulk of that difference was, in fact, a timing difference.

Mona Nazir - *Laurentian Bank Securities - Analyst*

You spoke about the new Orillia acquisition and some CapEx spend related to that facility warehousing. Wondering when that work could expect to start, pending approvals, and the estimated costs.

Mike Vels - *Hydro One Ltd. - CFO*

One of the advantages that are company has when we look at virtually any LDC transaction is that we have material and significant staff and operations, generally, virtually encircling the LDC. So that provides both ourselves and the local distribution company we are working with with a number of potential opportunities to rationalize our assets and reinvest. And frequently we are able to do that within the utility service area that we are acquiring.

So as we work with Orillia, we have identified opportunities to build both an operations center and a warehouse in their territory. I don't actually have those numbers exactly offhand, but I would anticipate that that construction and planning would likely begin post OEB approval, in the sort of 2018 timeframe.

The other significant initiative that we are also looking at is, as a company, we are going to and intend to invest in a new backup center for our grid operations and we see this as an opportunity to site it in the Orillia area. We have looked at a number of potential other opportunities and Orillia is just a great fit, so it was a very good coincidence that we were actually talking to the Orillia distribution company at the same time.

In terms of the timing of that, that is a fairly large investment. It does require approval by the OEB and that is entirely up to OEB timing as well. We have included that in our transmission filing and so we wouldn't expect some level of visibility on that when we get our rate order -- sorry, our final decision next year, likely in the early part of 2017.

Following that I expect there's a fairly long period of engineering. It is a complicated build and so we are probably talking about material build, if we are approved, in the 2019 to 2020 timeframe.

Mona Nazir - *Laurentian Bank Securities - Analyst*

That's very helpful. I'm just wondering if we turn to the departure of tax relief and I'm thinking -- your thoughts about ramping up before the 2018 release deadline versus does that have any sway on your growth plans versus perhaps internal investments or the two are not correlated.

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

First, this is Mayo. I don't think we're looking at it as they need to be correlated. I think that we are really approaching the opportunities on the LDC side in your reference as what we can bring to the customer base. We've seen a real interest across Ontario in the advantages that -- you look at 98% of the transmission system supporting the LDCs, of which there's 54 independent LDCs.

So we think it's likely that the LDCs will continue to be attracted. They certainly have to keep an eye on when the tax relief that they are provided expires over I think it's about another year, year and a half. And post that period obviously they will be forfeiting those opportunities unless something changes.

But the combination and synergies between the businesses are so compelling that it's likely that we will continue to see interest by LDCs across Ontario and Orillia is a classic example. We have been extraordinarily well-received by the community. Our customer teams have been in the community.

The other Haldimand and Woodstock integrations have gone extraordinarily well. We have had, literally, no disruption to billing and systems operations, so we really think that the organization has fine-tuned its integration programs and that has been noticed by LDCs.

Mona Nazir - *Laurentian Bank Securities - Analyst*

Great, thanks. I'll step back in queue.

Operator

Ben Pham, BMO Capital Markets.

Ben Pham - *BMO Capital Markets - Analyst*

Thanks, good morning. On your commentary about the CAD30 million decline in revenues from ROEs next year, do you feel that your rate-based growth and acquisitions that you've done and maybe some leverage you can pull on the cost side, that should be more than enough to manage the weighted ROE decline?

Mike Vels - *Hydro One Ltd. - CFO*

Ben, did you say that would be more than enough to what?

Ben Pham - *BMO Capital Markets - Analyst*

To manage weighted ROE decline.

Mike Vels - *Hydro One Ltd. - CFO*

Oh, okay. That's a good question. I think if you had to look at what the offsetting impacts were on a year-over-year basis, clearly the most significant is the increase in our rate base. And so I think that I would point to that really as being the most significant countervailing factor that would be offsetting the CAD30 million.

And on the remainder, I don't think that the results of our LDC acquisitions are sufficient to materially offset the CAD30 million.

Ben Pham - *BMO Capital Markets - Analyst*

What about the cost savings in that? Perhaps you can pull some cost savings a little bit earlier than expected in your five-year you had at IPO?

Mike Vels - *Hydro One Ltd. - CFO*

Oh, absolutely. Sorry; I thought you were referring to more structural items that we know are in place.

Our rate base growth is -- as you know, the way the system works that is an increase that we can count on because we are putting assets into service that are previously approved. But, yes, absolutely; as a management team, we will be working very, very hard to work on efficiencies, cost reductions, and anything else we can think of to offset the impact of the ROE decline. Absolutely no doubt about that.

Ben Pham - *BMO Capital Markets - Analyst*

Okay, so you should be sitting in terms of payout ratio at least similar to this year, maybe even better relative to what you are targeting longer term?

Mike Vels - *Hydro One Ltd. - CFO*

Now you're trying to put words in my mouth. Well, you're right; our dividend payout ratio for this year, you are correct, is at the lower end of the range and we're maintaining our I guess point of view that we will keep the dividend payout within that range of net earnings. Clearly, as the improvements that we are making and as the year works out next year, we will take a closer look at our dividend rates.

Ben Pham - *BMO Capital Markets - Analyst*

Just as a final cleanup question, maybe some additional color on the other segments and reallocation of cost on consulting.

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

When you think about the cost on consulting, I would just point out, to Mike's earlier commentary, that when we went through the first eight months of our Good to Great program and we put those work streams in, it not only fully covered any particular consulting cost, but as Mike said, we are underway now with implementing our cost-saving plans and we expect that to continue to give to the organization. That program ended -- the program, at least the costs associated with it, ended many months ago. So that was really in the design and structural phase and we have been underway in the execution, which is what you've seen.

In terms of where we have lost some revenue from weather-related events, we have more than made that up with some of the cost savings which are continued underway. And quite frankly, with the additional help of the new leadership team that's now fully in place, we expect to see some of these plans continue to improve and possibly accelerate.

Ben Pham - *BMO Capital Markets - Analyst*

I just wanted to check; so is it differences in some accruals that you were putting in early in the year and just a bit of a reversal this year that you are booking it there?

Mike Vels - *Hydro One Ltd. - CFO*

So, Ben, Mayo was covering how we think about timing of the fact that we incurred upfront and we expect the benefits later. I think what you are also asking is just technically why the difference and why the reallocation.

We had originally booked or reflected and disclosed those costs in the region of around CAD10 million in the other segment. Upon reflection, virtually all of those costs will benefit our regulated businesses and, as such, as we've looked at the disclosure, we thought it was more appropriate to show those as a cost reduction in our regulated businesses, transmission and distribution. So what you see in the quarter is not a change in accrual, it's really just a redistribution from a disclosure perspective to the two segments that will benefit from the investment.

Ben Pham - *BMO Capital Markets - Analyst*

Okay. All right, that's helpful. Thanks, everybody.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - *RBC Capital Markets - Analyst*

Morning. Maybe I'll just start on some of those costs to get the organization restructured, get the right people on the bus and in the right chairs.

If you think about those transitional costs that you've incurred this year, how material is that in terms of -- you talked about that phase being done, so how much of that might kind of fall away as we think about future periods?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

I think that those costs are largely, as Mike has indicated, accrued and we don't see -- any other further support that we need outside the organization is going to be likely nominal, so I don't think you want to look at that as a continued cost to the organization, Robert. I think we are in pretty fine shape. It really is, as I mentioned, about execution now which really is going to drive the savings going forward.

Robert Kwan - *RBC Capital Markets - Analyst*

So is it in that CAD10 million-ish range that you spent this year upfront and won't occur?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

That's correct.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay, perfect. As you just think about the acquisitions and all the synergies -- maybe just to talk about them in aggregate, because I'm assuming you don't want to kind of go piece by piece -- can you give a sense as to how much synergy you expect to pull out of the acquisitions that you've done to date? And can you just confirm that -- were all of them filed on the 10-year rebasing plan?

Mike Vels - *Hydro One Ltd. - CFO*

Thanks, Robert. Let me just make sure I get this right in terms of what we filed. At Great Lakes Transmission we asked for 10 years and the OEB approved that. The second five years there is an earnings sharing mechanism where we will be sharing any synergies over a 300 basis point band with our customers, with customers of Great Lakes 50/50.

Our intention for Great Lakes is to run that fairly standalone for a period of time. Our new Chief Operating Officer, Greg Kiraly, will be working closely with the leadership at Great Lakes and identifying what types of immediate efficiencies -- things like procurements, for example, we can immediately achieve -- and then over time we will be working through the potential synergies for that acquisition. We don't have an estimate at this time, but as Greg gets more involved and as we mature into that acquisition a little further, we could probably provide a better insight as to progress.

On Orillia, we have -- that is not approved yet. We filed our MAT application for 10 years. What we are asking for is the 10 years and then in the second five we're actually proposing, which is little unique, to provide a guaranteed earnings sharing to our customers after the 10 years ends.

That one we are a little more, I guess, specific on our estimates of synergies there. We do anticipate that they will be relatively significant compared or relative to the O&M that Orillia spends and that is mostly set out in our rate application, but it is a significant decline from their current OM&A. Having said that, it's a relatively small acquisition, so in terms of Hydro One's numbers, it's just not that material.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. If I can maybe just finish with one question here on funding, when you look at your rate-base growth and assuming that the transmission rate case is approved, at least on the capital side, it looks like that's now eclipsing 5% CAGR. How fast do you think you can grow rate base within your existing credit rating without issuing common equity?

Mike Vels - *Hydro One Ltd. - CFO*

I'm not sure I'm going to give you a really specific answer to that, Robert, but it's a great question. Certainly, as we've indicated pretty consistently, at a 4% to 6% rate base growth. We are pretty comfortable with in our A rating that we can and will, in fact, fund that with debt issuance and would not have to rely on equity.

So I think that's about as much as I will say at this point. But, again to reiterate, based on what our goals are and looking at our long-range planning, we don't see a scenario at this time where we would need to issue equity to fund our rate-base growth.

Robert Kwan - *RBC Capital Markets - Analyst*

If I could maybe just ask it also slightly differently, just to confirm; are you happy with where your credit ratings are and that's where you want to manage to? And related to that even if -- or with having some amount of balance sheet capacity, is it fair that as long as you've got only OEB-regulated utilities that you probably are not looking to stray far from the regulated structure, just to make sure you don't get some sort of look through?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

Robert, I think that's right. I think we are happy with certainly structurally where we are the balance sheet and we look at certainly the A rating as a strong point in our overall financial foundation. And as Mike has indicated, without the need for further -- any need for equity to do the projects and the capital growth that we are doing I think is probably -- one would assume that it would take something pretty significant for us to want to depart from the structure that we have and there's nothing in our horizon that would suggest that we would.

Robert Kwan - *RBC Capital Markets - Analyst*

That's great, thanks very much.

Operator

Robert Catellier, CIBC.

Robert Catellier - *CIBC World Markets - Analyst*

Good morning. I was wondering how important it is for the Company to diversify its regulatory risk and acquire assets outside of Ontario. And it raises the question again, just in late of Paul Barry's hiring and his background, should we take that as a signal that the timing of M&A outside of Ontario may accelerate?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

No, I think the way you want to look at Paul Barry's arrival here is we are really now working on a combination of things for the organization. Keep in mind, both the internal and the external growth of building the vision, mission, values, and purpose statement for the organization and how we're going to approach the markets.

There's a lot of good work that can be done here in Ontario and you've seen a series of acquisitions, the last and most significant being the Great Lakes. There's also some potential buildout of the power system with different needs to get power to the north and there's conversations that are underway, continue to be underway in that area with no particular announcements pending.

But at the same time, I would say we are certainly looking at the Canadian and US markets with a bit of emphasis on the US market. Canadian companies do enjoy a positive financial advantage related to US companies, so we are undertaking -- taking a view on that. And I think over -- as we talk about 2017 being a transformation year, we will have our views fully developed coming into this 2017 period.

Paul has been quite insightful; is very knowledgeable about the industry, the sector, and certainly is a well-known quantity in the US. So we will undertake our research and work and then develop our views on that here in the coming quarters.

Robert Catellier - *CIBC World Markets - Analyst*

Okay, thank you.

Operator

Patrick Kenney, National Bank.

Patrick Kenny - *National Bank Financial - Analyst*

Good morning, everybody. Just to circle back on your capital program, wondering if you can comment on the recent seven-year deal between Ontario and Hydro-Quebec to import I believe 2 terawatt hours a year and I guess the related cancellation of the LRP II program.

Just wondering how much of the transmission CapEx outlook, as filed back in May with the TRA, was perhaps earmarked for handling those new renewables that were to come online. And maybe just an overall comment on any downside risk you might see in your capital plan as imports or at least the intertie capacity with your neighbors rises over time.

Mike Vels - *Hydro One Ltd. - CFO*

Thanks, so I will give you the really top-line answer, which is that we don't anticipate any material impact on our business from any of those factors. Our transmission builds and what's required to accommodate these -- all of these arrangements are already in place.

In terms of connection to new distribution and whether the renewables accelerate or decelerate, a significant amount of those connections are generally owned by the generator and so do not and are not included in our rate base and don't provide future returns for us. So it's not a -- connection of renewables and connection of new generation and intertie connections are not a material part, in fact quite an immaterial part, of our transmission rate filings. And so we don't anticipate any material impact on our capital program as a result of those two factors that you've mentioned.

Patrick Kenny - *National Bank Financial - Analyst*

Okay, that's great. Thanks for that. Then just maybe one more question, if I could, switching back to the M&A theme.

Appreciating it's early days in adjusting to the new world this week, but would you say your outlook or appetite for M&A south of the border has changed at all in these early days? Do you expect to take a more cautious approach with respect to potential US opportunities until policies are clarified? Or would you perhaps look to take advantage of some of the lower valuations that we are seeing in the market south of the border?

Mayo Schmidt - *Hydro One Ltd. - President & CEO*

I think your point is a good one that really is early days in assessing potential changes to the US market, US energy policy. We are obviously going to be studying that carefully.

I think, for us, the strategy and the thinking around it is to take a very disciplined approach to analysis, because, for us, it's all about our ability to create value. And the fact that we look at opportunities as necessity being accretive, we are not certainly drawn toward a structural situation where government influence or policies could potentially have a significant negative effect on a business. That wouldn't be ordinarily attractive to an organization like ours and I think, as evident by our A rating.

So we will be quite thoughtful and disciplined about it, but we do see good potential for opportunities in the US. It's just a matter about taking a studied and steady-handed approach to that market. And I think over the coming months we will get more definition on how the US is going to proceed with their energy policy, but clearly it's an interesting market.

Patrick Kenny - *National Bank Financial - Analyst*

All right, that's great. Thank you very much.

Operator

Thank you, that concludes our Q&A session for today. I would like to turn the call back over to Bruce Mann for any further remarks.

Bruce Mann - *Hydro One Ltd. - VP, IR*

Thanks very much, operator. The management team here at Hydro One appreciates everyone's interest and support. And to the extent anyone has questions that weren't answered on the call, please feel free to reach out. Our contact information is at the end of this morning's release.

Lastly, north and south of the border today is the day that we all pay respect to those that defended our countries so greatly over the years, and everyone in this room and hopefully on this call is in support of that. Thank you very much. Have a good weekend.

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 weekend.