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H.TO - Q2 2018 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hydro One Limited Second Quarter 2018 Results Investment Community Teleconference. As a reminder, this call is being recorded.

I would now like to turn the call over to Mr. Omar Javed with the Hydro One management team. Please go ahead.

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

Good morning, everyone, and thank you for joining us. I'm here in Toronto today with Hydro One's leadership team, including our acting President and CEO and Chief Financial Officer, Paul Dobson; our Chief Operating Officer, Greg Kiraly; our Chief Human Resource Officer, Judy McKellar; our Chief Corporate Development Officer, Patrick Meneley; Our Executive Vice President of Customer Care and Corporate Affairs, Ferio Pugliese; and our Chief Legal Officer, Jamie Scarlett.

We will provide some brief comments on our second quarter results, and then spend the majority of our call answering as many of your questions as time permits.

There are also several slides, which illustrate some points we'll go over in a moment. This should be up on the webcast now or if you are dialed into the teleconference, you can find them in the Hydro One's website in the Investor Relations section under Events and Presentations.

Today's discussion 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 we filed this morning, regarding various factors, assumptions and risks that could cause our actual results to differ as they all apply to this call.

With that, I turn the call over to Paul Dobson.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Thank you, Omar, and thank you to everyone for joining me on the call today. I'm looking forward to reviewing with you our robust second quarter results, but also to address some of the questions you have, undoubtedly.

As we understand you have questions, so we will endeavor to keep this initial portion of the call short, with plenty of time at the end to address them. If, however, you don't have a chance to speak, please reach out to Omar and his team as we take feedback from our shareholders very seriously.

First, let's review our financial results for the second quarter. We saw increases in earnings per share and adjusted earnings per share compared to the second quarter of last year. Taken as a whole, the strong results were due to timing of the transmission rate decision, which also resulted in new rates approved by the Ontario Energy Board; increased consumption for more favorable weather; higher return on equity in the transmission business; and lower operation, maintenance and administration costs.

The difference between the headline EPS and the adjusted EPS number is due to the adjustments for the Avista acquisition, such as the fair value of unrealized gain on the deal-contingent foreign exchange forward contract to convert CAD 1.4 billion to U.S. dollars.

Revenue, net of purchase power, was higher by 11.2% year-over-year, driven primarily by the transmission business, which reflects the decision on our 2017-2018 transmission rate filing that was implemented in the third quarter of last year. The transmission revenue was also positively affected by higher return on equity and more favorable weather resulting in higher -- resulting from higher peak demand.

OM&A was lower in the quarter versus the same period last year by 6.6%, driven in large part by lower cost for information technology work based on our new service provider contract, lower cost for emergencies and storms, and lower spend on customer programs and lower corporate support costs.

Financing charges were lower by 3.9% year-over-year, primarily on an unrealized gain driven by the same deal-contingent currency exchange I mentioned earlier that affected adjusted EPS. However, the gain was partially offset by increased interest expenses related to the convertible debenture issued last August to satisfy the equity component of the Avista transaction.

Assets placed in service were higher in the second quarter of 2018 versus the second quarter of 2017, due to the substantial completion of a major development work at our Clarington Transmission Station. This demonstrates our strong operational ability to continue to deploy capital in an efficient manner.

From a liquidity standpoint, during the quarter, the company issued \$1.4 billion medium-term notes at attractive rates that will be used primarily to repay short-term debt. To help fund the Avista transaction, the company has secured a \$1 billion non-revolving equity bridge credit facility and a USD 2.6 billion non-revolving debt bridge facility.

With respect to our ratings, on June 28, Moody's Investors Services downgraded the long-term debt rating for Hydro One Inc. to BAA1 from A3, and revised its outlook to stable from negative.

As for their press release, the downgrade resulted from Moody's no longer assigning any probability with extraordinary support from the Province of Ontario to Hydro One Inc.'s credit analysis.

Standard & Poor's placed Hydro One Limited and Hydro One Inc. on credit watch negative for up to a potential 2-notch downgrade. For their release on July 18, S&P articulated the first notch was due to the Avista transaction and the second would be based on its assessment of whether recent developments to Hydro One Limited's governance structure would fail to promote the interest of all stakeholders and adversely affect management's decision-making. We will continue to engage with the rating agencies to demonstrate our financial strength.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Regarding regulatory updates, the Ontario Energy Board hearings for the 2018 to 2022 distribution applications were held in June. In July, the company submitted its Argument-in-Chief. Interveners had until August 10 to respond, and Hydro One will make its final submission by August 31. Post the final submission, we expect a decision from the OEB to be forthcoming.

The timing for the filing for the 2019 to 2022 transmission rate is currently under review, following the OEB's request for Hydro One to file its transmission filing for a 4-year test period to synchronize the transmission and distribution rate filings. We will provide further guidance as and when it becomes available.

During the quarter, Hydro One and Orillia Power Distribution filed a motion to review and vary the OEB's decision denying Hydro One's proposed acquisition of Orillia Power. An oral hearing was held in July on the threshold question of whether the matter should be reviewed before evaluating the merit of the motion to review and vary submission.

While we are on the subject of LDC consolidation, we recently announced that we reached a definitive agreement to acquire the business and distribution assets of Peterborough Distribution Inc., subject to OEB approval. Hydro One will pay the City of Peterborough \$105 million for the transaction. This is consistent with the Ontario LDC consolidation strategy, and we look forward to welcoming the customers and employees of Peterborough Distribution to the Hydro One family.

Moving to the regulatory approval process for the Avista transaction. We have made good progress with approvals from Alaska and Montana, we have also achieved all acquired federal regulatory approvals, consents and clearances to go forward with the merger.

More recently, on July 19, the Idaho Public Utilities Commission issued an order vacating the technical hearing that was scheduled for July 23, and a new date has not yet been established.

On July 20, the Washington Utilities and Transportation Commission extended the deadline for a decision on the proposed merger by 4 months to December 14.

On July 25, the Public Utility Commission of Oregon issued a new procedural schedule and outlined a target date of December 14 for their decision. We continue to be fully committed to this transaction and anticipate closing in Q4.

If we look to operations, we see more proof that the company is aligned at all levels to improve every facet of the business. Referenced earlier, in April, we completed the largest transmission project in the last 6 years, bringing Clarington Station online, on schedule and 18% under the initial \$297 million budget.

We had 4 major storms within the quarter, which resulted in aggregate of over 1.4 million affected customers requiring power restoration, which was more than all of 2017. We met this challenge and set a new internal record for speed of restoration by utilizing new weather monitoring and outage prediction technology to align crews and resources in advance.

The company is further on track to achieve a 1-hour reduction in total average power outage duration for distribution customers compared to 2017, thanks to improvements in response times for restoration crews through better outage planning, reporting and analysis and more proactive storm readiness.

The culture of continuous improvement in customer service is also driving our results. We demonstrated strong metrics for first call resolution and customer satisfaction with agents during the first full quarter since bringing the new contact center in-house. There was a 30% reduction -- year-over-year reduction in accounts receivable, thanks to support services for customers who were behind on their bills. Along these lines, we continue to maintain an exceptionally high level of billing accuracy, which came in at 99.63% year-to-date.

Transmission customer satisfaction also remains high at 90%, up 2 points from the same period last year and the highest score in record due to new efforts to centralize large and industrial customer service to be more responsive to and engage with their needs.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

The intense focus on operations, customer service and corporate citizenship resulted in 2 awards from the U.S.-based Edison Electric Institute for mutual systems and storm response, and a third from the Natural Resources Canada for our support of ENERGY STAR products.

Three customer service initiative designed to improve customer experience offered greater choice and lower costs recently received Chartwell's Best Practice Award, which recognize service excellence among North American electric and gas utilities.

This is just a snapshot of how the company, at all levels, is committed to improving efficiency, controlling costs and putting the needs of our customers first.

Before we move to questions, I would like to take a moment to acknowledge the transition in leadership that is underway at Hydro One. We benefited greatly from the leadership and guidance of Mayo, David and other members of our Board of Directors as Hydro One emerged from a government entity into a publicly traded company under their tenure. They instilled in us a corporate culture of continuous improvement as we strive to become a leading North American utility. For their leadership, we are grateful.

I would also like to express how much the team and I are looking forward to working with our new Board of Directors. The nomination process has been completed, and members of the new board were announced this morning. The members of the fully independent board are highly capable individuals who bring with them substantial industry experience and significant expertise and strong governance.

As a management team, we look forward to working closely with the new board through the process of designating a new President and CEO and addressing the strategic challenges and opportunities that lie ahead.

We are pleased that the new board is coming at a time when Hydro One is building operational momentum and delivering strong financial results. As everyone is aware, the Ontario government has introduced the Hydro One Accountability Act, which among other things, will expand the visibility of executive compensation and instructs the Ontario Energy Board to exclude executive compensation from rates. At this point, we expect this decision will have an incremental annual impact for approximately \$0.03 to \$0.04 per share to our earnings. We will provide further guidance on this matter as and when appropriate.

Going forward, we continue to have relentless focus on the fundamentals of the business. Specifically, we will continue to support customers, strive for operational excellence, sustainably drive down our OM&A cost and continue to add value to the business.

As discussed earlier, the recent decisions by commissions in Washington, Oregon and Idaho to include additional process in the regulatory review means our anticipated date to close the Avista transaction moves from Q3 to Q4 of this year. We will provide additional input required in these regulatory processes, and I reiterate, Hydro One remains fully committed to the transaction.

In Ontario, we will also continue to work through the OEB processes, with respect to Orillia and Peterborough, and we'll review future M&A opportunities in due course.

Lastly, Ferio Pugliese, Executive Vice President, Customer Care and Corporate Affairs, who has been with us since September 2016, will be departing Hydro One at the end of this week for another opportunity. We want to thank Ferio for his significant role in driving customer-first culture across the organization. We will miss Ferio.

We are pleased to have significant bench strength and management depth within Hydro One, and we are confident that we will be in a position to appoint a well-qualified and experienced replacement in the near future.

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

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

Thank you, Paul. I will request the operator to please explain how she'd like to organize the Q&A polling process. Please go ahead, Christy.

AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Linda Ezergailis with TD Securities.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Can you give us an update on whether there's been any discussions yet or a process established for Hydro One to consult with the Province on matters relating to executive compensation, as stated in your agreement? And if not, what sort of conversation had there been? And at what point would the effects the bill to disallowing executive compensation be reflected in rates?

Paul Dobson - Hydro One Limited - Acting President, CEO & CFO

Yes. Thank you, Linda, for the questions. So, first of all, I just like to reiterate that the ELT is committed to a smooth transition with the new Board of Directors, and the impacts of executive compensation. The new board will be responsible for looking at executive compensation, and we expect that will be a priority for them as soon as they arrive, and we look forward to working with them in that regard. With respect to Bill 2, we do acknowledge that Bill 2 receive (inaudible), and we'll manage the company within the parameters of that legislation. We're currently analyzing the impact of Bill 2. I did mention the \$0.03 to \$0.04 in my opening remarks, about the expected impact, excluding -- continuing to analyze that and then work through that process. So more information will be forthcoming when we have it.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

And have you had any discussions with the regulators in the U.S. with respect to the change in the board and the CEO search that have given them an update? Or is it still all on hold until the official processes that are scheduled in the future?

Paul Dobson - Hydro One Limited - Acting President, CEO & CFO

Sure. I'll ask Jamie to make a few comments here in a second, but I just want to reiterate for everyone on the call around Avista, how the company, Hydro One, remains fully committed to the merger with Avista. From our standpoint, material deals of -- material terms of the deal have not changed. We do recognize that the regulators have extended the process and have some questions for the new board. But Jamie, is there any other comments you'd like to make in that regard?

James D. Scarlett - Hydro One Limited - Executive VP & Chief Legal Officer

Not really. I mean, that's the essential message. These extensions that have been put on by the authorities in the states are really, as we understand it, designed to give them time to have a better understanding of the impact of these governance changes. We have provided them with written updates, and we have scheduled to have hearings with them later in the year, on October and November, for Oregon and Washington. And we had discussions with the regulatory staff and some of the interveners, but it's all been of an informative and an educational manner.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Thank you. And I realize you might not be able to comment too much on the CEO search, but maybe Judy can give us a sense of if the process has started or will that be something that the new board will be kicking off shortly?



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes, I'm happy to absolutely address that. That is certainly a matter for the new board that they will be kicking off. I imagine they will be kicking off in the very near future. I imagine that is a very high priority for them. And as I said earlier, we look forward to working with them to help them in that regard.

Operator

Our next question is from Robert Catellier with CIBC World Markets.

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

Congratulations on the good quarter, given the situation. I was wondering if, it's fairly early days, obviously, with the new board being appointed, but have you had a chance to socialize the Avista acquisition with the new board? In other words, how do we know that this new board is in alignment with the Avista acquisition?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

So it's a good question. The new board was announced this morning, and the process to select the new board was taken by not only Province, but their 4 nominees, but then the 6 nominees from the investors to the ad hoc committee. The management team here has not been involved in that, that was a matter for the current board -- or the old board of Hydro One. And so we haven't been involved, so we have not sat down with the new board and gone through the Avista transaction. We will, certainly, as we go through it again, be very supportive and committed to the merger is going to be the management's standpoint with regard to that.

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

Okay. Sorry to hear about Ferio's news. But Paul, what are you doing in the interim, knowing you have fairly limited scope given your circumstances, but what are you doing to minimize turnover at ELT level?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Well, first of all, I'd say the entire ELT, including Ferio, is committed to a smooth transition. So even as Ferio moves out of his role, which we've known about for a while, we are confident and are pleased that we have significant bench strength within the organization to fill these roles and to cover these responsibilities. So we'll be looking to make an announcement in the near term on Ferio's replacement. And I imagine, though, too, that retention is on the mind of folks, and certainly will be a matter for the new board. There is tremendous talent here, though. In my 5 or 6 months here with the company, I continue to be impressed everyday with the depth of talent that we have at the company. And I believe it will be a very seamless transition as we go forward.

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

Okay. My last question then is do you have a sense of timing on Avista? I mean a couple of dates were pushed out to December 14. But at this point, Idaho has vacated their process. How much time does the Idaho process require? And are the sort of mid-December dates really the way we should be looking at the transaction?



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes. I think mid-December is our latest target date for closing the transaction. But maybe I'll let Jamie to say there could be some flexibility around that.

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

Yes. Washington is our largest state regulator, and under their legislative regime, they have an outside date, which was August 14. They're allowed to push it out by 4 months, which they've done. So that's why the December 14 date is there. We expect to be through by then. We've got a schedule of other work that's being done at least towards that date. I suppose there's always the possibility of some kind of consensual extension, but we haven't even talked about that. Our expectation is that we'll be done by the end of the year.

Operator

Our next question is from David Gallison with Canaccord Genuity.

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

So I also like to talk about the Avista acquisition. So besides the governance changes that were being discussed, does the extensions offer up additional -- will they be including additional negotiations with the regulators? Or are those all complete and now you're just waiting for the approval process?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes. Maybe I'll ask Jamie to talk about it.

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

Yes. We've -- as I said, we've had some discussions not with Idaho, but with staff, but with Oregon staff and with Washington staff. And certainly, my understanding and our operating premise is that all of the extensions are really around helping the regulators get their minds around the change of governance, both at the board and at the CEO level. There's been no suggestion that the settlements themselves would change in any respect, that there will be new items added to them, and that's not my expectation.

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

And then with the negotiations -- or discussions with the Province, they offered an opinion to the Avista acquisition, one way or the other?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Not to my knowledge, as the Province. We have met with the certain folks within the Ministry of Energy, just introductory meetings. Certainly, they are very aware of the Avista transaction, but they're anxious to learn more about it and form opinions as well.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

And let me just add one little point. It's Jamie Scarlett again, just for completeness' sake. It has always been the case that when you get orders out of these various state regulatory bodies, they can always add elements to their approval in those orders. So that's always out there. It hasn't changed because of this extension.

Operator

Our next question is from Ben Pham with BMO.

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

On the \$0.03 or \$0.04 you highlighted on the compensation, is that -- can you talk about how you're calculating that? Is that such a space on last year's number? And then is there anything you can do to mitigate that impact, perhaps O&M savings that you're seeing a little bit -- coming a little bit better than expected?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes, I think we certainly will continue to look at all OM&A costs for efficiency and driving them down as we hopefully everybody appreciates we've demonstrated that. The \$0.03 or \$0.04 comes from, basically, executive compensation, all, as per the legislation, EVPs and above. And so I think a lot of that information or some of that information certainly is in proxy circulars for the executive team. And the remainder is for VPs and SVPs. So that's -- our estimate is \$0.03 to \$0.04, probably closer to \$0.03 than \$0.04 at this stage. And we're going to -- we'll continue to analyze that and look for ways that we can mitigate that and make it back.

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

Okay. And then on some of the credit rating changes, whether it's expected or not. So could you comment on maybe any change in credit spreads you see? And then does that impact, in any way, the expected accretion on Avista?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes. We have not really seen any major changes in credit spreads. I think if you -- refer you to the releases from both Moody's and S&P's, I think they've done -- they've had a pretty clear description of where the ratings are and where they could move to, based on their criteria. But in terms of spreads, I don't think we've seen much movement at all.

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

All right, that's good to hear. And then lastly, maybe any update on the income tax variance file and we're is that at the moment?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

I assume you're referring to the deferred tax asset issue in front of the OEB?

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

That's right.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes. So we have not yet heard from them. So if you recall, we've filed a motion to review and vary in October of 2017, I believe. We had a hearing with them in February of this year to review the merits of the motion, and a decision from that hearing is still pending. We're expecting something -- I think we're expecting something this year, but it is up to the OEB.

Operator

Our next question is from Andrew Kuske with Credit Suisse.

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

I think the first question is for Paul. And you mentioned your anticipation of Avista closing Q4, really, in December. Can you just clarify the outside date on the convertible debentures that you issued just to give you some buffer?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

The outside date, I believe, for the convertible debenture is -- it's May, I believe, May 2019? Is that right? March. March, sorry. March, I've been corrected here in the room, March 2019.

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

Okay, that's helpful. And then just shifting gears a little bit. Just on the OM&A and the...

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Sorry, sorry, sorry. I'm sorry, I've been corrected again, it's the end of April 30, 2019.

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

April 30, okay. And then just shifting gears into the OM&A, you can see the extra cost out of the company, but one thing I just like a little clarity on, you had in the TX and I also think in the DX higher project write-offs due to some investments that you pursued originally then effectively pulled. How much impact was that on the cost reductions?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

From a year-to-date basis, that was about \$10 million. We didn't really have -- I don't believe we had much of that in second quarter, but on a year-to-date basis, about \$10 million.

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

And then where would you classify your cost reduction strategy right now, just in the test of time, are you in the third inning, fifth inning, whereabouts are you?



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Yes, I'm not -- I'm more of a hockey fan than a baseball fan, but I'd say...

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

Okay. First period, second period then?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

I don't think we're -- yes, we're somewhere in the -- coming out of the first period into the second period, I would say. We continue to see good opportunities around the business. It's a very -- it's a large substantial business, with different opportunities and certainly an experienced management team. And even the new board, I'm sure, are going to come in with other ideas as well. So yes, I'd say ending the first, coming into the second period.

Operator

Our next question is from Robert Kwan with RBC Capital Markets.

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

Just in terms of a couple of the regulatory processes, you talked about the deferred tax, R&D as well as the distribution rate case. Just is there anything you can do to kind of pin down the timing other than just sometime this year? Is there any kind of expectation month-wise?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Afraid it's in the hands of the OEB. We've had the hearings, we've submitted our Argument-in-Chief, we're going to make our final submissions by the end of this month and expect their decision thereafter. We can't dictate or even guess what the timing is. We're certainly very hopeful that it will be this year.

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

Okay. And just with the change in government, have you noticed any changes in your interactions with the OEB? Are you expecting any changes with respect to the OEB?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

I don't think we have seen any changes, no. I mean, the OEB is an independent board of the government acting in the best interest of rate payers overall. I wouldn't expect to see a difference in their posture towards us as a result of the change in governance.

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

Got it. If I could just come back to a question asked earlier around Avista. And just for greater clarity, the Q2 statements that came out today, the new board did not participate in the preparation of the Q2 MD&A and financials, is that correct?



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

That's correct.

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

Okay, and if I can just finish it. It looks like the rate base figures and growth are down slightly. Is that just Clarington coming in under budget or is there something else going on?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

There's a little bit of that. But I think our spending and our in-service is ahead of last year. Spending is a bit lumpy, though. You have to appreciate these are very large projects, very large transmission, even very large distribution assets that we're putting in place. So there is timing, it certainly plays a factor in the ups and downs of the rate case. But overall, when you look over the long term, there is 4% to 5% rate base growth that we've been able to expect.

Operator

(Operator Instructions) Our next question is from Mona Nazir with Laurentian Bank.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

I'm just wondering, firstly, about -- or if you could speak to the level of influence and involvement that the government has. I remember prior conversations with the management team surrounded the organization running pretty autonomously and that government did not see press releases or were not involved with the strategy and operations. I'm just wondering to what degree this has changed, if at all?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

I don't think it has changed substantially. I think the government has acted within the parameters, by and large, of the governance agreement. And we expect them to continue to do that going forward as well. The new board coming on place will certainly look to that governance agreement in the way they operate and interact with the government as well going forward. So we see that being still in place.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

Okay. And then, secondly, should the Avista transaction approval got pushed out past the April 2019 kind of final installment notice date, can you comment on the financing of the \$1.5 billion of convertible debentures? Is it possible to extend or would you have to do some sort of refinancing?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Well, we would -- yes, we certainly would look at all of our various options to refinance at that point in time. But I just want to reiterate, too, that we remain fully committed to the Avista transaction. We believe the material terms of the deal are still in place and the strategic rationale for doing the deal still remains. But Jamie, is there any other point you want to make around that?

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

I think that's a good answer on the financing question.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - VP of Research and Transportation & Infrastructure Analyst*

Okay. And just lastly from me. Is it possible that FERC and approved states, so Alaska and Montana, reverse their decisions at all? And are you having any conversations with them currently? Or is that chapter is kind of closed from the Avista transaction perspective?

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

So I think, overall -- I'll throw it over to Jamie here in a second. But I don't think that we heard anything from either about reversing decisions. I think it will be highly unusual to see that. We're not anticipating that. Is there anything else you want to add, Jamie?

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

That's correct, Paul. I mean, Alaska and Montana are important states. They're not where the bulk of the business lies, and I don't think there's anything in the approvals of the date given that would suggest they're going to come back to us. In terms of the federal approvals, there are some time limits around the approvals, around the HSR, and I think the Federal Communications Commission. But those are pretty straightforward approvals, and if we have to get them, we'll definitely do that without [incident].

Operator

Our next question is from [David Cassano] with Raymond James.

Unidentified Analyst

My first question here, just on the topic of LDC consolidation on Ontario. I'm wondering if you expect to see any change in the government's stance or procedure with respect to approving those transactions going forward.

Paul Dobson - *Hydro One Limited - Acting President, CEO & CFO*

Maybe I'll perhaps make a few comments on LDCs. But I think, overall, we believe that consolidating LDCs in Ontario, certainly, in many instances, can make economic and operational sense, as it has for Peterborough and Orillia. Provincial goal at the moment is your stated goal is to consolidate, and so we'll continue to look at LDCs when it makes sense from both a customer and shareholder perspective. But, Pat, is there anything else you want to add around LDC consolidation?

Patrick B. Meneley - *Hydro One Limited - Executive VP & Chief Corporate Development Officer*

No. David, just to clarify, we don't have any indication at all of any change in the government's perspective on this. And we are looking at ways where we can add value for rate payers and for the community and for Hydro One. And we see, for both Peterborough and Orillia, where we surround those LDCs completely from an operational perspective, that there's opportunities to really deliver on all of those criteria and how that's beneficial to shareholders as well. So our perspective is that we'll continue to monitor those opportunities and pursue them as it makes sense for all parties, and have no indication at this point that the government's perspective is changing.

Operator

Our next question is from Jeremy Rosenfield with Industrial Alliance.



AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Just following up on the LDC consolidation issue, for Peterborough specifically. Does the rate base from Peterborough roll into Hydro One's rate base? Or is that going to stay separate for a period of time?

Patrick B. Meneley - *Hydro One Limited - Executive VP & Chief Corporate Development Officer*

Well, there's a period of time where we jointly filed on that application, and that will go through the OEB process, and that will be subject to the OEB approval timelines. Certainly, I believe those assets come into our rate base, but there are procedures in place under that process, which provide for monitoring the undertakings that have been made by the parties in those transactions. So from a fundamental perspective, it's part of a rate base, but we do monitor it as we go forward through the process.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Okay. And then just turning back to the Avista acquisition, Paul or Jamie. The agreement itself with Avista I think has an expiration date. Does that need to be extended? Are you in discussions with Avista right now to extend that agreement?

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

There is -- Jamie, there is an outside closing date of September 30, but either party has the right to extend it for 6 months. It does not need consent of both parties.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

So it's unilateral on one side? Okay.

James D. Scarlett - *Hydro One Limited - Executive VP & Chief Legal Officer*

Either side. Yes.

Operator

(Operator Instructions) I'm not showing any further questions. I'd like to turn the call back over to Omar Javed for any further remarks.

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

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

Operator

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

AUGUST 14, 2018 / 12:00PM, H.TO - Q2 2018 Hydro One Ltd Earnings Call

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