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# EDITED TRANSCRIPT

Q3 2018 Hydro One Ltd Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2018 Hydro One Limited Analyst Teleconference. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, the call is being recorded.

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

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

Thank you, Christy. Good morning, everyone, and thank you for joining us. I'm here in Toronto with members of Hydro One's leadership team, including our Acting President and CEO, Paul Dobson; our Acting Chief Financial Officer, Chris Lopez; our Chief Corporate Affairs and Customer Care Officer, Jason Fitzsimmons; and our Chief Human Resource Officer, Judy McKellar. We'll provide some brief comments on our third 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 will go over in a moment. This should be up on the webcast now or if you are dialed into the call, you can access them on the 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 we filed this morning regarding the various factors, assumptions and risks that could cause our actual results to differ as they apply to this call.

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

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### Paul Dobson *Hydro One Limited - Acting President & CEO*

Thank you, Omar. And thank you to everyone for joining. We appreciate the time you are dedicating today, so we can review Hydro One's strong third quarter results. We will briefly provide an update on the Avista transaction, followed by a discussion on our businesses in Ontario and our positive financial results. While we will have time for questions near the end of this call, please keep in mind that Omar and his team remain available to you if you don't get a chance to speak. Your feedback is important to us as we continue to drive our business forward.

Before we begin, it's important for all of us to recognize that Remembrance Day is this weekend. We've asked everyone in this room and indeed everyone at Hydro One to take a moment on Sunday morning to remember all those that risked and sacrificed their own futures, so that all of us could have a better one. It's also easy to take the freedom we enjoy for granted, but for 1 day a year we pay tribute to those that served and continue to serve, so that we indeed have such a luxury, lest we forget. Thank you.



I would like to start with a clarification of roles that was announced within the quarter and Omar referenced at the start of this call. Chris Lopez, who previously served as Senior Vice President of Finance at Hydro One, was appointed Acting Chief Financial Officer early September. This change has allowed me to focus more fully on my role as the Acting President and Chief Executive Officer. Chris will be speaking in a few moments to review our Q3 financial performance, while I will give you a broader overview.

With respect to Avista, pre-closing activities relating to the transaction continue to proceed well. The end date for the merger transaction has been extended to March 29, 2019. Hydro One also filed several testimonies in support and secured a new schedule for all 3 remaining state regulators. Washington has a statutory deadline to issue its decision by December 14 and Oregon to set a target decision date aligned with this time frame. In late October, we also participated in an evidentiary hearing in Washington. While there has been substantial progress with respect to the Avista transaction, there have been a number of recent developments on which Chris will further elaborate, which have impacted our current perspective on the financial metrics of the transaction.

At this point, we expect the transaction to be low-single digit dilutive for the first full year after close. While disappointing, the company remains fully committed to the Avista merger and sees the long-term potential for all stakeholders. The most significant element that initially motivated the merger discussions we had with Avista remains unchanged, and that is diversification. Following the transaction, the combined entity will be operating in more jurisdictions and service areas. It will also allow for expanded operations into natural gas distribution and electricity generation. Those earnings will be under the purview of more than one regulator, unlike how Hydro One operates today. Avista is a strong innovative company with a rich history. Combined, Hydro One and Avista will be able to leverage their scale as a larger player in the utility industry to the benefit of both our customers and stakeholders. As we approach the close of the transaction, there is a real sense of excitement across all levels of the organization. We're looking forward to this major milestone and welcoming of this into the Hydro One family.

In Ontario, Hydro One took advantage of opportunities and overcame challenges in Q3, but consistently endeavored to put our customers first. Our research shows customers approve of the company's direction. A survey of residential and small business customers revealed that satisfaction with Hydro One has reached 76%, up 5 percentage points since last year, and the highest in 5 years. The details in the survey show that customers recognize the company's efforts most predominantly in customer service, brand, price or billing and reliability. While a higher residential customer satisfaction score on its own is cause to be recognized, when paired with the survey of transmission customer satisfaction that yielded a company record 90%, it demonstrates a consistent effort to set a high standard for all customer service experiences.

During the quarter, the company filed two applications with the OEB related to the announced acquisition of the assets of the Peterborough Distribution and Orillia Power Distribution. In the coming months, these will proceed in accordance with the usual OEB process.

The end of the quarter also marked an operational integration milestone, bringing Hydro One Sault Ste Marie into Hydro One Networks. While Networks has assumed accountability for the day-to-day operation and maintenance of Sault Ste Marie infrastructure, it remains a standalone licensed transmitter in Ontario. Late last month, the independent electricity system operator sent us a request to begin the development work for the Northwest Bulk Transmission Line, a new line between Thunder Bay and Atikokan. The request at this stage will look at preliminary engineering designs, budget, consultation and an environmental assessment, among others. Projects like these demonstrate the role Hydro One plays in supporting both the economic growth in vibrant communities across the province.

The Ontario Energy Board also announced in August a ruling following our Motion to Review and Vary submission regarding the allocation of the deferred tax asset. In October 2017, the company filed a Motion to Review and Vary the OEB's decision and filed an appeal with the divisional court of Ontario. In both cases, the company's position is that the OEB made errors of fact and law in its determination of the allocation of the tax savings between shareholders and ratepayers. An OEB hearing on the merits of our motion was held this past February. On August 31, the OEB granted the motion and returned the decision relating to the deferred tax asset to a panel for reconsideration. We look forward to supporting the supplemental review.

As many of you are aware, it's been a challenging year for storms in Ontario. On September 21, wind, rain and tornadoes swept through the province, affecting both our distribution and transmission business, leaving more than 0.5 million of our customers without power.



One of the tornadoes directly hit our Maryville transmission station causing significant damage and disrupting power to the National Capital Region served by Hydro Ottawa. This is the fifth major storm event in 2018 and Mother Nature yet again tested the resolve of our field crews. And yet again our crews delivered. Approximately 97% of the customers were restored within 2 days after the storm. And this included some innovative thinking to reroute service and return power to Hydro Ottawa. Our line workers and forestry crews have an unwavering commitment to getting the power flowing again after a storm. Their dedication is a constant source of inspiration for all of us at Hydro One.

While not in the quarter, at the end of October, we applied to the Ontario Energy board for a 1-year inflationary adjustment to our transmission rates for 2019. This was done to help ensure we continue to deliver safe, reliable electricity at the lowest possible cost. Next year, we plan to file an application under the OEB's custom incentive rate framework for 2020 to 2022 following a thorough review of our transmission investment plan.

Finally, I would like to briefly touch upon the changes to our board. In mid-August, the company announced it had completed a seamless transition to a new 10-member Board of Directors. Highly engaged in all aspects of the Hydro One business, the board appointed Tom Woods to serve as the new Chair in early September. The board has been getting up to speed quickly on matters related to Hydro One, from debating strategy and nuances of the core business in Ontario to acknowledging and affirming their commitment to the Avista transaction. This board has been working tirelessly. However, they also have two big tasks before them. Namely, establishing a framework for executive compensation and successfully concluding the search for a new President and CEO. While we don't have any concrete updates or definitive timelines to provide to you at this time, I can say both tasks are well underway and our board is dedicating the time and diligence that projects of this caliber demand.

On this note, the Hydro One management team and I have enjoyed getting to know them, our new board, as they've got to know the finer details of the company. They have brought a fresh perspective to our business and we have certainly benefited from the depth and breadth of their experience.

With that I'll pass it over to Chris.

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

Thank you, Paul, and good morning everyone. Before I go over the details of our results for the quarter, I'll discuss the Avista merger, particularly the impact of developments on accretion since the acquisition was announced in July 2017, as Paul mentioned. These developments by themselves are either public or have been previously disclosed by us. The matters that have impacted us on this transaction include, exercise of the over-allotment option for the convertible debentures, changes to the U.S. tax laws, the timing and additional amount of rate credits and increased financing costs as a result of rising interest rates, which further impact accretion by approximately CAD 0.03 per share. The impact of these developments on a combined basis results in the Avista transaction being low single digit dilutive to earnings in the first full year after closing.

We are encouraged by the advanced discussions we've had with the 3 remaining regulators and continue to anticipate to close the transaction in late December. Hydro One is fully committed to successfully completing the transaction and we look forward to engaging with our colleagues at Avista to create value for our combined company.

I'll now turn back to Hydro One's third quarter financials. While we saw a decrease in both earnings per share and adjusted earnings per share compared to the third quarter last year, I would describe the past quarter as a positive one. Let me explain further. The decline was primarily related to two items affecting comparability. First, the timing of regulatory catchup revenues from the transmission rate decision in the third quarter of last year. That means last year's third quarter results included 3 quarters of catch-up revenue, which amounted to approximately CAD 55 million. The second being the difference in the company's effective tax rate for the quarter, which was 17.1% compared to 9.3% last year. I will touch on the change in income tax expense later in the call. Excepting the two items just discussed, positive financial results during the quarter were driven by favorable weather, coupled with continued efficiencies in operations, maintenance and administrative costs.

Revenue net of purchased power was higher by 3.1% year-over-year, driven by both the transmission and distribution businesses.

Transmission revenues were primarily affected by favorable weather, which generated higher average monthly Ontario 60-minute peak demand. Distribution revenues were similarly favorable, affected by weather, which resulted in higher energy consumption.

Continuing focus on cost control resulted in a 3.3% reduction in OM&A costs year-over-year. The primary driver of the reduced costs was lower consulting and contract costs related to the Avista merger that were partially offset by higher vegetation management and labor costs. Overall, we are pleased with our OM&A performance in the quarter.

Below the operating cost line, our financing charges increased by 30.7%. The primary reason for the increase is an unrealized loss due to the revaluation of the deal-contingent foreign exchange forward contract entered into in October of last year related to the Avista merger. The unrealized loss was due to the strengthening of the Canadian dollar versus the US dollar during the quarter, reversing CAD 24 million of unrealized gains recorded earlier in the year. For the first 9 months of the year, unrealized gains stand at CAD 25 million.

Income tax for the quarter was 78.3%, higher than a year ago. The increase in income tax expense for the 3 and 9 months ended September 30, 2018 was primarily due to a combination of an increase in estimated annual effective tax rate for 2018 arising from higher forecasted earnings, coupled with a corresponding decrease in the estimated annual effective tax rate for 2017, arising from lower forecast earnings. The company's effective tax rate for the quarter was 17.1% versus 9.3% in the prior year. We continue to maintain our guidance of approximately 16% effective tax rate.

Moving over to investing activities. Assets placed in service are low in the third quarter compared to the prior year. This reflects some large in-service additions in the same quarter in 2017, as well as timing of planned in-service additions in 2018. Skewing the comparison is the in-service portions of several large transmission station projects in 2017, including our Richview, Lakehead and Kirkland Lake facilities and the Outage Response Management System on the distribution side.

In terms of our regulatory updates, as Paul mentioned earlier, the Ontario Energy board announced it would be sending the motion back to the panel for review and decision on the deferred tax asset. The OEB issued a procedural order on November 6 outlining the next steps throughout November and December. 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. Following our submission to the OEB for a 1 year inflationary adjustment to the transmission rates, we have updated our capital expenditure forecast for 2019 to reflect a lower CapEx spend, which has been reduced by CAD 158 million. And for now, we will be keeping the remaining use unchanged. Our forecast for 2020 to 2022 will be part of a thorough review of our transmission investment plans and will be reflected in the next rate filing.

Through our 2018 to 2022 distribution rates application, the company filed its reply argument with the OEB at the end of August. This concludes the evidentiary process, except for certain items such as pole attachment charges and items related to [build-through] and executive compensation. The OEB issued a procedural order on September 26 outlining the next steps in the process throughout October and November. Our expectation is that we receive approvals in December with retroactive adjustments for 2018.

In terms of the balance sheet, on September 13, S&P lowered its issuer credit ratings on the company from A to A minus. It also lowered the issuer level rating for Hydro One Inc. from A to A minus. Hydro One Inc.'s commercial paper program was also downgraded from A1 low -- sorry -- to A1 low from A1 mid. All ratings remain on CreditWatch negative pending the completion of the Avista transaction. The 1 notch downgrade reflects S&P's reassessment of Hydro One's management and governance structure.

For the Lake Superior Link projects, a 7-day oral hearing was completed on October 12, and we submitted our Argument-in-Chief 10 days later. Intervenor submissions were due October 31. NextBridge and Hydro One have until November 7 to file their final arguments. We expect a decision to be made by the end of the year on what is an exciting opportunity.

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

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

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question is from Robert Hope with Scotiabank.

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

Congrats on a good quarter. Maybe we can start on the 2019 transmission filing. Can we just maybe get some additional clarity on why you chose a 1-year inflation adjusted filing, as well as your expectation on your ability to earn a return, given there is no capital tracker?

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

Sure, I'll start Robert and maybe ask Chris to add some color as well. So yes, we did file a 1-year 2019 inflationary increase. As the new board has come on, they wanted to get up to speed with more understanding of details of our capital expenditures over the long term and understand the details of that. And 2019 inflationary increase, the sort of process with that is a much more simple application with a shorter time to process. We wanted to make sure that we were able to invest in 2019 for safety and reliability reasons and we fully intend to bring forward a multiyear IRM in the early part of 2019 for 2020 to 2022. We need to make sure that what we bring forward balances the need for safety and reliability across the system, which is absolutely paramount, with consideration for the impact on customer rates and cost to consumers, which is also extremely important. So that's our thinking with regards to the 2019 filing.

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

And then just in regard to the CapEx reduction in '19 of CAD158 million, is this efficiency is being gained or will you have to make this up in the back half of the forecast and could we see kind of other revisions in your CapEx plan?

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

I would say it's more a combination of -- there are some efficiencies in there, but as we look to sequence and prioritize those investments, we will see some of that come through in the 2020 to 2022 filing. I think net, overall, it's slightly lower because of efficiency and re-prioritization, but not materially so.

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**Operator**

Thank you. Our next question is from Linda Ezergailis with TD Securities.

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

I appreciate the update on the Avista dilution outlook for the company. I just want to get a better understanding of what specifically has changed since Q1 of this year. Was it just the increased financing costs or were there other changes as well that led from it being essentially neutral to accretion to dilutive?

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

Hi Linda, it's Chris. I think if you followed our disclosure earlier in the year, I think we did announce as we were going through the negotiations with regulators, I think we announced the impact of the rate credits earlier this year and then the financing costs have affected us sort of from mid-year on, we've seen some changes in the debt markets, including our 1 notch downgrade at S&P here in Q3. So I think there were 2 consistent ones this year, the others were during last year -- announced last year.

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

And just from a strategic perspective, when will the new board articulate any sort of evolved strategy or reiterate the company's prior strategy? And I'm wondering specifically if there is some sort of an annual review that is coming up or how you can comment on that process.



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

Yeah, sure, Linda. I'll comment on that. So the new board is getting up to speed with what the existing strategy is and what we can see in the results, the execution of that strategy and the good results coming through. The board is also, as we mentioned, is searching for a new CEO and coming up with a new strategy, is work that the new CEO and the board will do together and expect that will be extremely high priority when that person is on board. My own sense is that there are elements of the existing strategy, many elements of the existing strategy, will continue and are still right for our space. There could be other elements that will be more emphasized, certainty around the good success we've seen around productivity and efficiency and around capital allocation as well. So we expect, I would call the strategy, while it is the purview of the new board and the new CEO primarily, I would expect a lot of the elements of what you've seen in our existing strategy to continue.

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

That's helpful context. Thank you. And has the board indicated to the management team what the status of the CEO search is and what the expected timing to resolve that process or complete that process is?

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

They are making very good progress on that and they've retained a search firm, there's been a committee struck, a subcommittee of the board struck to do the CEO search and they are well underway and making very good progress on that.

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**Operator**

Thank you. Our next question is from David Casado with Raymond James.

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**David Quezada *Raymond James Ltd., Research Division - Equity Analyst***

My first question here, just on the backdrop in Ontario and the broader theme of the government's desire to reduce rates, I'm wondering if you've heard anything on plans with some of the IPPs to potentially blend and extend power contracts there, and if you think that could help reduce client bills outside of your business, obviously?

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

Sure. I mean, I think all ideas are on the table in our discussions with other industry participants and with the Ministry of Energy. There is a lot of information being gathered, a lot of ideas being put forward and a lot of options being considered. And we have certainly been participating in that. My own opinion is, it's not going to be one thing, it's going to be many different things, but the government and the Ministry of Energy, the OEB will need to consider to impact bills going forward. We do think it is something that the whole industry should be thinking about, work into their strategy and participating. And as you know, Hydro One is really only a small part. If you look at all of the cost across the whole industry in Ontario, we are a small part of that, but still we will be putting forward our ideas about things that we can do and the industry can do to impact rates. We also, as I mentioned earlier, they will have to certainly consider as others do as well, how we balance the need for investment in reliability and safety, which is absolutely paramount with impacting rates going forward as well. So we're hopeful that if we all work together, the industry will come up with the best long-term solutions and outcomes for the people of Ontario.

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**David Quezada *Raymond James Ltd., Research Division - Equity Analyst***

That's helpful. Thank you. And then just my only other question here, just regarding this transaction and the dilution for year one. Appreciate it might be early days at this point, but any context you can provide on how you expect the accretion to trend after that first year?

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

Chris, do you want to take that?

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

Yes. I think when we first announced the deal, we said we were excited about some of the benefits that we could get from combining the 2 businesses and extracting lower cost over time that potentially could come up to the bottom line. So, the customers will get it after rate cases were completed, but in the meantime, the shareholders would benefit. We still expect that to occur. So that hasn't changed. I think

our starting point now is, as we said previously, we indicated mid-single-digit accretive as we're starting from a slightly lower point, but the trajectory will be the same. So we would expect that over time we would end up back where we were and I think we've talked about good long-term value. So instead of being mid-single digits in the second or third year, now it might be a little bit further out.

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

They only thing I would add to that too is, I think as the management teams of Avista and Hydro One come together and come together frequently actually to talk about different opportunities and fleshing out what those might look like, which we'll be happy to share with you in due course, I firmly believe and the leadership team here believes that those synergies will come through. But we need time to properly flesh them out and make sure that they're embedded into our plans and into our thinking.

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**Operator**

Thank you. Our next question is from Robert Catellier with CIBC Capital Markets.

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

I think you've answered most of my questions, but I just need a couple of clarifications here. Maybe for you, Chris. I just wanted to make sure I understood the actual change here from the last guidance on the Avista accretion, which is now dilution. Is this change entirely due to financing costs, or have there been increasing merger commitments made?

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

There have been no increase in merger commitments on the financial side. Any of the concerns down in the U.S. have been more on the governance side, so no additional financial commitments. So this is purely related to the increasing cost of financing and as I say, the 2 areas that you point to is the flattening yield curve, the widening of spreads in the last quarter here and then finally our S&P downgrade in Q3.

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

Okay. That's what I thought you said, I just wanted to clarify that. And then just on the whole idea of getting the Ontario bill down, I just -- just hearing your comments, it makes me wonder if you're suggesting that there might be a lower capital plan from Hydro One as you seek to balance the safety and reliability with rates. Is that what you're suggesting in your comments?

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

Not entirely, I wouldn't say -- I wouldn't quite characterize it that way. I think the amounts that we put forward and asked for to invest in the system are the right amounts to keep safety and reliability balanced with cost. We are not asking for more than we think we need. We do have an aging infrastructure, we want to make sure that safety is always top of mind for not only our employees, but for our customers as well. And we think we've put forward a very good balance of that and a quite dependable balance. And certainly committed to hitting those numbers and making those investments and getting those outcomes. So there could be some impact to that as we go through how and figure out -- and the government figures out how they want to achieve the 12%. Not saying that that's not a possible risk. But we think our investment plan is certainly very dependable and balancing everything I just talked about.

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

I'll just add to Paul's comment there, a large driver of the capital program is a fact based that the fleet is aging and we need to renew that fleet. So that's the main driver. If we become more productive, we can potentially reduce that a little bit, that capital envelope, but the main driver behind it is end of life assets that need to be addressed.

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**Operator**

Thank you. Our next question is from Mona Nazir with Laurentian Bank.

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

I also had a clarification on just the OEB appeal in the review of the deferred tax asset ruling. Did you say that you expect to receive a decision by year-end?



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

I'll clarify. They set out a procedural order, which just outlines what the expectations are with the various participants and that order takes us to December 18; that's when filings will be made on the requests that they have in front of us. In terms of a decision that would mean they (inaudible) a decision sometime between December 18 and December 31. We would love that but I'm not sure that that is realistic.

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

Okay, helpful. And I'm just wanting to touch on the CEO search and I know you said that there are no definitive timelines. I'm just wondering if you could further clarify on the executive compensation structure and the details as such. And do you expect that to narrow the pool of candidates, or has that been a barrier at all?

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

Well, I'll start and then maybe ask Judy McKellar, our Head of HR to add a few color comments as well. But yeah, the CEO search is making very good progress and they've interviewed -- I believe they've interviewed a number of candidates, both internally and externally. With respect to compensation, I mean, looking at this as a commercial business, as a private company, you would look at who the relevant peers are that -- in line with the strategy that we are seeking to execute, and people look at the bench-marking and look at where we would come out to target the right individuals. So I do not think it is going to impact -- negatively impact the quality of the candidates, nor do I think it's going to impact further down in the organization in a negative way. But I'll ask Judy if she's got any other comments to add.

**Judy McKellar Hydro One Limited - Executive VP & Chief HR Officer**

Sure, thank you, Paul. So as Paul has already said, the Board's top priority right now is the selection of the CEO and with that in mind they are looking at the best slate of candidates that have been put through by a very seasoned executive search firm, they've also have established a CEO selection committee. So it's a top priority. They know very well that they've got a higher -- high-caliber -- a high caliber CEO in order to deliver on our corporate mandates and they're also looking at market competitive compensation. So we are expecting an excellent result.

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

Okay, that's very helpful. And since we do have Judy on the line, I just thought I would ask about the culture and the tone of the employee base. I know there has been, at least following the C-suite a number of management departures and changes in the last 2 years and I'm not sure if you have the current turnover levels on hand. But I'm just wondering, has there been an increase or is it a mix of employees exiting or some downsizing or it's in line with peers? Thank you.

**Judy McKellar Hydro One Limited - Executive VP & Chief HR Officer**

Thank you for the question. No, we have not seen an increase in staff turnover. Our staff remain, I would say, highly engaged. We are committed to the important work we do at Hydro One every day for our customers and our rate payers and they're hopeful that as I said, we'll find an excellent CEO. And with that in mind, we continue to engage our workforce and we haven't seen any change in terms of an engaged workforce at this point.

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

The only thing I'd add to that too is that as I make my way around the company and meet with people, it's always very impressive the resiliency, the dedication, as you saw certainly on just full display with the storm recovery response, the amount of talent and experience in the company and how deep the bench is as well. We haven't seen the turnover in where some might expect we would, but we have not seen that turnover and I think that just speaks volumes about the dedication and the quality of the people we have there.

**Operator**

Thank you. Our next question is from Ben Pham with BMO Capital Markets.

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

I want to go back to the Avista conversation, the dilution that you highlighted and I wanted to check, usually when you say a dilutive transaction, it's usually a pulse fact discovery, it's more factors changing as the deals close and the numbers don't drive out or the other situation is dilutive deal near-term, but in 5 years it's dramatically accretive. And so it sounds like it's -- you guys are thinking about the latter in this situation, but as you look at other transactions in the future, I know that's not near term, but is the thought process that's what you would be willing to do and not take accretion in the first year and just [time in] over time?

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

Well, I'll start and ask maybe Chris to add some comments as well. I think in the M&A space, it's only transactions as large as this, the strategic benefits and the reasons for doing the transaction in the first place are still there. But in transactions of this size and when you think about our company, we think long-term. We don't just think about the first year. Certainly, it is unfortunate that some of these things have happened and we're in a dilutive position in the first year. But we fully expect that over the mid- to long-term that we will create value from this transaction and are dedicated to doing that. So we always think for all stakeholders, thinking longer term that the best outcome for all stakeholders, including customers, including shareholders is the way to look at the transaction to the size. We would certainly hope for accretion in the first year. But if it doesn't come through, it doesn't invalidate the whole theory.

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

Okay. And then on the flex and the accretion expectation will affect -- most of it's rising interest rates. That's really not -- that's beyond your control and it looks like you're baking in almost a 50 basis point increase, it seems, based on my quick math, but is that -- are you looking at just the recent historical move in the last 6 months, are you guys thinking about the forward curve and building some cushion in this new dilutive number they are putting out?

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

Ben, I think if you look at the straight math, it's about 0.75%, if you look at the curves. I think what's occurred here is there was a flattening of the yield curve, so there was some optionality previously in terms of bringing some short-term versus long term, but given the flatness of the curve, I think you're correct now, by having some more long-term debt we can reduce our risk. So we are looking at that. But overall, it really has been changes in the market that have resulted in this and largely since Q2 -- end of Q2, where we've seen that change. And like I said, the only other part I'd point too is that S&P acted and provided a 1-notch downgrade, not due to the company's financial position, but more due to external factors such as governance and that's what I pointed to. Now I think that we didn't -- you didn't see there and we will manage that and we will find a way to offset that the best way we can.

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

Okay thanks for that. And one quick last one. The weather impacted -- you highlighted churn in the quarter, yes, certainly much better than year-over-year. But can you -- are you able to quantify the magnitude of the weather impact this quarter versus the third year average that's baked in the rates?

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

Please repeat that, so I understand what question you're asking there.

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

So on the favorable weather conditions that benefited this quarter versus last year, was -- kind of last year was quite mild and so is this quarter a normal weather year relative to that third year average you're using or there was actually some upside beyond that -- that average rate, rather than just looking at year-over-year?

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

Yes, correct. So you picked up on it exactly. So, last year was an event where it was a very low third quarter due to weather and this year is an event where it's a high third quarter due to weather. So this isn't it -- like the gap is quite wide year-over-year. It's not the third-year average. So it is up quite a bit.



**Operator**

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

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

Recognizing that it's just still to close, but kind of coming back to just how you might approach larger scale M&A and what's happened here with the Avista transaction. If you're looking at future sizable M&A, does this change how much accretion you seek to target, especially when you think about leverage, as well would you try to focus on faster growing businesses or one with materially better cost of capital, so that at least you could grow your way out of any changes?

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

Yeah. We certainly -- first of all, I'd say we're not looking at any large M&A, we've got our plate quite full with Avista and want to make sure that, that transaction is successful, as well as our other priorities throughout the rest of the company. So there is no large-scale M&A on the horizon. Certainly in the mid-to-longer term, if that does come back into our thinking, we absolutely would look at making sure that the transaction works for customers, for shareholders, for all stakeholders, right out of the gate, and make sure that we had enough contingency or cushion in there to ensure that that outcome happens. But we think of certainly big M&A, all M&A really, as long-term value creation and that's how we approach it.

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

I would echo Paul's comments that the short to medium term, we are absolutely focused on ensuring that the value that we were chasing at Avista is captured and that our customers in both territories, in the U.S. and Ontario are well served and that we own the rights to do any further M&A. Other than that small tuck-in type transactions here in Ontario that we've been doing would be still on the table, but like I said, it would be very opportunistic.

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

Yes. And I would just reiterate that. Even the smaller ones that we would look at and certainly do support in the likes of (inaudible) going forward we want to make sure that all of those transactions work for all stakeholders.

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

Got it. And then just to be clear, coming back to Avista and the path to trying to get this to being accretive, is it pretty much solely getting at synergies or are there other factors that you're seeing that can get this deal back to accretion?

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

Well, synergies are part of it. Absolutely. And when we think about synergies, we think about synergies across the Group. So in Ontario, what things can we do, learning from what Avista has done and apply it to Ontario and create more value in Ontario. We would also look at the sort of regulatory structure in the U.S. and see if there's other ways that we can have longer-term rate filings, incentive type rate mechanisms like we have here in Ontario, and certainly see if that is a possibility, if that works certainly for the customers in the Avista territories, for the regulators in the Avista territories and works for us. So all of those are opportunities and possibilities that we will pursue.

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

Understood. If I can just finish on the rating agency actions and with S&P now to A minus and potentially going to BBB plus post Avista. Certainly doubt that's the rating you wanted, but I'm just wondering, are you comfortable pro forma BBB plus or would you be looking at taking steps to preserve A minus?

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

Which actually you're referring to?

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

Sorry, the Hydro One.

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

Okay. We're comfortable there and we want to ensure we stay there. The one notch that came as governance was unexpected clearly. So we would have much preferred if they did not occur, but we are comfortable at BBB plus and we can't react to those kind of factors where we have no control over. So overall, the answer is yes, we are comfortable with BBB plus and we will ensure that we'll do everything necessary to maintain a strong balance sheet.

**Operator**

(Operator Instructions) Our next question is from Jeremy Rosenfield with Industrial Alliance.

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

Thanks. I just wanted to go back to the discussion on the Avista and the dilution. And I'm just curious in terms of post-closing financing plans. Previously, I think, if I remember correctly there was a strategy or you wanted to look at additional debt financing. And also to what degree are you taking into account sort of equity injections into Avista post transaction closing, how is that factoring into the dilution commentary that you have made this morning?

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

Thanks, Jeremy. So I think you're referring to -- on yesterday's call Avista indicated there was a requirement for equity, that is fully baked into our estimates, so that's included here. In terms of the financing the plan is -- remains as we had disclosed at the start of the transaction. We will look at any and all opportunities at the time we execute the debt financing, which is likely to be either very late this year or early next year. Whatever opportunities available to [them] in terms of term and the type of instrument, we would look at, at that point. So we are staying open to that, but this takes into account any capital injection that Avista may require.

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

Okay, great. And then the only other question that I had maybe if there's just some general comments that you have on the Lake Superior Link project or the filing and the hearing that occurred in early October and sort of what your outlook is for for that process.

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

Sure, yes, happy to. So yeah, you're right, the hearing was completed October 12, the Argument-in-Chief was submitted October 22, final arguments are this week, I think by Friday, if I'm not mistaken. The board panel expects to issue their decision, they told us by the end of the year. Certainly our proposal, we feel very strongly about, with less costs, not only upfront but ongoing as well. Also our proposal is less intrusive on the environment and we think is a much better outcome for all customers and people in Ontario. So we're very, very hopeful the panel will take that under consideration when they come to their decision. And again, we hope to see the results of that by the end of the year.

**Operator**

Thank you. Our next question is from Patrick Kenny with National Bank.

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

Just on Avista wanted to confirm the regulatory process in Idaho, the hearing date had been reset to the end of the month here, due to the leadership changes. So just wondering if we should expect this time line to continue to be pushed back until the CEO search is complete.

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

With respect to Idaho specifically, so the hearing is scheduled for November 26. We have requested a decision in line with the Washington time frame, but Idaho was under no commitment, there is no statutory commitment to abide by that. They certainly understand, we've been having interactions with Idaho staff and interveners as well, and those discussions are continuing ahead of the hearing on November 26. And we're very hopeful of a positive outcome there. I don't know, Chris, is there anything you would add to that?



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

No, no, I think you touched the main points. They are under no obligation. However, they have indicated and agreed to our best efforts to meet the timeline that Washington has. All 3 commissions are away that we would like to as a combined stakeholder group, conclude the transaction in December.

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

Okay, great, thanks for that. And then just to circle back on the modest reduction in capital for 2019. Wondering if you could share any update on your discussions with the Board to potentially accelerate your LDC consolidation activity in Ontario, not only to backfill the organic growth budget but also to help crystallize the mandate of reducing distribution rates across the province.

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

Yeah, we have had discussions with the board not only in the context of, you know, Peterborough or where we are and just walking through those transactions, but on the broader strategy as well. We believe that consolidating LDCs in Ontario can make both economic and operational sense and provide a great outcome for customers. And we think that's still the goal of the province, and should be looking at that as a way to get to rate reductions for everybody. So we will continue and the board will still continue to look at opportunities as they come along, but as I stated earlier, we have got to make sure that all of those opportunities work for customers, work for shareholders as well, and all stakeholders and work for the OEB. So those all things all have to line up for us to move forward with.

**Operator**

Thank you. That does conclude our Q&A session for today. I'd like to turn the call back over to Omar Javed for any further remarks.

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

Thank you, Christie. The management team at Hydro One thanks everyone for their time with us this morning, during what is a busy period for everyone. 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 participating in today's conference. This does conclude today's program and you may all disconnect. Everyone have a great day.

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