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Q3 2019 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hydro One Limited Third Quarter 2019 Analyst Teleconference. (Operator Instructions) As a reminder, this call is being recorded.

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

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

Good morning, everyone, and thank you for joining us. I am here in Toronto with our President and CEO, Mark Poweska, and our Chief Financial Officer, Chris Lopez. First Mark will share an overview of Hydro One's 5-year strategy and a few highlights from the quarter. We will then turn it over to Chris to review the financial results. Following these remarks we will spend the remaining time answering as many of your questions as time permits.

There are also several slides that illustrate our corporate strategy as well as some of the points we'll go over in a moment. They should be up on the webcast now or, if you're dialed in to the call you can also find them on Hydro One's website in the Investor Relations section under Events and Presentations.

Today's discussions will likely touch on estimates and other forward-looking information. You should review the cautionary language in today's earnings release and our 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 turn the call over to our President and CEO, Mark Poweska.

Mark Poweska ***Hydro One Limited - President & CEO***

Thank you, Omar, and thank you to everyone for joining us today on the call. I am delighted to have the opportunity to speak to you today about my vision for the company, a Hydro One that is customer-driven, sustainable, safe, efficient and growing. I believe we have a lot to be optimistic about in Ontario and I look forward to walking you through the priorities of our corporate strategy.

So after starting in May I spent my first weeks and months in the role listening to people; employees, customers, industry partners, government and investors. What I learned in those conversations were foundational to charting a clear course for the company. I learned that we are an amazing company, with so much to be proud of and with so many opportunities for growth and success right here in Ontario.

Since 2015 Hydro One has been on the right path, achieving significant performance improvements on nearly every front. We have the highest residential and small business customer satisfaction in a decade. We've achieved nearly $250 million in productivity savings since 2015. And we have made significant improvements to our system to improve reliability to our distribution customers. In fact, I'm pleased to say that we saw residential and small business customer satisfaction scores rise again in the third quarter to reach a new high of 87%.

The strides we are taking to put our customers first also earned us 2 awards earlier this month. We were recognized for Customer Service and as a Contributor of the Year at the 2019 Ontario Energy Association Awards. I highlight these things because they represent some of the many achievements that I believe Hydro One should be proud of. They also set the stage for our evolution and are the foundation for our future success.

What I learned from listening to shareholders and others only confirmed what I suspected, having long watched the Hydro One story from BC. We became distracted by opportunities beyond our borders. This outward focus narrowed our minds to the great opportunities that exist here at home. It's time for Hydro One to focus in on the things that matter. It's time for us to build on our strengths and seize opportunities right here in Ontario.

For the next 5 years we will not actively pursue any mergers or acquisitions outside of Ontario. Ontario is a prosperous, growing province. It is the center of activity for Canada. This economic engine is geographically larger than Texas and more than double the size of California. It accounts for 40% of Canada's economy with a vibrant, young and diverse population that is growing faster than some countries. Ontario's education system produces high-quality talent, with over 40,000 STEM graduates annually.

To continue this rapid pace of development it requires an electricity grid that is safe, reliable and sustainable. Significant investment is required to maintain and upgrade our systems that were built in the 1950s and fostered the traditional industries. That is our opportunity and our responsibility. With input from our stakeholders and in collaboration with our board of directors, my executive team and I have developed a clear new strategy to ensure the long-term success of Hydro One.

Having received Board approval, we will now begin executing on 5 strategic priorities that will make us a best-in-class North American utility by 2024. Our 5-year strategy will keep an intense focus on what matters most to our investors, customers, employees and our partners, which is strong results in safety, efficiency, reliability, customer satisfaction and growth. This strategy will [enhance] our ability to deliver value to shareholders and customers alike and shore up the growth rate we have achieved in the past.

We're going to plan, design and build a grid that meets the needs of Ontarians today and into the future. This means improving reliability through best-in-class asset management and investments in new technology that will allow us to automate our distribution network.

Sustainability will be central to our strategy. As we prepare for more severe storms, climate change will be taken into consideration in our planning processes to increase resilience and lower our environmental footprint.

Just over a month ago we reaffirmed our commitment to transparent public sustainability disclosures with the submission of our 2018 Carbon Disclosure Project Report. We will also aspire to be a safest and most efficient utility. Our focus on safety is core to me on a personal level and it's something I'm deeply committed to. Each one of our employees must come home safe after a fulfilling day at work. I'm passionate about our safety culture because I care deeply about the wellbeing of every Hydro One employee and of every public member.

I'm also passionate about it because something remarkable happens when we adopt a steadfast focus on safety. A mindset of ownership and accountability takes hold in every part of our organization. We become a company that's more careful, more systematic, more driven by proven, repeatable process. And this makes us a better managed business. And I believe it will make us a more efficient business. Good safety is good business.

Focusing on efficiency means that we will continue to apply private sector discipline to our business. We will introduce new processes and technologies to enable our field and corporate staff to maximize productivity and efficiencies. The productivity savings we've already delivered are powerful examples of this disciplined approach and you'll see us dig even further to generate efficiencies in both OM&A costs as well as our capital delivery expenditures. We must become one of the most efficient utilities because I want Hydro One to be the utility of choice for customers, employees, investors and all Ontarians.

We will be a trusted partner to indigenous peoples, industry stakeholders, government, communities, customers and all Ontarians. We will put a renewed focus on building and growing relationships to deliver greater value for our customers and shareholders.

A terrific example of this is the completion of the $135 million Niagara Reinforcement Project, along with our equity partners, Six Nations of the Grand River Development Corporation, and Mississaugas of the Credit First Nation. This 76-kilometer double-circuit 230 kV transmission line was brought to completion by A6N, an indigenous-owned contractor. In September, locally elected representatives in Orillia partnered with us to announce our plans to build a new Ontario grid control center in the area. This $150 million investment will provide a new state-of-the-art facility which will serve as one of the company's technology hubs. These are just a few examples of our renewed focus on building trust and strong partnerships.

We will also advocate for our customers and help them make informed decisions. To optimize the customer experience we will build and enhance digital capabilities and offer new products and services to meet their energy needs. We also know that we must challenge ourselves to compete in an industry that is being disrupted by new technologies like distributive energy resources, artificial intelligence and regulatory modernization. With change comes opportunity and we will innovate and compete in our evolving marketplace.

While we continue to invest responsibly in our core transmission and distribution business, we will pursue incremental regulated and unregulated business opportunities through our focus on Ontario. This will start with our Hydro One Telecom, which will transition from focusing on commoditized connectivity to a suite of value-added services for enterprise customers.

So in conclusion, we will continue to build on the positive momentum started after the IPO. What's new is an intense focus on what matters most to our customers, employees and stakeholders in Ontario. By executing against our 5 strategic priorities we will be able to enhance our ability to deliver value to shareholders and customers alike and shore up our growth rate.

I would also like to announce that we will hold an Investor Day in the first quarter of 2020 to give you an update on our progress, as well as showcase the team executing the strategy.

Before I pass it over I want to say that we look forward to answering your questions after Chris details financial highlights from the quarter. If you don't get a chance to ask a question, then please keep in mind that Omar and his team will remain available to you at all times.

Chris, over to you.

Christopher Felix Lopez ***Hydro One Limited - CFO***

Thank you, Mark, and good morning, everyone. We're all excited about the vision of Hydro One that Mark has just laid out. We believe an Ontario-focused strategy will deliver the outcomes that will benefit all stakeholders.

[If you] turn to the financial results for the quarter, the fundamentals of the business continue to be strong and we are seeing the results of our focus on capturing efficiencies and operational costs.

Earnings per share and adjusted earnings per share in the third quarter increased to $0.40 compared to the third quarter last year and $0.33 and $0.38, respectively. The increase is related to higher distribution rates; lower operation, maintenance and administrative costs; lower financing charges; and lower income taxes, which were partially offset by less favorable weather and lower revenue due to the deferred tax asset sharing as mandated by the OEB and accelerated tax appreciation.

Revenues net of purchased power were lower year-over-year by 1.9%. While we had an uplift in revenue from the updated 2019 distribution rates, less favorable weather affected overall revenues, while the weather led to the decline in average peak demand in Ontario by 7.9% when compared to the same quarter last year. In addition, there was a decline of 2.8% in our electricity distributed to Hydro One customers.

Apart from the weather effects, revenues were also affected by the deferred tax asset sharing and accelerated tax depreciation laws that got introduced in the 2019 federal and provincial budgets and enacted during the second quarter. As a reminder, both these impacts are net income neutral as there is a corresponding offset to tax expense.

I'm pleased to report that operating costs were lower by 4.4% in this quarter versus the comparable quarter last year. The reasons for the decline were lower corporate support costs and operational improvements, which were partially offset by insurance proceeds that we had received last year, as well as higher vegetation management costs. Similar to last quarter, we took advantage of the milder weather to enhance the reliability of the electricity infrastructure. This additional work is delivering results and we are seeing ongoing improvements in reliability.

Our financing charges this quarter increased by 7.3% year over year when adjusting for the one-time merger-related financing, costs related to the convertible debentures and foreign exchange contracts for Avista last year. This was primarily due to an increase in financing expense, resulting from a higher weighted average long-term debt balance outstanding following the $1.5 billion debt issuance in April this year.

The accelerated tax depreciation was enacted in the second quarter, as well as incremental tax deductions from deferred tax asset sharing, as mandated by the OEB, resulted in a decrease to income tax expense year-over-year. While these factors were net income neutral combined with low income taxes -- income before taxes in the quarter, they resulted in a decrease in income tax by $27 million. As a result, the effective tax rate for the quarter was 5.4% versus 17.1% in the third quarter of last year. At this stage, we are not changing our previous guidance of approximately 2% for the expected tax rate for the 2019 year.

Over the next 5 years, we continue to expect the effective tax rate will be in the range of 8% to 11%. While the decrease in the effective tax rate will be net income neutral, it may have an impact on the timing of future cash flows.

Moving on to investing activities, capital investments and assets placed in service were in line with our expectations and are tracking a similar path to last year. The increase in assets placed in service for the quarter was primarily due to the completion of major development work on the Niagara Reinforcement Project, which accounted for $135 million in the quarter, as referenced by Mark earlier on this call.

On the regulatory front, the oral hearings for our transmission rate application for transmission rates for the 2020 to '22 period and the incentive rate-making framework ended on November 4. We made a powerful case of investing in the grid to ensure our customers continue to receive electricity that is delivered safely, reliably and efficiently. Our aging assets do require additional investment and we are confident that we have presented a strong case for that investment. The process is proceeding according to schedule and we anticipate having a ruling in the first half of 2020.

The OEB released a cost-of-capital update for 2020 on October 31. Based on a formulaic methodology that used the prevailing interest rates and the credit spreads for the month of September, the resulting return on equity came out at 8.52%. To be clear, this ROE will only impact the transmission rate application, as the ROE for the distribution business was previously set at 9% for the duration of the rate case.

As a reminder, with respect to deferred tax assets we filed an appeal with the Ontario Provisional Court and the hearing is expected to take place on November 21. We expect a decision sometime in the first half of 2020.

On the pension cost appeal, we made final arguments in July and a decision on the motion is currently pending.

Finally, we continue to work through both the Orillia Power Distribution and Peterborough Distribution merger applications. Technical conferences were held early in October and an oral hearing will commence on December 4.

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

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

Thank you, Mark and Chris. We ask the operator to explain how she'd like to organization the Q&A polling process. Please go ahead, Shannon.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rob Hope with Scotiabank.

Robert Hope

Just want to start off on the relationship with the Ontario government. Have you socialized the new strategy with them? And any updates on how they're looking at electricity price increasing in the context of Hydro One?

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. It's Mark here. So we have socialized and signaled to them where we were going with strategy with our focus on Ontario and on operational excellence. And that does align, obviously, with the desires of the government as well as with our customers and other stakeholders. So they are aware, not of the details, but they are aware of the direction we were going.

The part on safe, efficient execution obviously aligns with the desire of the government on finding cost-effective ways to help customers with affordability across the Province. So as we said before, I believe there's a good alignment between what we're doing in our strategy and what all our stakeholders are looking for.

Robert Hope

And then just moving over to your longer-term capital plan, as well as your balance sheet, did the strategic review alter how you're looking at the balance sheet or where you want to devote capital?

Christopher Felix Lopez ***Hydro One Limited - CFO***

No. We're still -- the primary focus is investments in rate base and maintaining our current investment grade credit rating. So there is no change to the allocation. We have highlighted the fact that we will look at some unregulated assets, but that, I will remind everybody, is going to be a very small part of the investment going forward.

Operator

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

Robert Michael Kwan ***RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst***

Chris, just maybe I'd start by following up on your unregulated investment and commentary that it would be very small going forward. Is that related, though, to the telecom commentary that Mark was making earlier? Or would you also be looking at unregulated assets in, say, a core kind of electric either T- -- well, I guess it might be T&D, but electric business? And would you be looking for contracts?

Mark Poweska ***Hydro One Limited - President & CEO***

It's Mark here. I'll take that first and Chris can weigh in there where appropriate. So the primary focus on the unregulated business is on the telecom side. We do see there's an opportunity that we've really been offering the core services with our telecom assets that we have, but there's an opportunity to add the more value-added services there. So most of the unregulated growth we're looking at coming from there. There is an opportunity for us to partner with others on energy-management services, type services, for our larger industrial customers. And we'll be looking at that as well.

Robert Michael Kwan ***RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst***

And then with the Ontario-focus part of the commentary, is there any contemplation call it in the 5-year period of investing outside of Ontario? And would that be in T&D or could you be looking at unregulated as well?

Mark Poweska ***Hydro One Limited - President & CEO***

No. Our focus is on Ontario and our strategy is all built around a focus on Ontario.

Robert Michael Kwan ***RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst***

That's great. If I could just finish with the commentary around grid of the future. There's some commentary in there around storm hardening. Do you see kind of the investments there as being a material driver of the potential increase in rate-based growth? Or do you see the -- you also talked about technology. Do you see it as being capital light?

Mark Poweska ***Hydro One Limited - President & CEO***

So the investment in the grid of the future to make it more resilient, a lot of that's already built into our Dx and our Tx filings. So it's not looking for new money to do that. And it's really leveraging technology to harden the system as opposed to spending larger amounts of money on hardening the actual poles and wires. So things like sectionalizing the distribution system, technology to give us visibility into where we have faults so that we can more quickly respond. So the investment in the grid of the future isn't looking for new capital outside of what we're asking for already in our Dx filing and our Tx filing.

Operator

Our next question comes from Linda Ezergailis with TD Securities.

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

I'm wondering if you can help us understand the potential magnitude of your partnership with indigenous people following your successes in the Niagara Reinforcement line.

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. So --.sorry.

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

And would that already be reflected net of your rate base growth? Or would that be a gross number, your rate-based growth?

Mark Poweska ***Hydro One Limited - President & CEO***

So I'll start with the magnitude of the partnerships and a recognition that the indigenous people of this province have unique rights and there's obligations on us as a company to recognize those and to work with the Nations as we develop new projects and new products throughout the Province, as well as recognizing that our assets cross over almost all 133 Nations within this province.

So the projects we've done to date where we've done equity partnerships with them, which is the Bruce-to-Milton and also our recently completed NRP. The growth in those projects is already in our growth, so it's net of their equity contribution. Does that help, Linda?

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

Yes, thank you. And just further on your new strategy, I'm wondering if you can help us understand how your LDC consolidation initiative with Ontario might be a part of that or might change. And would that be dependent on the outcome potentially of your Orillia hearing process?

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. So from an Ontario perspective I believe that there's a good opportunity for consolidation of the sector to drive out cost in the sector and help rate payers overall. So we will continue to look at that and to pursue opportunities to consolidate. The ones we're doing right now, they're taking longer than we would expect. And part of the OEB reform is to look at the MAAD process, which I think will help enable the ability to consolidate. So it is part of our strategy going forward, part of our growth strategy, but also part of what I believe we need to do to help rate payers of this province. And we will continue to pursue that where it makes economic sense for Hydro One.

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

Do you think there's an opportunity to potentially accelerate that, facilitated by the OED reform or other approaches that you might take? Or do you think it will be similar to the cadence we saw in the past?

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. We're hopeful that there's an ability to accelerate that through the OED reform as well as an alignment with -- there is a desire provincially to see that consolidation for the benefit of the rate payers. So we will be working with all the stakeholders to try and accelerate that. And, again, I believe that it is the right thing for the rate payers and the people of the Province. And it's an opportunity for us.

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

And this is just a question regarding the quarter. Would it be possible to get some sort of sense of an approximation of the weather effect on the quarter's earnings? I know that it's temporal, but it would help us in our forecasting.

Christopher Felix Lopez ***Hydro One Limited - CFO***

I think, Linda, the team, with whom I can take it up right after the call, but I can point to again the major driver being the change in the (inaudible) gets published and we can probably give you -- point to some data that you can use to calculate that.

Operator

(Operator Instructions) Our next question comes from David Quezada with Raymond James.

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

So my first question here just on the topic of electricity rates in Ontario. They seem to be going a little higher more recently. And certainly appreciate that Hydro One's portion of the bill is pretty small. Just curious if you've had any recent discussions with the government or the ISO on respect to reducing bills, potential -- obviously the global adjustment being a big part of that, of the blend-and-extend option with the IPPs, something that's been floated. Any thoughts there?

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. So we haven't had any direct discussions, or I haven't, with government on it other than to share our strategy, which is a focus on efficiency and doing our part in insuring we're taking costs out of the system as much as we can. There was the Fall Economic Statement that came out yesterday from the government, which points to the things that they've done so far to achieve it, as well as they have directed the IESO to look at the contracts on the energy side to see if there's an opportunity as part of those to drive out some costs.

As you know and you're aware, this is an industry-wide problem. We're 14% of the $20 billion to run this electricity system. And we're doing our part to try and reduce that. But it is an industry-wide problem and, as I said, the Fall Economic Statement yesterday points to some of the things the governments are doing. But we expect they're also going to engage the industry going forward to look for solutions.

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

And then just my only other question here. I guess maybe more broadly when you look over the next 3 to 5 years, wondering if you have any -- I mean, you've been in your seat now for I think about 8 months and you've got the new strategy out now. Any high-level thoughts you could give us on where you see the biggest opportunities for cost savings across your footprint?

Mark Poweska ***Hydro One Limited - President & CEO***

Sure. 6-month anniversary yesterday. So as I look out and I look at the company and the areas we're focusing on, at least in the shorter term, 3 to 5 years, on reducing costs, there's a couple of areas. One is to continue to build on the savings we're getting through our procurement organization. We're also looking at our properties and how we can better consolidate our property assets that we own to drive out some cost savings.

But the biggest area of focus for us in the near future is around how do we use innovation technology and process improvement to make us more productive as a company and remove barriers, particularly for our field people so that we can increase tool time so that they can do more of the things that we hired them to do and that they love to do and less administrative type work. So we have some good ideas on how we can drive out some of that administrative burden and some of those barriers and increase the capabilities of our field crews as well as our corporate support. So it's really through rolling up our sleeves and process improvement, investing in technology and innovation to make us more productive.

Christopher Felix Lopez ***Hydro One Limited - CFO***

I'd just add to that with Mark, is that our productivity push, which we said already has saved $250 million since the IPO, is really focused on absorbing the impact of inflation. We've done that since the IPO and we believe we can continue to do that through the use of technology and improved work processes. If we do that for an extended period of time the real cost of our service will come down. And that's really what we've charged ourselves to do. And I think if you look at how do you control electricity prices or try and hold them flat, that's one of the tools that we have in our bag to achieve that.

Operator

And our next question comes from Patrick Kenny with National Bank.

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

Looks like the DTA appeal is being heard on November 21. I'm just curious when we might expect a decision there. And then, given the initial impact on FFO from that decision and now with the reduced ROE on transmission, just wanted to get your thoughts on how we should be thinking about dividend growth into 2020.

Christopher Felix Lopez ***Hydro One Limited - CFO***

So the hearing, as you said, was on November 21, or will be on November 21. We expect a decision in the first half of 2020. I can't be more specific than that. They don't really lay out their timeline. So first half of 2020. If we are successful -- and I remind everybody we have already written this asset off. So if we are successful it will result in a one-time write-up of $885 million and an FFO benefit of $50 million to $60 million per year thereafter. So it is all upside from here on that particular item.

How would that affect the dividend? It would certainly make our financing ratios more comfortable. We are targeting to maintain our investment grade credit rating at the current level. So it would provide a little more space for growth there. I don't see it affecting the dividend payout at this point in time. We are comfortable in the range that we have highlighted, which is we're growing rate base at 5%, we're growing earnings at 5% and we'll grow the dividend per share 5%, all things that we've done since the IPO and that we'll continue.

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

And then just on the corporate strategy here, I was wondering if we could get a bit more color on incorporating the distributed energy resources and how that might have an impact on rate-based growth going forward.

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. We recognize that distributed energy resources is part of the grid of the future for Ontario in many jurisdictions. And what we're looking out there is how do we facilitate enabling companies to bring distributed energy resources onto the system and how do we make sure that where we're placing these things and where we're adding new resources to the system serve more than one purpose, more than just planning energy, so can help improve reliability of the system and can help improve voltage support, things like that. So for example, putting a [D] on the end of a radio line can help with reliability in case of an outage, that you have some supply at the end of that line.

So our focus is really around making sure that we're working with the industry and other partners who are adding DERs to the system to make sure that they're in the right locations and they're providing broader support to the system than just adding new resources.

Operator

Our last question comes from Mark Jarvi with CIBC Capital Markets.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

Maybe this question is for Mark, given you kind of came in with a fresh set of eyes. How would you say that corporate strategy was defined given the fact that you've come in with a new perspective and sort of things that you really brought to the table in terms of defining this corporate strategy?

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. So I would say that the focus on operational excellence has been part of the DNA of Hydro One for the last several years and it's represented in the cost savings we've brought, the reliability improvements, the customer improvements. I think, as I said in my opening, that we got distracted with trying to go outside of the Province and we took our eye off of the things we need to do here at home, including the relationships with our partners in the electric sector. And what this strategy is about is a refocus on Ontario, a refocus on building those relationships and reestablishing those, and doubling down on the operational excellence so that we can deliver for all our stakeholders.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

And maybe just any commentary you can say around testimony and hearings for the transmission rate case in terms of what you provide that were (inaudible) before, any kind of surprises or how you think [that will] inform the decision with the OEB.

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. The hearings were done, the oral hearing is now and the next steps are really going to final arguments and that. During the oral hearings I think the team did a great job of putting a good case forward for the things that we need to do to invest in the system. I would say there was no real surprises in the questions, the standard things that you would expect from interveners and from the regulator, which is expected and needed as part of the process. So I don't see -- I didn't see anything significant. I think there is wide acceptance on our need to invest in our aging infrastructure that we have on the transmission grid. And the fact that we're 98% of the transmission in the Province and that our transmission customers in particular are looking for confidence in the reliability of that system necessitates investment. So I would say that there was no real big surprises during the oral hearing.

Christopher Felix Lopez ***Hydro One Limited - CFO***

I would echo Mark's comments, Mark. And I'd say that when you go through a distribution hearing or a transmission hearing they're very different to the LDC hearings because they're very routine in nature. So the [interviewers] know who we are. We know what is important to them and to our customers. So they tend to go a lot more as expected. And we work together in a very collaborative and I think a way that works for the electricity system in Ontario overall.

So I'd echo Mark's comments. It was as expected and we expect a positive outcome in the near future.

Mark Thomas Jarvi ***CIBC Capital Markets, Research Division - Director of Institutional Equity Research***

And my last question is when you talk about safety and efficiency, are there certain benchmarks you can provide us with on how we should think about how you're going to deliver against that, one of the pillars of your corporate strategy, in terms of how we should evaluate you or what you guys are internally measuring yourself to?

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. So on safety we measure ourselves against the normal things that you see in other industries, on recordable injuries. And we're also going to have a focus on serious injuries, because we've seen an increase in serious injuries even though we're first quartile in all injuries. And efficiency, we're going to continue to focus on productivity and driving costs out of the system.

Operator

And we have a question from Ben Pham with BMO Capital Markets.

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

Just some of your commentary on the acquisition landscape, focusing on Ontario. I think you've been getting a lot of support for that thought and that focus. I guess when you think about acquisitions outside of Ontario, I'm curious. Is that -- you don't want to go there I guess. Is it more if you look at the [Visa] transaction, just a lot of the regulatory friction you face with the government of Ontario? Is that why you're not looking outside Ontario? I'm just trying to flip the question, just trying to get your thoughts on why not outside Ontario.

Mark Poweska ***Hydro One Limited - President & CEO***

Yes. No, I would say we see opportunities right here in Ontario, that we don't need to go outside of Ontario. And we see nice, steady, low-risk growth by focusing on what we've outlined in the strategy right here in Ontario. So we don't see a need to go outside of Ontario.

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

And would you say then that your, like your BD team now, if it's really kind of a stripped team where you aren't necessarily keeping an eye on acquisitions out of Ontario, where something really compelling comes up that you would maybe consider it? Is that the right way of thinking about it?

Mark Poweska ***Hydro One Limited - President & CEO***

No, I would say our BD team really is going to focus on the things we outlined, which is the opportunities in the Province, an LDC acquisition, where we might be able to partner on energy management services and really focusing on the strategy. You'll see in the top-level org chart we don't have a BD corporate development team on my direct report. And that is representative of the fact that it's de-prioritized from us and we don't have a big team that's going to be out looking outside of the Province here.

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

And lastly, just on the commentary about unregulated, keeping it small and you're really just levering a position that you have now. I think it's 1% of your business now. Is there any sort of percentages you have in mind that you want to be below, like below 5% on the regulated? Or is it -- is there something that you can really pin down there?

Christopher Felix Lopez ***Hydro One Limited - CFO***

Yes. It will always be a smaller part of our business, less than 10% of our net income at all times. And in this 5-year period I would suggest it's going to be less than that, so under 5%. So we already have telecom today for 1% of revenues. That we are going to focus on and that will grow, so it will grow from 1% to potentially 2% or 3%. And then Mark just outlined some adjacent energy management services that make sense, that we're being asked for by customers today and are more aligned to the transmission business. They're just not in the regulated space at this point in time. We'll have a look at those but, again, it's going to be a very small part of the business compared to our regulated.

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

Sorry, I just want to clarify. So it's really, when you think about a small portion, up to 10% is, from your definition, still a small portion?

Christopher Felix Lopez ***Hydro One Limited - CFO***

Yes. So that's really driven by the fact that we are a transmission lines and distribution company first and foremost, and a regulated one at that. So we will stay there. Less than 10% of our net income and really FFO to debt is the main target there to maintain the right credit rating that we have targeted will be our focus. So that's the reason why we have that (inaudible) idea. But in this 5-year period we will not approach that limit or anywhere close to that. It will be under 5%.

Operator

Thank you. And 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***

Thanks, Shannon. The management team at Hydro One thanks everyone for their time with us this morning during what is a busy period and a busy day. We appreciate your interest and your ownership. If you have any questions that weren't addressed on 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 concludes today's program and you may all disconnect. Everyone have a great day.