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Q3 2022 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Hydro One Limited's Third Quarter 2022 Analyst Teleconference. (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 at Hydro One. Please go ahead.

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

Good morning, and thank you for joining us in Hydro One's quarterly earnings call. Joining us today are our Interim President and CEO, Bill Sheffield; and our Chief Financial Officer, Chris Lopez.

In the call today, we will go over our quarterly results and then spend most of the call answering as many of your questions as time permits. There are also several slides that illustrate some of the points we'll address in a moment. They should be up on the webcast now, or if you're dialed into 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 all apply to this call.

With that, I turn the call over to our Interim President and CEO, Bill Sheffield.

William Herbert Sheffield ***Hydro One Limited - Interim President, Interim CEO & Director***

Thank you, Omar. Good morning, and thank you for joining us for our third quarter earnings call. Before we begin, it's important for all of us to recognize that today is Remembrance Day. I ask everyone in this room and indeed everyone at Hydro One to take a moment to remember all those who risked and sacrifice their own futures, so the rest of us could have a better one. Lest we forget.

It is all too easy to take the freedom we enjoy for granted. We pay tribute to those that served and continue to serve our country during times of war, conflict and peace so that we all have a better and brighter future.

Now moving to our business. This has been an eventful quarter with significant developments that will position Hydro One for success for years to come. Our teams have worked very hard to balance the needs of our customers, communities and partners, while continuing to deliver good results. I continue to be extremely impressed by the dedication, resilience and generosity of all employees I have met all over Ontario. Since June, I've been somewhere in the field almost weekly. Some companies hire a consultant to define their purpose, at Hydro One all you need to do is speak to our people. There is no question that reminds what our purpose is. We have great people at Hydro One. And while my position is temporary, leading them during this time has been a real privilege. I'll briefly discuss some of our notable achievements this quarter and then pass it over to Chris to discuss the results in greater detail.

As you'll see from this morning's release, our quarterly earnings per share was $0.51 compared to $0.50 last year, and we deployed $501 million in capital investments compared to $513 million last year. The company continues to be on a stable track. This stability has been further reinforced with the completion of a significant milestone with respect to our transmission and distribution Joint Rate Application, or JRAP as we like to call it.

On October 24, along with the parties who participated in the settlement conference, we filed a settlement agreement with the Ontario Energy Board. The settlement agreement outlines, among other things, the levels of capital and operating expenditures that will be incurred over the next 5 years. Chris will further discuss these points in greater detail. However, I believe it is a balanced agreement for all stakeholders. The agreement facilitates investment in our infrastructure to meet the needs of our customers, to build a group for the future and to support Ontario's economic growth.

Given the scale of application, achieving this type of settlement is the first for Hydro One. Not only does it speak to the efforts of our team and the parties in the settlement conference, but also to the constructive regulatory process that has enabled such an outcome. We support the regulators' modernization initiatives and look forward to working with them to tackle the challenges of energy transition and electrification while advancing the sector forward. The OEB will now review the settlement agreement and the final decision is expected by the end of this year.

In another milestone, on September 22, we announced our industry-leading equity partnership model with First Nations. As a company, we operate in the traditional and treaty territories of more than 100 indigenous communities. As a trusted partner, this unique position comes with an important responsibility to advance reconciliation through our actions.

The Hydro One equity model offers First Nations a 50% equity stake in new capital transmission lines projects with our value exceeding $100 million and will transform the benefits of infrastructure development for First Nations. This approach positions Hydro One as a leader in the sector and provides a mutually beneficial pathway to build 5 new transmission lines in the Southwest and the Waasigan transmission line in the North. I am so proud of this meaningful step forward towards reconciliation.

We are committed to earning relationships and building partnerships to ensure indigenous people and communities realize the economic benefits of development for generations to come. Being part of the celebration of this true partnership achieved has been a highlight for many of us being on the right side of history feels very good.

Hydro One is also committed to answering the call or helped by our partners and neighbors. In late September, you will remember Atlantic Canada was rocked by the impacts of post-tropical storm, Fiona. We saw devastating images and heard heartbreaking stories. We acted. We mobilized our award-winning teams to provide our expertise and help with the restoration efforts in Nova Scotia and Prince Edward Island. Hydro One crews helped reconnect upwards of 50 kilometers worth of line and worked more than 9,000 hours to restore powers to the resident on the East Coast. While restoring power to residents is reward enough, our crews were touched by the outpouring of the motion and support by members of the community and political leaders. It is no wonder that we have received 12 emergency response awards in the Edison Electric Institute for storm recovery efforts.

This spirit of helping is deep rooted in all our employees and speaks to the values of the organization and how we stand up for people in need. This past September was our annual Power To Give month. I'm very proud to share that Hydro One employees' raised almost $1.6 million to over 855 registered Canadian charities. This is more than double what we raised last year.

In addition to the funds raised in September, our employees demonstrate regularly their generosity through donations, volunteer work throughout the year. We are passionate about making a difference for the charities in the communities where we live and work.

Before I turn it over to Chris, I know you must be curious about the status of the CEO search process and personnel updates. Jason Fitzsimmons, our Chief Corporate Affairs and Customer Care Officer, has departed Hydro One in pursuit of Public Service. Jason has accepted the appointment as Deputy Manager of Energy for the government of Ontario. Since joining Hydro One nearly 6 years ago, Jason and his team have achieved remarkable results with record high, high customer satisfaction, significantly improved relationships with all stakeholders and a strong brand. I miss him already. Putting the good of Ontario ahead of my comfort, we know he's someone who has deep knowledge of the sector, and a strong track record will be tackling the critical energy issues that confront all Ontarions.

We look forward to him working with us in a new way to support the needs of our customers, build the grid of the future and contribute to Ontario's economic growth.

Finally, with respect to the CEO search, I know there is a keen desire by many stakeholders to find out about the process and timing of the CEO appointment. Nothing will give me more joy than to announce the CEO today. However, the Board's confidential process for the CEO selection is ongoing. As I mentioned on the last call, it's a thorough process that the Board takes very seriously. It will take time. I have no doubt in my mind that the Board will pick the right candidate to lead Hydro One as it did with the previous CEO.

In the meantime, you're stuck with me, and I have the distinct privilege to lead a really strong management team who are clearly demonstrating excellent progress and delivering outstanding results.

With that, I'll turn it over to Chris.

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

Thank you, Bill. Good morning, everyone, and thank you for joining us today. I'm incredibly proud of our teams for successfully submitting the Joint Right Application settlement agreement. This milestone took significant effort and was truly a collaborative initiative across the entire organization. I would also like to congratulate Jason on his appointment as Deputy Minister of Energy for the government of Ontario. This marks his return to public service, keeping the needs of Ontario on top of his agenda.

In terms of our financial results for the third quarter, basic earnings per share was $0.51 compared to $0.50 in 2021. The main drivers for the change in earnings this quarter were the annual adjustment to OEB-approved rates for the Transmission and Distribution segment, higher peak demand driven by favorable weather and reopening of the economy, partially offset by higher operating maintenance and administration or M&A expenses mainly due to higher work program expenditures and corporate support costs, higher depreciation, amortization and asset removal costs and higher income tax expense.

Our third quarter revenue, net of purchase power, was higher year-over-year by 9%. For the transmission segment, revenues were higher by 10.8%, reflecting a change in OEB-approved rates as well as higher peak demand in the quarter. Transmission revenues were also positively impacted by lower regulatory adjustments.

For the Distribution segment, revenues net of purchased power were higher by 7.1%. The increase was a result of the change in OEB-approved rates and the recovery of storm-related costs from third parties. The recovery of third-party storm related costs was net income neutral as there was a corresponding offset in OM&A.

Lastly, both segments had revenue adjustments related to the cessation of deferred tax asset or DTA sharing amounts following the DTA implementation decision. As discussed in past calls, the additional revenues from the DTA implementation decision are net income neutral due to a corresponding offset in taxes.

On the cost front, OM&A expenses increased year-over-year by approximately 13%. Consistent with expectations outlined last quarter, work programs accelerated this quarter for both transmission and distribution as deferred work activities following the storms in May 2022 were advanced. The plan work that was deferred following the storms will continue to impact our OM&A for the balance of this year. In addition, in distribution, there was an increase in OM&A resulting from third-party store-related costs in May, which, as discussed earlier, have been recovered in revenue, making it net income neutral. We also incurred higher corporate support costs.

The higher distribution OM&A was partially offset by lower allowance for doubtful accounts year-over-year. For clarity, the decrease in allowance for doubtful accounts was a result of comparatively higher allowance taken last year in the third quarter.

Depreciation expense was higher year-over-year by $13 million or 5.7% due to the increase in capital assets, which is consistent with our stated capital investment program. On financing, we saw a year-over-year increase in our financing charges of $4 million or 3.4%, primarily due to higher weighted average interest rates on short-term notes. Subsequent to the quarter, in late October, Hydro One Inc.

raised $750 million of debt to repay and/or prepay maturing long-term and short-term debt and for general corporate purposes.

This issuance consisted of medium-term notes at 4.91% during 2028. We continue to be pleased with the stability of our balance sheet and robust investment-grade credit ratings. As we look forward, we will continue to access the debt markets opportunistically.

Income tax expense was $100 million for the quarter compared to $71 million in the same quarter last year. The increase in income tax expense was due to the tax expense on account of the DTA implementation decision, which, as discussed earlier, is net income neutral. We also had higher taxes on account of the low deductible timing differences and higher pretax earnings. The effective tax rate, or ETR this quarter was 24.4% versus the effective quarterly tax rate last year of 19%.

On a year-to-date basis, the ETR is 21.9% compared to 13.2% in the prior year. This is consistent with the annual guidance provided earlier this year of approximately 14% to 22% over the next 5 years.

As a reminder, the most significant impact will be over the 2021 to 2023 DTA recovery period.

Moving to investing activities. In the third quarter, we placed $401 million of assets in service, which is a 22% decrease compared to the prior year. Both the transmission and distribution segments contributed to the decrease, largely due to the in-servicing of the Ontario Grid Control Center located in the city of Orillia in the third quarter of last year.

Apart from the grid control center, there were timing-related differences for various projects and changes in the volume of work that contributed to the negative variance in both segments. This was largely a result of the lumpy nature of placing assets into service. Capital investments for the third quarter were $501 million, which is a 2.3% decrease from the same quarter in 2021. In the transmission segment, capital investments increased by $7 million, resulting from the higher volume of transmission line refurbishments, investment in the Wataynikaneyap Power Line Connection and higher spend on spare transformer and minor fixed asset purchases. These were partially offset by the higher investments in the Ontario grid control center and the Lakeshore transmission station last year.

In the Distribution segment, capital investments were decreased by $21 million year-over-year. This was primarily the result of lower storm-related asset replacement this quarter and investment in the Ontario grid control center that had taken place last year. This lower spend was partially offset by a higher volume of work on customer connection and spend on minor fixed asset purchases.

Consistent with past practice, we have updated the future capital investment table to reflect the settlement agreement on the Joint Rate Application that was recently filed with the OEB.

As Bill outlined, the settlement agreement puts Hydro One in a position to advance the work program for the benefit of our customers. We view the agreement as a balanced outcome for all stakeholders. While there are many facets to the agreement, I'll discuss the salient ones.

In terms of modifications for capital, we agreed upon total reductions for the 5-year period, for transmission and distribution are 10% and 12%, respectively. For transmission, this represents reductions in the system renewal and general plant categories, and for distribution, the decrease is in system renewal, system service and general plant categories. Overall, we agreed on $11.8 billion of capital spend over the next 5 years to strengthen our grid across the transmission and distribution.

In addition, to the agreed upon capital, parties also agreed that this capital should not be impacted by a new externally driven projects. As such, we agreed to establish new externally driven project variance accounts for the transmission and distribution segments. The accounting transmission will capture any mandatory work required by governmental authorities, such as new transmission stations and lines, while the account and distribution will capture any new initiatives related to joint use and relocation and new IESO procured initiatives related to the distributed energy resources, or DERs. This will ensure that the work on maintaining the grid happens without any impact from new projects.

For OM&A expenses, the parties agreed to a 2% reduction to OM&A envelopes in both segments. The reductions are consistent with ranges approved by the OEB in past decisions. The resulting impact to the revenue requirement will be an approximate $483 million of savings for Hydro One's customers over the 5 years from the proposed amount.

In addition to the cuts on capital and OM&A, we also agree that there will be no further updates to inflation for 2022 as was proposed in the inflationary update in March. Furthermore, there will not be a deferral of recovery of any incremental amount as proposed in the same update.

This will give greater certainty to our customers with regard to the impact of inflation and load on their bills. For clarity, the annual process of inflation adjustment under the customer incentive rate setting framework will be maintained for 2024 through 2027.

With respect to the custom incentive rate setting framework, we agreed on the productivity factor of 0.15% for transmission and 0.45% for distribution. This compares to the current productivity factors of 0.3% for transmission and 0.45% for distribution. In addition, we agreed on a supplemental stretch on capital of 0.2% for both segments.

Finally, the earnings sharing mechanism, or ESM is unchanged, with 100 basis points deadband and 50-50 sharing thereafter. The only agreed change was the disposition of any ESM balances for the period '21 to '24 in the 2026 rate update application. This will allow customers to benefit earlier from any over earning rather than wait for the next rate application.

We are pleased with the overall results and with the OEB staff opinion, which states that the settlement is an acceptable outcome from a public interest perspective.

In other regulatory news, in late October, the OEB released the cost of capital parameters for 2023. The deemed ROE was formulately updated to 9.36%. This will be the applicable rate for the joint rate application and will remain fixed for the duration of the rate period.

In terms of next steps, we are currently updating the evidence for the cost of capital assumptions, and we'll file a draft rate order in the coming weeks. We anticipate the OEB will review the settlement agreement and issue a final decision by the end of this year.

Finally, on guidance. As promised, we will provide long-term earnings [bonds] following the approval of the Joint Rate Application. That said, as it stands today, our rate base growth will increase to approximately 6% through 2027. In the long term, it could be expected that earnings and dividends would follow overall rate base growth.

However, the growth rate described does not consider the full impact of initiatives that have been discussed in prior calls and sit outside the rate application, such as the new transmission lines, broadband and LDC consolidation.

In the short term, and for the remainder of the year, it's increasingly likely that will be slightly above our target of 4% to 7% earnings per share growth through 2022. This is largely due to the positive demand we have experienced as a result of favorable weather and reopening of the economy experienced in the past few quarters.

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

QUESTIONS AND ANSWERS

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

Thank you, Bill and Chris. We ask the operator to explain how they'd like to organize the Q&A polling process. In case we aren't able to address your questions today, my team and I are always available to respond to follow-up questions. (Operator Instructions) Please go ahead.

Operator

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

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

Thank you for the updated outlook on your growth. I'm just wondering maybe at what point we might get something a little bit more crystallized in terms of some of the net effects of augmenting your JRAP growth outlook with additional transmission lines, broadband now that the municipal elections are over, potentially some LDC consolidation. Can you give us a sense of how that thinking is evolving and when you might be able to share more with us?

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

Linda, it's Chris. I think we can share a little more in the Q4 call. As you know, with transmission lines, they've just been allocated. So our practice is that once we have a Section 92, we would provide an update. There is 1 line in there, and that's the Chatham to Lakeshore line. That's fully disclosed at $268 million. There's further 5 lines, 4 in the south and in the north. We'll provide some guidance or guidelines around what they might be. But as you can appreciate, Linda, each line is totally different. The way it's allocated to us is to go and do the development work first, and then come back and apply for what those rates are. But we'll give some broad guidelines on what that might mean early in the new year. That's on the new transmission lines.

On broadband, that program is a demand program. So we're now just starting to receive orders from the various ISPs in the province. Once we have further clarity on that, we'll give some guidance, again, I would expect either Q1 next year or Q2. And then the final 1 on LDCs, really, the elections have just occurred late October. What I can say is that they were very positive from our perspective in terms LDC consolidation. So we're going to get straight back into that. The first meeting of those new administrations will be here in late November, and then we'll be straight into it. So we can give you a new guidance.

I think the guidance we gave previously Linda, is we target around a $100 billion per year of acquisitions, that's rate base. I think it will be slightly higher than that, or higher than that over the next couple of years, and we'll clarify that in the first quarter of next year.

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

And just as a follow-up, maybe this is as much a financial as well as a cultural question. Your Chief Safety Officer resigned during the quarter as well. So I'm wondering if you could just comment on if you're seeing like a higher than historical run rate of executive and general staff turnover? Is this part of the great resignation? Or are there any other trends developing that the organization needs to be mindful of? And what can be done to mitigate it if you are seeing any sort of accelerated staff turnover?

William Herbert Sheffield ***Hydro One Limited - Interim President, Interim CEO & Director***

It's -- let me answer. It's Bill. Yes, we were said that Lila left. The reality is she wanted some other experience. She'd basically been a Hydro One person her whole life, and the kinds of other experience she was looking for, she probably couldn't get here. So we wish her well, and who knows some day, she may come back. I don't -- we have -- our total voluntary resignation level is like 1%. So am I really concerned about that? No. Are we got great executives? Yes, we do. We've got a lot of other people in what I call a shadow cabinet, which are ready to step up? Yes, we do. There are some areas where there is a great demand. And so some people -- I'd be surprised if other people were trying to get good people, and we have an inventory of a lot of good people. So overall, I don't really feel a concern. Jason's exit was a bit of a surprise starting on Friday afternoon. But in looking back at it, actually, it's really good for everybody, just a little bit painful for me in the short term. But I would say it'll be great for Ontario. He'll do a great job, and I hope he's not listening to hear me say that.

Operator

Our next question comes from the line of Andrew Kuske with Credit Suisse.

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

Now that you've got the JRAP the [business] settlement state, it is the real focus now on just executing the high probability stuff in the base business over the next, I guess, until 2027 and then exploring opportunities for continued upside in growth in sort of other areas.

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

Andrew, Chris. JRAP gives us certainty on the execution of the work program. So you're correct. We'll focus on making sure that, that execution is flawless, as it has been in the past. It is a step-up from prior amounts. So we're conscious of that, and that will happen with other utilities. So we're insuring stay ahead of that. We've got our eye though on the energy transition as well. So what does that mean? The reason why we have these variance accounts is to allow for that to occur. We don't have to wait for the next rate application in 2028. So we're not going to take our eye off that. So executing the work plan that's been approved through this Joint Rate Application, but now focusing on the energy transition, which Ontario and the federal government team now aligned on how we're going to move forward. So that's what we'll turn our attention to now.

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

So when you think about the separate accounts, you can set up for sort of new initiatives directed by the government or the ISO, how big could that be? Because there's obviously a lot of stuff that can be done through electrification, the battery plants ring of fire, like there's a long laundry list of stuff. So I guess could you help us conceptualize how big is the potential?

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

Yes. The challenge, Andrew, is how big is it in the next 2 to 3 years, but that's a tough one. If you look out over the long term and you think about the electricity grid required to be net zero by 2035, you think about the carbon tax accelerating industry and vehicles and off liquid fuels and gas, and then you got a to 2050, where it's net zero, the estimates are 2 to 3x the current electric footprint. It doesn't matter which province you're in or which part of the world. Here is no different. Today, the electricity system is 16%, 1-6 of all energy consumed in Ontario. So that is going to go up. How quick? That's the challenge, Andrew.

If you assume that, that growth starts sort of towards the back end of this decade, it sort of increases the growth rates up into the high single digits, low double digits. But the question is, when and how? That's the part -- I know you're asking me to be clear on that. I think it's the same question as Linda. We will be clear starting here early in the new year about what we can be. And as soon as we know, you will know, and we'll be as transparent as we can. 6% rate base growth is the minimum. It is up from here. And the question now is at 1%, 2%, 3%? And how fast will that occur?

Operator

Our next question comes from the line of Maurice Choy with RBC Capital Markets.

Maurice Choy ***RBC Capital Markets, Research Division - MD & Analyst***

I wanted to pick a range a little bit about how the Ontario government perhaps approaches energy bill affordability. And if there's any look through from what happened in Nova Scotia, with regards just to cap on nonfuel rate increases?

William Herbert Sheffield ***Hydro One Limited - Interim President, Interim CEO & Director***

If you're asking whether we expect some sort of government action, we don't. They're pretty happy with what's going on from what I can see. And I think Joint Rate Application helps make sure that people have a limit on their bills. So we feel we've done a pretty balanced job. And so I'm feeling pretty good about it. Chris, do you have any additional comment?

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

Yes. The other thing I would add, Bill -- thanks for the question, Maurice, there are unique circumstances in Nova Scotia around their exposure to commodity prices. We don't have that in Ontario, at least in the electricity system. It's largely decarbonized already. Nuclear and Hydro is the main ones. So we don't have that variability or volatility. We have good relationships with the regulator. A really good example here is how we've gotten through the Joint Rate Application process here and got to a settlement agreement that's broadly in line with the last rate applications. The 6 new transmission lines really getting ahead of that. And then we've got a good process in there that actually sort of effectively caps increases in the bill to residential customers at or around inflation, around 2% rate. This year, that particular subsidy goes down, in fact.

But the -- when I say goes down, it's a lower cost to the government, but it's the same price effectively to rate base. And that's because the cost of being shared across more megawatt hours or more kilowatt hours of consumption. So I think it's a really good outcome here in Ontario, very different to Nova Scotia. So I wouldn't expect those issues to transfer here.

Maurice Choy ***RBC Capital Markets, Research Division - MD & Analyst***

And my second question is about if there is any -- if you could give us a range about what type of CapEx we should expect in terms of the high-speed Internet rollout or broadband? Like is it something that is still TBD? And if it's still TBD, what are the variables that give you the confidence on the high and low end of that range?

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

Maurice, I think again, that's the same question that I had from Linda. I like to how you all come up with different ways to ask the same question. I will come back in the first half of next year. So really, the answer to this, Maurice is that we are starting to receive -- it's a demand program. So think of it this way. We've now got a variance account that says what we need to spend on our infrastructure to facilitate the broadband rollout will be put into rate base and recovered under the normal terms.

What we're now starting to receive are those orders from the independent service providers, or Internet service provider, sorry. As they come in and we get a better understanding, we'll give you a range. It's our estimate -- our early estimate is it's not small, but it's not in the billions of dollars either. So give us some time to work that out, and we will come back to you with a high and low end of the range.

The good news is, it's -- the program needs to be completed by 2025. So I would expect us to have very good visibility in the next 6 months.

Operator

(Operator Instructions) Our next question comes from the line of Matthew Weekes with Industrial Alliance.

Matthew Weekes ***iA Capital Markets, Research Division - Equity Research Analyst***

So just looking at the JRAP and some of the other tailwinds to kind of augment growth and thinking about dividend growth kind of expected to be in line with rate base over time, it sounds like there's kind of some upside for the dividend growth rates may be increased. I'm just wondering conceptually how you're thinking about that versus other capital allocation sort of maintaining flexibility for some of this sort of increase in the growth rate that's expected or potentially share buybacks or anything like that?

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

Matthew, thanks for the question. I think the very short answer is, I would expect, in the near term, for the dividend to follow our rate base and income growth, which will be 6%. So I said that in my earlier comments. As we start to think about the questions, we've had earlier on this call about how fast will the energy transition occur, and how much investment will be required? We'll look at just how quickly we'll match the dividend to the rate base growth. So if we end up at 7%, 8%, 9%, 10%, something like that, I don't believe the dividend will follow it up that high. We will use the dividend at that point potentially to reinvest.

But what I will do, and I said this to investors in the past, is we'll talk to our investor base about what's important to them. And we'll look at what the right mix is, but dividend policy versus raising new capital. I'm told by most of my investors, they have no objection to raising a significant amount of capital for the purpose of investing at 1x rate base. So we're going to proceed on that basis. But we'll work out the right dividend policy as we come up with those higher growth rates. But I would assume that next year, when we go to 6% rate base growth, your dividend will be in that area. That's a decision for the Board, but that's certainly a recommendation that I will make.

Operator

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***

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