REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2023 Hydro One Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 13, 2024 / 1:00PM GMT

CORPORATE PARTICIPANTS

Christopher Felix Lopez *Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer*
David Lebeter *Hydro One Limited - President, CEO & Director*
Omar Javed *Hydro One Limited - VP of IR*

CONFERENCE CALL PARTICIPANTS

Benjamin Pham *BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst*
Jonathan Lamers *Laurentian Bank Securities, Inc., Research Division - Director & Diversified Analyst*
Linda Ezergailis *TD Securities Equity Research - Research Analyst*
Mark Thomas Jarvi *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*
Maurice Choy *RBC Capital Markets, Research Division - MD & Analyst*
Patrick Kenny *National Bank Financial, Inc., Research Division - MD*
Robert Hope *Scotiabank Global Banking and Markets, Research Division - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Hydro One Limited's Fourth Quarter 2023 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, Communications, Marketing and 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 President and CEO, David Lebeter, and our Chief Financial Officer, Chris Lopez. In the call today, we will go over our quarterly and annual 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 our 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'll turn the call over to our President and CEO, David Lebeter.

David Lebeter ***Hydro One Limited - President, CEO & Director***

Thank you, Omar. Good morning, and thank you for joining us on our fourth quarter earnings call. This morning, I will provide an update on our recent activities and reflect on the past year. Then Chris will take you through the financial results in greater detail.

As I reflect on this past year as CEO of Hydro One, I am proud of the achievements that we have been able to accomplish across the business. We executed our strategy, investing in critical infrastructure to support our communities and energize life in Ontario.

We grew our transmission pipeline to 9 transmission lines currently in development or under construction and are well positioned to play a vital role in the economic growth in the province. In 2023, we continued to expand our strategic partnerships with First Nations, communities, government and industry. Partnerships remain at the heart of everything we do. Economic reconciliation efforts with indigenous communities through our First Nations' equity partnership model ensures they can participate in and benefit from our transmission investments.

We also continue to deliver on the commitments to our customers and the communities we serve. I am proud of the hard work and dedication our teams bring to the job every day. Their drive and execution, coupled with the commitment to safety and operational excellence, has allowed us to achieve success in meeting customer expectations and the needs of all Ontarians.

At Hydro One, success is more than delivering power. It's about being there when our customers need us most. As we move into 2024, we continue to invest in critical infrastructure to support economic growth across the province. Looking ahead, in the coming years, we expect to see significant increase in the demand for electricity infrastructure and new customer connections. This growth provides tremendous opportunities for Hydro One to make additional investments in critical infrastructure that will energize life, support growing communities and businesses and help move Ontario to a cleaner energy future.

I am proud to report that we had another great year of safety results in 2023. Our recordable injury and high-energy serious injury frequency rates continue to be below our annual targets, in large part due to the relentless pursuit of zero safety incidents by our employees. In 2023, Hydro One achieved a recordable injury rate of 0.56 per 200,000 hours which remains well below the world-class benchmark of 1.0. This result demonstrates what can be achieved when the entire organization rallies around a challenge.

In November, this outstanding result was recognized by electricity Canada when they presented Hydro One an award for excellence in transmission safety. With continued focus, I'm confident we can eliminate all serious injuries and fatalities. Our focus on safety goes hand-in-hand with our commitment to our customers and Ontario. This dedication is deeply rooted in our belief that being their own customers and communities need us the most is what matters.

This January, our teams restored power to over 125,000 customers impacted by the snowstorms. We know that electricity is critical to our lifestyle and maintaining high levels of availability for our customers to meet their needs is core to our customer strategy. It was great pride that our response efforts continue to be recognized by others.

This past year, Hydro One was recognized by the Edison Electric Institute Award for Emergency Response. This award is our 14th Emergency Response Award and recognizes how our teams continue to show up and get the job done when the customers and communities need us the most. We continue to make the capital investments necessary to maintain the safety, reliability and resilience of our transmission and distribution systems, but also provide the ongoing growth and modernization required to meet the expanding and evolving needs of our customers.

Once again, we executed our capital program and met our capital investment commitments for 2023. This past year, we deployed approximately $2.5 billion of capital and in serviced $2.3 billion of assets. These investments will supply the critical infrastructure needed to energize life and accelerate the adoption of sustainable electricity solutions that will contribute to Ontario's economic growth.

I'm pleased to say we have done this with a focus on continuous improvement to enhance customer service, efficiency, productivity and reliability. Every dollar we invest has done so with our customers in mind, which is why we are committed to spending wisely and continually improving productivity. In 2023, we had another year of strong productive savings, achieving savings of $114 million.

As I mentioned in my opening remarks, we have grown our project pipeline to 9 new transmission lines in development or construction. Three of these transmission lines, which are situated in Northeastern and Eastern Ontario were awarded to Hydro One in the fourth quarter. These lines include the Mississagi to Third Line, the Hanmer to Mississagi Line and the Greater Toronto Area East Line. The 3 lines will support the continued economic growth in northern communities and facilitate the growing electricity demand in transportation, mining, steel and manufacturing industries in the Northeast and eastern parts of the province. This result highlights how our superior execution continues to be a critical aspect of what Hydro One remains a transmitter of choice for the development, construction and operation of priority projects in Ontario.

Our commitment to growing our network of strategic partnerships with First Nations, communities, government and industry partners underpins our approach to building critical infrastructure. These partnerships ensure proper engagement on planning, development and execution of projects while allowing for the sharing of economic benefits from these investments. In December, we expanded our strategic partnerships through the signing of initial partnership agreement with Five Nations Development Inc., a wholly-owned subsidiary of Five Nations Energy, Inc.

Through the agreement, we will work together to meet the growing electricity demand in Northeastern Ontario, while increasing indigenous participation in the energy sector. This agreement is part of our strong commitment and efforts to build mutually beneficial relationships with indigenous partners. For the ninth year in a row, Forbes has recognized Hydro One on their annual list of Canada's best employers for 2024. Ranking is determined by the recommendations made by employees and other professionals who recommend Hydro One as a desirable employer.

The rankings are based on the independent surveys of over 40,000 employees working for companies employing at least 500 people in Canada. Receiving recognition as one of Canada's best employers is a testament to our continued success in building a safe workplace where our teams feel heard, valued and have a true sense of belonging. This award follows our recognition by Corporate Knights as one of the best 50 corporate citizens in Canada during 2023. The award celebrates our relentless commitment to sustainability and environmental stewardship. This recognition is a testament to the dedication of our teams in driving our sustainability initiatives and adopting best practices throughout our operations.

We are humbled and inspired by these accolades. These recognitions are a testament to the collective efforts of our employees, partners and stakeholders. In other updates, we continue working with the telcos to advance to deliver high-speed Internet to some 700,000 Ontarians. As we have mentioned on previous calls, Hydro One is prepared and has been for some time. We made investments in labor and training, strengthened our supply chains, streamlined our joint use processes, relaxed standards, onboarded contractors and purchased materials in preparation for this initiative.

We understand the importance of connectivity to everyday life for families and businesses, many of whom are our customers.

As many of you know, Chris has made the decision to leave Hydro One to pursue other opportunities. Since joining Hydro One in 2016, Chris has played an instrumental role in shaping the company to what it is today. He has built a deep bench of experienced leaders within the organization and has overseen significant improvements in equity and bond investor confidence, share price performance and productivity savings. While I am sad to see Chris go, I fully understand and support his appetite to try other challenges. On behalf of the company and our employees, the executive team and myself, I want to thank Chris for his service to the company, its shareholders, partners, customers and stakeholders. With that, I'll turn it over to Chris to discuss our financial results. Chris, over to you.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Good morning, and thank you for joining us today. David, thank you for your kind words. I'm extremely proud of the many accomplishments we achieved together over the years. We enhanced the finance, regulatory and shared services functions to meet the moment and continue to energize life for all Ontarians well into the future.

Most recently, we added our sustainable financing framework, a first for a Canadian utility. This framework aligns our funding goals with our sustainability strategy and allows us to generate modest cost savings while investing in critical infrastructure. With a deep bench of talent across the organization and a strong balance sheet to support our growth plans, I felt this was the right time for me to pursue other challenges. I want to thank all the hard working employees at Hydro One, who I have had the pleasure of working with during my time here. I also want to thank all of our stakeholders and partners for their support and confidence as we continue to deliver power to drive economic growth across Ontario.

Turning to our financial results for the quarter. Earnings per share was $0.30, consistent with the fourth quarter last year. For the full year, earnings per share was $1.81 compared to $1.75 last year. The key drivers of higher earnings for the full year were consistent with our experience throughout most of the year. They were higher revenues on account of Ontario Energy Board or OEB approved rates, which considers the annual investment in the grid and power system and strong electricity demand experienced throughout the year, partially offset by the recognition of Conservation Demand Management or CDM revenues, a onetime item in the fourth quarter of 2022 and lower income tax due to higher deductible timing differences. These drivers were partially offset by higher operations, maintenance and administration or OM&A expenses on account of higher work program expenditures, including forecast environmental expenditures provisions and IT initiatives as well as higher corporate support costs.

Higher depreciation, amortization and asset removal costs as we continue to invest and grow our capital assets, coupled with the gain on sale of surplus fixed assets in the fourth quarter of 2022. And finally, high year-over-year financing charges resulting from higher weighted average interest rate on our long-term debt and short-term notes as well as having a higher volume of long-term debt.

As a reminder, we adjusted the amounts pertaining to the deferred tax asset or DTA recovery, which expired at the end of June, resulting in a reduction in both revenue and income tax expense, making them net income neutral. Similarly, we adjusted for the OEB approved recovery of historical cost deferrals following the JRAP decision, which resulted in an increase in revenue that is offset by an increase in OM&A and income tax expense. Once again, it is net income neutral.

While our costs were high this year, I do want to echo David's comments that we continue to be highly productive. Both our transmission and distribution segments performed well this year. And as a result of our efforts, we were pleased to give back approximately $45 million to our customers via the earnings sharing mechanism. On the productivity front, we are pleased to have achieved $114 million in productivity savings in 2023. We saw meaningful increases in productivity in areas such as operations and supply chain management. The productivity savings were weighted slightly more towards capital versus OM&A and revenue. Through these achievements, we are delivering on our multiyear commitment to keep costs as long as possible.

In the past, we provided a cumulative productivity savings figure. However, as part of JRAP, we rebased our productivity to align with our JRAP application. And as such, the cumulative productivity savings figures we used to provide and are longer comparable to current figures. The previously reported cumulative productivity savings figure of approximately $1.5 billion covered savings generated from our initial public offering in 2015 to the end of 2022. We will continue to look for ways to be more productive as these savings will eventually flow back to ratepayers in the next rate period.

Net income to shareholders in the fourth quarter was relatively unchanged from a year ago. The key drivers behind the results this quarter were similar to the full year variance and include higher revenues driven by higher peak demand and energy consumption coupled with OEB-approved rates and lower income taxes due to higher deductible timing differences, which were offset by higher financing charges resulting from higher weighted average interest rates and volume of long-term debt and higher depreciation following the gain on sale of surplus fixed assets in the fourth quarter of 2022.

Our fourth quarter revenue, net of purchased power, was higher year-over-year by 2.3%. The increase is mainly due to higher peak demand, energy consumption and OEB-approved 2023 transmission rates, partially offset by CDM revenues recognized last year and higher earnings sharing.

For the transmission segment, revenues were higher by 5.4%. The increase was reflective of higher transmission revenues due to OEB-approved rates, coupled with stronger peak demand, which was 7.7% higher compared to last year. These higher revenues were partially offset by CDM revenues recognized in 2022 and higher earnings sharing this year. Distribution revenues net of purchased power decreased by 1.5% mainly due to net income neutral items and higher earnings sharing. These are partially offset by higher customer counts and energy consumption, which was higher by 2.7%.

Both the transition and distribution segment had net income-neutral items in revenue, including the cessation of the DTA recovery and normal course regulatory adjustments. There were corresponding offsets in tax expense and OM&A making them net income neutral.

On the cost front, operating, maintenance and administration expenses in the quarter increased by approximately 2.3% year-over-year. The quarterly variance was due to higher work program expenditures, offset by lower corporate support costs on account of a higher rate of capitalization of overheads.

On transmission, costs were lower by 1.4%, mainly due to lower corporate support costs. As the capital program ramped up in the back half of the year, we capitalized common costs at a higher rate, which substantially offset the increase in corporate support costs in the front half of the year. This was partially offset by a higher work program expenditures primarily related to vegetation management.

Distribution costs were higher by 3.6% due to higher work program expenditures including an increase in the forecast environmental expenditures provision in the period and higher IT and emergency restoration costs. These were partially offset by lower vegetation management expenditures and lower corporate support costs for the same reasons outlined previously.

Depreciation expense for the fourth quarter was higher year-over-year by 7.8%. This was due to the realized gain on sale of fixed assets recognized in the prior year and the growth in the capital assets, which is consistent with our stated capital investment program. On financing, we saw a 14.8% increase in financing charges year-over-year, mainly resulting from a higher weighted average interest rate on our long-term debt and a higher volume of long-term debt. This was due to a higher volume of long-term debt issuance executing in 2023, combined with a higher weighting of long-term debt in our overall debt portfolio mix compared to 2022. During the quarter, Hydro One issued $900 million of medium-term notes, this consisted of $500 million of 4.85% notes due in 2054 and $400 million of 5.54% notes due in 2025, which we swapped to floating rates using a fixed to floating interest rate swap.

Subsequent to the quarter, taking advantage of the decline in rates, Hydro One issued an additional $800 million of medium-term notes as part of our 2024 funding plan. This consisted of $550 million of 4.39% notes, due in 2034 and $250 million of 3.93% notes due in 2029. The issuances were completed under our sustainable financing framework. With the successful completion of the $800 million of medium-term notes, Hydro One becomes one of the largest corporate issuers of green, social and sustainability use of proceeds bonds in Canada.

As part of the proactive management of our balance sheet in December, we terminated the fixed to floating interest rate swap in connection with the $400 million 5.54% fixed rate notes we issued earlier in the quarter. Hydro One received $6 million of proceeds from the settlement of the swap, which will be amortized over the term of the related note.

In addition, we fixed the interest rate on the $425 million of floating rate notes that we issued in September, with an interest rate swap following a decline in interest rates in December. In total, Hydro One raised over $2.3 billion in proceeds in 2023, which included $1.05 billion of green bonds, our first issuance under our sustainable financing framework. The total proceeds of $2.3 billion were used to retire maturing debt and to support our capital investment requirements.

Subsequent to the quarter, in January, we published our inaugural sustainable bond allocation report, outlining the use of proceeds from our first issuance, the $1.05 billion of sustainable bonds issued in 2023 under our sustainable financing framework. The report details the full allocation of proceeds to eligible projects in the clean energy, energy efficiency, clean transportation and biodiversity conservation green categories and the social economic advancement of indigenous peoples in the social category.

A full copy of the report is available on our website. 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 in the quarter was $13 million compared to $41 million in the same quarter last year. The decrease in income tax expense was primarily due to higher deductible timing differences compared to the prior year as well as the cessation of the DTA recovery at the end of June and normal course regulatory adjustments, which, as described previously, are net income neutral. As a result, the effective tax rate this quarter was 6.6% versus the effective tax rate last year of 18.6%.

For the full year 2023, the effective tax rate was 14% versus 21.4% in 2022. This rate is consistent with our guidance of 13% to 16%. We reaffirmed this guidance range for the remainder of the JRAP period.

Moving to investing activities. In the fourth quarter, we placed $975 million of assets in service for our customers, which was a decrease of 10.6% compared to the prior year. The decrease was primarily attributable to the transmission segment and resulted from the completion of live replacements for end-of-life air circuit breakers. Timing of assets placed in service for customer connections, refurbishment and replacement of transmission lines and associated infrastructure and timing of IT initiatives.

In the Distribution segment, in-service additions increased from the prior year as higher volumes of work on customer connections, line refurbishments and wood pole replacements as well as investments for Ontario's broadband initiatives were offset by a lower volume of storm-related asset replacements.

For the full year, we placed $2.324 billion of assets in service for our customers, which was an increase of 2.5% compared to the full year 2022. The increase year-over-year was due to higher distribution in service additions, including higher volume of IT and customer connections, offset by lower volume of storm-related asset replacements and lower transmission in-service additions primarily relating to timing of in-service.

In terms of our capital investments, for the fourth quarter, we invested $745 million, which is an increase of 30.7% from the fourth quarter of 2022. The increase resulted from both the transmission and distribution segments on account of higher volumes of customer connections, higher volumes of refurbishments and replacements of critical infrastructure as well as investments in new transmission lines and new initiatives. These were partially offset by a lower spend on storm-related asset replacements due to fewer storms in the year.

For the full year 2023, capital investments of $2.531 billion increased by nearly $400 million or 18.7% compared to 2022. You will also note, we've updated the future capital investment profile for both segments. The primary reason was to reflect the adjusted timing and pacing of future capital investments and reprioritization of work, including an overall increase in customer connections and upgrades.

You will also see that we have the capital investment table until 2027 instead of in the past, having 5 years out. This change is to align with our process of disclosing figures when applications are filed. This also aligns with our current guidance period. The table will be extended beyond 2027 once the next JRAP application is filed with the OEB.

I want to briefly provide an update on the Chapleau Hydro acquisition, which was announced with our third quarter results. We filed an application with the OEB for approval of the Chapleau acquisition in November and continue to expect to close the transaction in the second half of 2024 with integration completed by the end of 2024. More broadly, we continue to engage with other local distribution companies and look for additional opportunities to facilitate further consolidation within the sector.

On guidance, we reaffirm our previous target of 5% to 7% earnings per share growth through 2027 on the normalized 2022 EPS of $1.61. As a reminder, the EPS growth range does not factor in growth from broadband, LDC consolidation, or the transmission lines that have been previously awarded but only have preliminary assets or are pending approval, such as the Waasigan Transmission Line as well as any amounts from externally driven variance accounts.

I am also pleased to report that we declared our first quarter dividend to common shareholders in the amount of $0.2964 per share. Lastly, I would like to thank Ali Suleman, our former Treasurer of many years, who has decided to retire. Ali has been with Hydro One and its predecessor company for approximately 33 years. Most notable of his contributions to Hydro One was his lead role in the creation of Hydro One's debt financing platforms through which the company has successfully offered over $20 billion in debt financing since 2000.

Most recently, he spearheaded the company's creation of its sustainable financing framework. I am also happy to announce Arthur Kacprzak has joined Hydro One as Treasurer. Arthur comes to us with extensive finance and capital markets experience and exceptional record of building high-performing teams and fostering cross-function alignment to deliver results. Many of you may already know Arthur from his most recent roles as Treasurer and CFO. On behalf of the organization, I would like to thank Ali for his passion, dedication and leadership and wish him well in his next chapter. I'd also like to welcome Arthur to Hydro One and wish him the best in his new role. I'll stop there, and we'll be pleased to take your questions.

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

Thank you, David and Chris. We ask the operator to explain how they would like to organize the Q&A polling process. In case we can't address your questions today, my team and I are always available to respond to follow-up questions. We ask that you limit your questions to one question and one follow-up. If you have additional questions, we request you to rejoin the queue. Please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Robert Hope with Scotiabank.

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

First question is on the earnings sharing that we saw in 2023, the $45 million, it looks like results may have been a little bit stronger than you would have anticipated at the beginning of the year, especially given the early stages of the JRAP. When you take a look at kind of the buckets that drove the outperformance versus the 100 basis points, how much do you think of it was productivity weather or just an increase in demand that continues to be strong in Ontario?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Hi Rob, it's Chris. Good question. You'll notice that our volumes were up. So it was a combination of stronger economic activity, driving consumption and also partly weather. So 2022 was a strong year, 2023 was even stronger again. So a big chunk of it was there. Our OM&A costs were roughly in line. So we've actually reinvested a lot of that productivity benefit back into the business. So the main driver here was on the bottom side.

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

All right. Appreciate that. And then maybe just switching over to the telecom upside or potential upside. It looks like Hydro One is ready, but the telecoms have been slower than expected in kind of crossing the line there. So can you maybe update us on where we are in discussions and kind of what the key sticking points are and when we could see some alteration there?

David Lebeter ***Hydro One Limited - President, CEO & Director***

Good morning Robert, this is David Lebeter. The due date for that program has not changed. It's till December 31, 2025. We are seeing an uptick in activity by all the telcos whereas we had hoped it might be spread over the full 3, 3.5 years to make the work a little bit more manageable, it's definitely going to be back-end loaded right now. And I remain optimistic that we're going to be able to provide some updates later on this year. As I said, we are starting to see a pickup and all the telcos that I've spoken to their executive teams remain committed to the program.

Operator

Our next question comes from the line of Mark Jarvi with CIBC.

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

Just curious if you guys think the implications of the Pickering nuclear refurbishments would be on transmission buildout over the next decade. Is that a net negative or neutral? Or how do you view that?

David Lebeter ***Hydro One Limited - President, CEO & Director***

Good morning Mark, I view that as neutral. From our perspective, the transmission assets already exist, the stations are already there. But I view it as very positive when I look at Ontario and expanding on our generation fleet, maintaining the generation fleet and getting ready -- or actually not getting ready, but actually accommodating the increased growth in demand that we've been seeing in this province. So neutral for us, overall positive for the province.

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

Got it. And then obviously, you have the 9 transmission lines, some are active right now, some we're still waiting for updates on. I guess the question would be, do you think anything can slide in on top of the 9 that you've outlined in terms of anything that come forward sort of like late this decade? Or do you think everything that sort of comes incremental is 2030 and beyond?

David Lebeter ***Hydro One Limited - President, CEO & Director***

That's a really difficult question because it requires looking into the crystal ball. There's still a lot of companies that are interested in locating their manufacturing operations into Ontario. So that could certainly drive some change in the plan that we have there. The independent electric system operator does take a long-term view. So I'm not anticipating anything that we haven't already discussed from them, but that doesn't preclude as I said, economic activity elsewhere driving investment.

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

Yes, go ahead, Chris.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Just to add there, Mark, I think when you're talking about would you expect that to come later, even if it's announced today, a follow-on response would be that, that would affect growth in the period beyond the current JRAP period, which is '28 and beyond. So if a new line was announced today, we're seeing a lot of interest. It's unlikely that those lines come in service before 2028.

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

Understood. And then maybe just, David, on your comment about economic activity, like where would you view in terms of dialogue, in terms of talking to potential new entrants that can -- or the Ontario market from a high load growth manufacturing side of things?

David Lebeter ***Hydro One Limited - President, CEO & Director***

We're part of what I call Team Ontario, which is we're working with the province. I'm trying to attract economic activity into the province, and that file is very active.

Operator

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

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

Good morning everyone, I just want to follow up on discussion about broadband and guidance a little bit. I know you mentioned that broadband, you would expect some news later on this year. Can you discuss a little bit more about the size of this in regards to the potential guidance increase. Any other items that we should be watching out for that could push share guidance to be improved as well as any drag to EPS growth such as high yield environment, for example.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Maurice, it's Chris. Thanks for the question. I think I've been fairly consistent last year. So we opened the guidance at 5% to 7% when we announced Waasigan, we said that put us to the upper end of guidance. We're still there today. We're right at the top of that. We expect to stay there. I don't see any significant downward pressure on that. What would cause us to go above that would be the broadband amount. The uncertainty there is just what is the size of it? Is it $0.5 billion? Is it $1 billion? And the other one would be LDC consolidation. So it's been slower than we would like, but we have seen an uptick in activity recently, and that's promising. So if that comes through the way we expect, that's what's going to push you. So the combination of those 2 that could push you into that range of 6% to 8%. That's what I would expect.

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

And I wanted to also jump on the current CFO search, update on that including what are some of the attributes that you're seeking, whether that be to help maintain your financing strategy or even to reinvent it given the significant CapEx that you have in the outer years this decade?

David Lebeter ***Hydro One Limited - President, CEO & Director***

Thanks, Maurice. It's David Lebeter here. The search is going well. Of course, I was disappointed, as I said earlier on in my comments when Chris decided to leave the organization, but we jumped on that right away. Our objective is to have someone in the seat before Chris leaves at the end of June, and we don't plan any significant changes. So it's not a signal that we're planning on changing our financial structure, our approach to the market. It's been very successful. We have a strong balance sheet. We're going to maintain that approach.

Operator

Our next question comes from the line of Linda Ezergailis with TD Cowen.

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

I'm wondering if you could give us a sense of what maybe could prompt LDC activity to further accelerate. Could interest rates be a factor kind of weighing on any sort of discussions you're having? Or are there any political considerations or other priorities that these municipalities are having? Can you just help us understand kind of some of the moving parts around sentiment about what might be affecting the pace of deal flow?

David Lebeter ***Hydro One Limited - President, CEO & Director***

Linda, thanks for the question. It's David Lebeter. It's really interesting, and we've gotten a lot better at understanding the drivers for why a municipality might want to sell their local distribution company. Sometimes, it is they have a better use for the funds. So they might want to regenerate their downtown core. They might have a project they want to take on. In other cases, it might be that they're unable to raise sufficient funds for investments that, that local distribution company has to make. Sometimes those investments can be driven by a weather event that catches them off guard. Other times, it could be driven by maintaining the system quality, which is one of the things we saw with Chapleau. So it is a range of things that tend to drive people wanting to sell their LDCs.

We have seen a little bit more interest from the councils and the mayors, more people are talking to us. But as of yet, no one's actually put a process in place to move forward. But we anticipate that just given we are seeing an uptick in interest and look at exploring where they would want to sell their LDC.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Linda, interest rates are a part of that because that constrains their actual budget. So we are seeing part of that. But as David said, it's so varied where we have improved our process to meet the municipality where they're at. Is it a service quality issue? Is it maintaining the utility over the longer period because of energy transition? Is it another sort of opportunity that they're interested in. So we are very versatile in how to partner with them and achieve that, including taking minority stakes if we need to. So we have been much more flexible in our approach to that process and also conscious of the fact of the election timing. So it's taken a little longer for them to come out of their space. But like I said, the activities increased more of recent times.

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

Thank you and recognizing that you've got still a lot of visible organic growth. I'm just wondering with your strong financial position, are there any other areas of growth beyond LDC consolidation, additional transmission lines and broadband development that you're contemplating at this point?

David Lebeter ***Hydro One Limited - President, CEO & Director***

Linda, it's David. Not at this point. We're focused on our organic growth and executing the plan we have in front of us, which is a very aggressive plan.

Operator

(Operator Instructions) Our next question comes from the line of Ben Pham with BMO.

Benjamin Pham ***BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst***

Hi thanks and good morning. I wanted to ask on your CapEx table and had some of the prior transmission project costs TBD. Are you able to perhaps quantify or provide relative context of how much CapEx or maybe some rule of thumb on how to place a figure on those projects? And then can you also comment on how much do you think you can fund -- self-fund on your balance sheet each year in terms of annual CapEx figures?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Hi Ben, thanks for the question. I think your first question around when do we provide guidance on the actual transmission line is usually the time we announce Section 92. So that's when we go for approval of construction. So that's why you're not seeing it on there. We sometimes put some development costs if they've been incurred, but you won't see the actual total construction cost until we do that. I think you can take that offline with Omar. There might be some rules of thumb that we can provide. The only thing I'll caution you on there is there's no 2 lines are the same. It would depend on the contour of the land, where it's located and so on. So it's difficult to provide those rules of thumb, but Omar can give you some guidance offline. So that's the first question.

When will you see it? You'll see it during Section 92. I think for everything on that table, you should see most of those in the next couple of years here. The construction time will be 4 or 5 years, but you should start to see some estimates come out. The reason why you don't have them yet is those 9 were announced in pretty short time and once again was one that we were quite well advanced on, so we could pull that forward.

Your second question on how we're going to fund it and what's our capacity. I've said continuously that there is no need for new equity now through the end of JRAP, that's 2027. That still remains the case. So FFO to debt would be up at 13s. So that's about 300 basis points of debt capacity there. So all of our construction now through 2027 that we've announced, can be funded on balance sheet.

Benjamin Pham ***BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst***

Okay. That's great. And maybe to follow on the question around the EPS CAGR. You've mentioned being at the top end of the range or at the top end. And just looking at your '23 growth EPS 3%. But I guess if you look at normalized EPS, it's more than a 10% plus range. When you frame or talk about that CAGR, are you adjusting for some of the volume upside that you saw during '23 and maybe what you could be seeing going forward?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

In short, we've not changed our guidance, Ben, from the normalized 2023 number. So that was to say, no, we've not adjusted for that. What it gives us Ben is a much higher level of confidence of being at that upper end of 7%, which we were before through Waasigan. And now when we announce broadband, even if it doesn't come in at the upper end of that range, it gives us a lot more confidence to change the guidance into the 6% to 8% range. So I think we factored that volume piece when we have the next announcement, and we said we would tie it to that.

Operator

Our next question comes from the line of Patrick Kenny with National Bank Financial.

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

Good morning everybody, just to follow up on the balance sheet here. Even though cash flow was down just slightly year-over-year, the FFO-to-debt ratio, still very healthy at year-end, just under 14%. Just wondering if you could help us translate that cushion above your 11% threshold into a quantum of dry powder for accelerating some of your near-term organic or consolidation opportunities?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Hi Pat, it's Chris. I don't have the number in front of me, but I'll just reiterate my answer to a prior question, which is we have sufficient debt capacity to fund the growth now through 2027 that's been announced. So there's no need for new equity [as per] the clearest way I can say it. You can do your own calculation on what 300 basis points of FFO gives you. Remember that a lot of the growth that we're going to have, the organic growth goes into rate base, we get funding for that. But if you look at the new transmission lines, if they don't go into service, effectively, we get interest during construction on those projects. So you guys will be able to work that out fairly quickly. Clear message here is we don't need equity through 2027 for the growth that's been announced. The debt will be funded on the balance sheet with that capacity.

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

And then, I guess, just in terms of the longer -- the potentially longer, higher for longer inflationary environment and perhaps wanting to remain above that 11% threshold just in case certain cash items might come in higher than you might expect, whether it's pension contributions, OM&A, CapEx estimates, you name it. Can you just give us a sense as to where you'd like to remain above that 11% threshold kind of through the foreseeable future?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Yes. So we're not going to go to 11%. We're not going to attempt our friends at the rating agencies to take some action. So we'll be -- there will be a sufficient cushion there for those items that you described, Pat. So is that 11.5% or 12%, it will depend on the situation at the time and how certain we are of the growth rates that are coming.

Today, like I said, we can keep that comfort level as well as fund our growth on the balance sheet with what's been announced today.

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

Okay. That's great. And congratulations, Chris, all the best in your future endeavors.

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Thanks very much, Pat.

Operator

Our last question comes from the line of Jonathan Lamers with Laurentian Bank Securities.

Jonathan Lamers ***Laurentian Bank Securities, Inc., Research Division - Director & Diversified Analyst***

Good morning. I'd just like to ask on the productivity initiatives. Could you provide us with an update on how visible the 100 basis points of savings from that is for 2024 and the balance of your rate program under the JRAP through 2027?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Hello Jonathan, Chris. Yes. So our confidence level, what we've typically targeted is around 2% of our total spend. And this year, we achieved the $114 million is approximately 3% of total spend. So we're ahead of the game as we sit today. The other item that drives those -- the earnings sharing and being able to share with consumers is volume. And there was an earlier question on how confident are we on volume. So about half of that volume benefit this year, weather can be flexible, but the actual underlying economic development, that's sticky.

So that is going to be an upward pressure or an upward tailwind, if you like, on our ability to continue to meet those earnings sharing targets, like we said, 100 basis points over and share anything above that with our consumers and our customers. So fairly confident our guidance, I'll just remind you, include the 100 basis points over throughout the period. So our confidence level will be higher today than it was at the beginning of the rate period.

Jonathan Lamers ***Laurentian Bank Securities, Inc., Research Division - Director & Diversified Analyst***

Okay. And do you believe there's another leg of opportunity for productivity beyond 2027 based on what you can see today?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Look, Jonathan, I would say, yes. We've had this productivity program since 2015. We've targeted 2% every year. We're now achieving more than that 3%. So I know there were some questions around could you continue to do it? And we've shown that we've just changed rate periods and we've done it again. We see that as a long runway into the future. And really, it comes from ideas, Jonathan, that new technologies come along and how do you use them across the whole business. So we can't tell you exactly how it will come in, say, '28 and beyond, but we have every confidence that the programs work since 2015, and will continue to work well into the future.

David Lebeter ***Hydro One Limited - President, CEO & Director***

Jonathan, I would just add on that, its David. The entire executive team doesn't see an end of this runway. We continue to be focused on it to see opportunities.

Jonathan Lamers ***Laurentian Bank Securities, Inc., Research Division - Director & Diversified Analyst***

Okay. Great. And thanks for outlining in the slides, some of the examples of the initiatives last year. One other question, if I may, just on the dividend. So 2023 was a relatively slower year for reported EPS. But as you outlined, there were some onetime items looking year-over-year. So should the market expect this to be a slower year for dividend growth? Or would the Board look to the overall trajectory under your guidance and considered by the JRAP plan?

Christopher Felix Lopez ***Hydro One Limited - Executive VP, Chief Financial & Regulatory Officer***

Hi Jonathan, Chris, again. Last year, we increased -- so 2015 through was increasing roughly in line with rate base at 5%. Last year, the dividend increase was 6%. The Board will take all of that into consideration when they make a decision. We normally do it customarily here in May. So you can expect that answer in May. We'll make the recommendation to the Board. Our rate base growth hasn't changed. So in and around that 6% range is probably what you should expect. But that decision will be made in May.

Operator

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, Sharon. The management team at 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 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 does conclude today's program, and you may all disconnect. Everyone, have a great day.