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H.TO - Q1 2020 Hydro One Ltd Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Hydro One Limited's First Quarter 2020 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, everyone, and thank you for joining us. In these unprecedented times, we are doing the call virtually with Hydro One's leadership who are practicing social distancing at their respective homes. Joining us today are our President and CEO, Mark Poweska; our Chief Financial Officer, Chris Lopez; and our Chief Operating Officer, David Lebeter. In the call today, we will go over our first quarter results as well as our COVID-19 response and then spend the majority 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. This should be up on our webcast now, or if you are 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 is -- 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 CEO, Mark Poweska.

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

Thank you, Omar. Good morning, everyone, and thank you for joining us to review our first quarter results. I hope you are healthy and staying safe during this time. If you don't get a chance to ask a question near the end of this call, please keep in mind that Omar and his team are available to you. In today's update, we will focus on what is on everyone's mind; our financial results, the impact from the COVID-19 pandemic as well as the decisions from the Ontario Energy Board on our transmission rate application and the Orillia and Peterborough transactions.

Over For the past few months, COVID-19 has changed our world and daily lives. Communities, businesses and families have adapted to a new reality as we fight a global pandemic.

As we face new economic and social challenges, governments, industry and individuals are coming together to help those in need through financial support, donations and increased financial flexibility. Hydro One plays a critical role in powering communities and the economy. I would like to thank the men and women of Hydro One for their outstanding effort and their commitment to our customers, each other, and all Ontarians.

The COVID-19 pandemic has brought new challenges for many of us. Our ability to quickly learn and adapt gives me great confidence that we will emerge from this as a more resilient organization than ever before.

Over the past year, I outlined our clear vision, mission and our corporate strategy. Our vision of a better and brighter future for all is supported by our mission to energize life for people and communities through a network built for the possibilities of tomorrow. To us, energizing life doesn't just mean supplying safe and reliable power. It also means standing up for our customers, communities and employees and advocating for them when they need it most.

As an essential service, we are responding to the challenges brought forward by the COVID-19 pandemic. During this time, our top priorities are to protect our employees and to maintain the safe and reliable supply of electricity to our customers. As always, our commitment to safety is uncompromised. Our employees are powering the province, and it is our responsibility to protect them. We have adjusted our operations and are concentrating on near-term system safety and reliability as well as longer-term work that can still be conducted safely.

In the field, we have put safety barriers in place to enable our crews to continue working safely. We have adjusted our work methods and are splitting crews, deploying work digitally, staggering start times and minimizing travel within the province. We seamlessly transitioned 3,000 employees to work-from-home, including our customer operations. Nearly all of our customer service agents are now supporting our customers remotely. We've introduced enhanced temperature and symptom screening for employees working in our main and backup control centers. And should the need arise, we are also prepared to sequester control center employees to ensure we maintain the ability to safely operate the grid. As we have instituted new processes, tools and technologies, we've been able to continually increase the amount of work we can conduct safely. To keep our teams engaged and informed, my senior leadership and I are regularly connecting with all employees. We recognize our critical role in supporting families, the economy and those on the front lines fighting this virus.

We have taken several steps to support essential services during this time. We're proactively patrolling lines that feed hospitals and other critical infrastructure. We are prioritizing projects and enable our food supply from connecting greenhouse growers to powering food depots and grocery stores. We are connecting new homes to ensure people have shelter. We also recently volunteered our dedicated and professional customer service agents to assist the province with tracking COVID-19 by contacting and monitoring travelers coming into Ontario. We are proud to play this small role in keeping Ontarians safe.

Ontarians are counting on us, and we are here for them. It is critical that we stand by our customers at this time. To support our residential customers, we launched a pandemic relief fund. We have temporarily suspended late fees, and we announced that no one would be disconnected during this time. For our business customers, we've returned $5 million in security deposits to over 4,000 businesses. With more people isolated at home, we applaud the Ontario Government for moving decisively to implement interim relief measures that allowed us to move customers onto off-peak rate pricing.

We've also fast-tracked $6 2 million in payments to small, medium and indigenous suppliers to help with much needed cash flow. We have donated $300,000 worth of meals to feed Ontario, which is an urgent need in the communities we serve. To meet a challenge of this magnitude, we must work in partnership with government, other companies, industry and unions. As we continue to advocate for our customers and give back to communities, we've seen a significant jump in Hydro One's overall impression score.

have many successes to be proud of. Hydro One has financial stability and flexibility for times like these.

The first quarter results demonstrate the stability of our business. Although year-over-year earnings are lower this quarter, it is on account of strong results last year related to the regulatory decision on the distribution rate application and favorable weather. Our ongoing efforts to take expenses out of the system are benefiting both customers and shareholders alike.

In March, we held our inaugural Investor Day, where my executive team and I had the opportunity to meet with global investors and highlight this focus. We also outlined our strong investment-grade balance sheet. It is our financial position that has given us the flexibility we need as we adjust our operations and workforce to tackle this unprecedented time.

In late February, we issued $1.1 billion of debt at a competitive rate that will undoubtedly support our sustainable business model. In addition, late last month, we received a number of decisions from the OEB. These included the decision on our 2020 to 2022 transmission rate application and approvals of the Orillia and Peterborough transactions. We see these decisions as balanced, in line with prior OEB rulings and the demonstration of Ontario's constructive regulatory environment. We are pleased we now have regulatory approvals and clarity on capital investments through to 2023. We look forward to welcoming our new customers and employees from Orillia and Peterborough to the Hydro One family.

Joining us from Orillia will be approximately 14,000 new customers in the Simcoe County, which is surrounded by existing Hydro One service territories. Hydro One will service an additional 37,000 customers in the Peterborough, Lakefield and Norwood areas as a result of the Peterborough transaction.

Hydro One has a century long legacy of solving challenging problems through ingenuity, determination and resilience, all while putting the needs of customers and communities first. Since 2015, Hydro One has been on a journey to transform the business. Our customer-driven culture, nearly $0.5 billion in productivity savings, the use of new technologies in the field and digital solutions for customers have formed a strong foundation that enables us to weather this storm.

We found new ways to collaborate. We've developed innovative solutions, and we're more in tune than ever with the needs of our customers and communities. Once this chapter is over, we will be safer, more flexible and more efficient. Over the past 2 months, I have seen the best of humanity, creativity and kindness. We will continue to find new ways to support one another with more solutions to address the challenges that lie ahead.

Before I pass it over to Chris, I would like to take a moment to thank Anne Giardini, who is not standing for reelection to the Board of Directors this year. Hydro One has benefited from Anne's leadership, experience and forward-thinking in her roles as Chair of the Health, Safety, Environment and Indigenous Peoples Committee and as a member of the Audit Committee. A search to replace Anne has been initiated in accordance with the governance agreement. Thank you, Anne.

Chris, over to you.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thank you, Mark. Good morning, everyone, and thank you for joining us today during what is an extraordinary time. I hope you and your families are safe and well. COVID-19 has affected everyone in a deep and profound manner. We remain hopeful for a solution that will allow everyone to move forward with a new normal way of life in the not-too-distant future. For Hydro One, we understand our role is to keep the lights on for all Ontarians. We have met this challenge head on. We made the necessary changes to ensure the safety of our employees and customers and to continue supporting the electricity grid needed by Ontario to keep all essential services operating and the economy open and ready to grow again, when it is safe to do so.

to higher distribution revenues received in the first quarter of 2019 relating to the OEB's decision on the 2018 to 2022 distribution rate application.

Within the revenues received last year were amounts that related to 2018 distribution rates, recognized in the first quarter of 2019, which translated into approximately $0.11 of earnings per share. This item should be taken into account when considering the comparability of earnings. I am pleased with these results, which is a testament to the resiliency of our employees and the fundamentals of the business. Our first quarter revenue, net of purchase power, was lower year-over-year by 11.4%. As mentioned, the primary driver of the decrease came from the onetime catch-up revenue as a result of our 2018 distribution rate application.

Revenue was also affected by a decrease in transmission revenues resulting from lower average monthly Ontario 60-minute peak demand on account of less favorable weather in the first quarter of 2020. Last year, the first quarter was one in which we benefited from favorable weather. While COVID-19 may have impacted peak demand marginally in March, we saw less favorable weather in all 3 months, which results in a year-over-year quarterly decrease of approximately 7%.

As Mark mentioned, we support the government's actions to temporarily eliminate time-of-use pricing in Ontario as more and more people were required to stay home. We are pleased that customers across Ontario benefit from this program with no impact to our revenues.

Turning to operating expenditures, we were substantially lower, primarily due to costs associated with the termination of the merger agreement and project write-offs related to the Lake Superior Link project in the first quarter of 2019. The year-over-year decrease in OM&A within the quarter amounted to approximately 36.3%. However, OM&A was flat when we exclude the merger termination fee as well as the project expenses from the Lake Superior Link project that were written off last year and the COVID-19-related costs of approximately $5 million this year.

Our continued focus on offsetting inflation is especially important during this unprecedented time. The impact of the measures taken by Hydro One to support our customers, including the pandemic fund, temporary suspension of late fees and extension of the moratorium are not expected to be material. As I mentioned earlier, we have higher operating expenditures this quarter of approximately $5 million related to COVID-19. This includes the temporary standdown of the casual workforce and the purchase of additional facility and cleaning-related supplies.

We were pleased with the OEB's swift action on their guidance with regard to tracking and reporting of COVID-19-related impacts. The OEB continues to provide direction and clarification, but has guided on the establishment of 3 regulatory deferral accounts to capture the impacts of COVID-19. They are, first, billing and system changes as a result of time-of-use pricing; number two, lost revenues arising from COVID 19; and finally, other incremental costs. This guidance allowed us to include bad debt expense in the regulatory deferral account as we assess that it was probable that it would be recovered in future rates. Therefore, $14 million of bad debt expense has been recognized as a regulatory asset and does not impact net income.

We are also tracking other incremental costs and lost revenues, but have not recognized them in deferral accounts, as the assessment of whether they are probable for recovery remains ongoing. The short-term effects of COVID-19 remain uncertain due to the unknown depth and duration of the pandemic. It is challenging to estimate the exact impact on future revenues due to load being impacted by numerous variables including weather. That said, we continue to see decreases in April, with the year-over-year peak demand decrease at approximately 13%, a portion of which is likely on account of COVID-19.

Given the variable nature of its revenues, the transmission business has impacted more than the distribution business as approximately 60% of distribution revenues are fixed. During this time, increased OM&A costs are expected to be largely offset by decreased expenses as a result of impacted work programs. As a result, the primary impact will come from reduced load. For each additional month, we have a 10% reduction in load during this particular period. EPS is expected to decrease by approximately $0.02.

On financing, there are a number of factors to consider when comparing the financing charges year-over-year. The write-off of deferred financing charges related to convertible debentures redeemed in February 2019, the reversal of previously recorded unrealized gains on the foreign exchange contract and interest expenses related to the convertible debentures were all specific to the merger. However, excluding those specific financing competitive rates in both the 10- and 30-year borrowings. This achievement can be attributed to our robust investment-grade debt ratings and a commitment to a strong balance sheet. Despite the effects of the pandemic, we continue to view our liquidity position favorably.

Quarterly income tax expense increased to $15 million for the first quarter of 2020 compared to an income tax recovery of $16 million last year. The increase in income tax expense was primarily attributable to the 2019 tax recovery on the termination fee and financing charges related to the merger as well as incremental tax deductions from the deferred tax asset sharing as mandated by the OEB. These latter costs pertaining to the deferred tax asset sharing were, however, offset by lower revenues, making them net income neutral. Due to the reasons discussed above, the effective tax rate for this quarter was 6.1% versus a negative 9.9% in the first quarter of last year. Our guidance on effective tax rate remains unchanged in the range of 6% to 13%.

Moving over to investing activities. The company placed $225 million of assets in service in the first quarter, a 55.2% increase to the prior year. This was largely a result of in servicing high-voltage underground cable replacement work from the Leaside transmission station to Main transmission station. We also in-service considerable refurbishment work at the Elgin transmission station. As a result of COVID-19 pandemic, in the latter part of March 2020, we prioritized essential and high priority work and temporarily deferred other projects to ensure the safety of our employees and the public.

A thorough review of work practices is being conducted to mitigate the potential impact of COVID-19 on the capital program in 2020. As discussed earlier, it is currently challenging to estimate the impact of the pandemic on work programs, as this will be dependent on the depth and duration of the pandemic as well as the mitigating measures in place across Ontario.

On the regulatory front, subsequent to the end of the quarter, on April 23, we received a key decision from the OEB on our transmission rate application. In the decision, the OEB approved over $3.4 billion of capital investments over the 2020 to '22 period. While there was a modest reduction or deferral of capital in the amount of $400 million, and a reduction of OM&A in the amount of $10 million from what we had planned, we will work within the approved envelopes to do our best to support our customers and the Ontario economy through productivity improvements and efficiencies. Since the capital reductions were made to the sustainment category, we expect deferred portion of capital to be deployed within our next rate application. We are currently evaluating how the decision impacts the timing of the future capital investments, and we'll provide an update in our Q2 results once the draft rate order reflecting the updated revenue requirements is filed no later than May 28 this year. With this decision, both our distribution and transmission business are in the incentive rate making framework now through 2023.

As a reminder, the incentive rate making construct gives us the ability to share earnings with our customers if we earn in excess of 100 basis points above our allowed return on equity. This means our customers will continue to benefit from our relentless focus on reducing expenses and increasing productivity. Furthermore, with decisions received for both businesses, we are focused on executing to plan, decreasing operation expenditures and increasing productivity.

As Mark mentioned, we also received decisions from the OEB on our applications for the Orillia and Peterborough LDC acquisitions. We are very pleased to proceed with these 2 transactions. As a reminder, the Orillia transaction has a $41 million purchase price, including approximately $15 million of assumed debt and regulatory liabilities, which are subject to closing adjustments. In the Peterborough transaction, we will acquire the business and distribution assets for a purchase price of $105 million, which is also subject to closing adjustments.

We continue to expect the decision on the appeal of our deferred tax asset in the first half of this year. We filed an appeal with the divisional court, which was heard on November 21, 2019. On March 31, 2020, an additional submission was filed with updates relating to a Supreme Court of Canada decision in December 2019, which substantially revises administrative law principles and strengthens our case. The Ontario Divisional Court decision is pending.

I am pleased to confirm that the Board of Directors approved the quarterly dividend. This dividend continues to reflect the strong long-term fundamentals of the business and the good work our teammates are doing for the benefit of all stakeholders. The dividend also benefits all Ontarians as the Government of Ontario continues to be a large shareholder of Hydro One.

the impact of COVID-19 and the recent decision on our '20 to '22 transmission rate application, we continue to be committed and affirm our guidance of 4% to 7% earnings per share growth through 2022.

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. Before we ask the operator to explain how she'd like to organize the Q&A polling process, we're a bit tied on time this quarter as our first ever virtual annual shareholder meeting begins at 9:30 a.m. So I please request that participants wishing to ask questions this morning to please keep them to a single topic so that as many people as possible have an opportunity to participate in the time available. My team and I are always available to respond to follow-up questions. Please go ahead, Shannon.

QUESTIONS AND ANSWERS

Operator

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

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

First question is just in regards of how you're looking at costs under COVID-19. I just want to get a sense of what levers you think you can pull, whether that is vegetation management to offset the lower revenue potential? And then also, you did mention that some costs could be caught up in a regulatory account. So I want to get a sense of how you're slicing and dicing costs and which one will fall to the bottom line and which ones will be able to be deferred?

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

Rob, maybe I'll start, and then I'll ask Chris to go on that. So we are focusing on restarting a lot of the work that we had to pause when the pandemic broke out. And really, we do have some levers, primarily in the productivity range. I'll remind you as well that the OEB has asked us to collect costs associated with COVID and deferral accounts. And those accounts are focused on collecting the cost of the billing changes we've had to do to go to temporary time-of-use rates as well as lost revenues and any incremental costs associated with COVID, including bad debts. So recovery of these costs will be determined by the OEB when the accounts are brought for -- forward for disposition. And we are part of a regulatory working group with the OEB and the others in the sector to provide input on how and when utilities may bring forward these accounts for disposition. So we do have levers that we will be pulling and working to offset, and we also have these regulatory mechanisms.

Chris, do you want to add anything to that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thanks, Mark. Yes, just very quickly, in Q1, we booked around $5 million of costs related to COVID-19, and that really is the cost of standing down certain workings to comply with government orders and also some additional costs around sanitation and so on. So that's $5 million, but that was not deferred. We are tracking it in an account -- a tracking account that can be brought before the OEB in the future. So the OEB set up 3 accounts really to keep the regulated entities in Ontario whole, and they apply to transmission as well as distribution. That's billing and system changes associated with time of use, saving costs associated with that, lost revenues. So that's a broader category, which could include lower load. And as much as possible. And even key to our operating envelopes. So we are getting -- as Mark said, we're getting some benefit from productivity. We'll also get some benefit simply from not being able to do certain work because of the government-mandated shutdowns. That said, we are an essential service, so we haven't been as impacted by other industries. So overall, we do not expect those costs to be material across the year as a result of either recovery or us managing internally to offset those costs.

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

All right. And then maybe a longer-term question. It's been interesting to see how the shape of the load curve has shifted under COVID. And I just want to get your sense of like if we are seeing a larger percentage of the population work from home on a longer-term basis, which could flatten out some of the peaks. How would you look to interact with the regulator if that could be a permanent shift and that we could see a permanent shift down in that peak load profile?

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

Yes. I know that the IESO, they released their planning outlook earlier this year, and they're going back actually to look at that as a result of COVID and to see what those longer-term impacts might be. And you're right, we are seeing a shift in the so-called duck curve being that with more people at home, actually, the residential curve is changing quite a bit. And you can see that people are sweeping in quite frankly. But we will work with the IESO to look at that long-term. It may help with some of the peaks. I'll remind you that Pickering is planning on shutting down some of their nuclear in 2024. So there will be a capacity need at that time. So there may be some advantages to flattening the duck curve. We'll continue to work with the IESO and assess if there are long-term shifts in the load and consumption in the province?

Operator

Our next question comes from Linda Ezergailis with TD Securities.

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

Just a follow-up to Rob's question about the shape of the load curve shift. I know you're working with the IESO, but is there any potential to revise your projects, including if the duck curve is shifted that you might not need some of the transmission projects that you've currently proposed?

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

We're not seeing any impacts to our existing transmission projects. The longer-term, we'll have to wait to see on how this really comes out and what the IESO is forecasting. So I don't see an impact on any of the projects we're working on today. We are doing some planning work on the Waasigan line, and those are longer-term that the IESO hasn't made the decision on whether we're going to work -- move forward with those to construction or not, but we are working on the planning work. So I think it is pretty early and a bit of a wait and see, but I don't see any impacts on our current projects that we have approved.

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

Okay. And just as a follow-up on your transmission decision, do you have a sense of what the approximate amount of catch-up revenue is expected to be booked with second quarter earnings as a result of decision?

Chris, do you want to answer that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. It's approximately $0.01, Linda. There will be some other minor adjustments in it that we need to work through, but the actual rights' impact because we didn't book it in Q1 is $0.01.

Operator

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

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

If I can actually just delve back into the COVID-19 deferrals. So Chris, you mentioned that $14 million of bad debt was or has been accrued into the regulatory assets and excluded from hitting the P&L. Now you also mentioned the $5 million. So that's been put into a regulatory account, but you did take the hit. Can you just talk about some of the other things, balances that you're putting into accounts right now, particularly anything around lost load, what that number is? And just to be clear, the comments around OM&A and the offsets you're planning on accruing a net number into the deferral account. Is that correct?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. So let me take each part of that. So the first part around load. Well, let me answer the first question you asked is what have we deferred. The only thing we have deferred to this point is the $14 million of bad debt, that is one that seems to have a lot of consensus that it's simple to measure and it's going to affect LDCs across Ontario. And they are carrying effectively the credit exposure for the whole electricity industry. So some of those small municipalities simply can't do that. So there is consensus that that one there is going to be resolved in a timely manner and very probable of recovery. So we've booked that one, and we're fairly comfortable with that decision. With everything else, we have not booked a deferral. So the only other cost that we've captured so far is this net $5 million cost of OM&A. There is a slight tax leakage of about $2 million. So our tax expense is slightly higher than otherwise would have been because we haven't put as much capital. We are not expected to put as much capital in service over time, especially in this year, but I haven't sort of highlighted that in the results. And then we get back to your last question about do we expect to recover these going forward? That will be resolved in the next quarter, we'll be able to put a lot more light on it. But our feeling so far is that while we have some increased costs associated with COVID-19, the cost in terms of lower work in the work programs is roughly offsetting that. And we are expected by the OEB to do our best to try and manage within those OM&A envelopes. So if we can, we'll do that. So, so far, we have the opinion that we can do that. And any incremental cost should be recovered from the OEB going forward. In terms of load, the reason why we put no load into a deferral account at this point or into a tracking account, we need to identify what the calculation method would be. So as I said in my earlier comments, the load was down on average 7% in each month for the first 3 months of this year. So that was before COVID. So there is no real clear picture yet on exactly what is weather-related and COVID-related. And we'll need to come up with a method of being able to clearly articulate the difference between the 2. I think I said that we're down 13% in April. We know we were down 7% after that point. So is 7% weather-related and the remaining 5% COVID, that's what we need to prove out. So to this point, we put nothing in a tracking account, and we put nothing in a deferral account other than bad debt.

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

Got it. And do you have just an estimate as to what that 6% differential might translate to as you also split the fixed versus variable parts of the bill, dollar wise?

In terms of -- yes. So at the outset I said if I had a 10% reduction in load for a month that would be $0.02 impact upon results with -- that's assuming no recovery. So in that case, I just gave you from 7% to 13%, that will be a 5% reduction in load, that benefit would be $0.01.

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

Got it. I'll just finish with -- on the M&A front. So the Peterborough and Orillia acquisition is finally done. Does this give you more confidence then just in terms of how you go through the decision to do additional deals in the future? And obviously, we got to get out of what's going on right now with COVID. But do you think this will accelerate potential future transactions?

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

Yes. It's Mark here. So we are obviously pleased with the outcome of those decisions. It took a while to get here, but we are happy with the outcomes. And we're happy that they approved all the significant elements of our proposal with really minor modifications. So from that perspective, it was really good outcomes. As far as whether it will help facilitate further consolidation, I believe that that we made a good case for consolidation and which did result in the positive outcomes on these 2. What we're also seeing across this sector, particularly through COVID is that there is an advantage to consolidation. And we're seeing a lot of the smaller utilities and the LDCs have liquidity issues during this time. And so things like billing as well. There's just a lot of things that are coming to the surface that show that the consolidation for the overall sector can have a lot of positive results. So I am optimistic from that perspective that there will be opportunities, again, willing seller, willing buyer and at the right price. But I think we have shown through COVID that there is an advantage to having the sector even further consolidated.

Operator

Our next question comes from Andrew Kuske with Crédit Suisse.

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

Obviously, a lot's changed in Q1 and then the year-to-date after the quarter is closed off. But is there any metrics you could share with us in particular on the residential side on just reliability and how that's either been enhanced or has changed given the shape of the curve has clearly changed from a load standpoint?

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

Yes. I'll start with that, and then I'm going to hand it over. We've got a new member of my executive team on the phone today, David Lebeter. He's our Chief Operating Officer. And he has responsibility for all the field crews. So what we're seeing is that because we've stood down some employees and they're working from home on standby, our response time is a little bit slower to the 2 outages that we've been having. I don't foresee a long-term impact on the reliability as a result of some of the work we've stood down. Our priorities, as I said in my opening, around how we have determined what work continues and what work stands down is, obviously the first thing is, protecting our employees. And then we looked at it as a -- as the work that needs to carry forward to ensure the reliability and safety of the system, both in the short, medium and long-term. We recognized right away that this event wasn't a short-term event. So we knew that we couldn't just standdown on all the work for a short time and then start it back up. So we have been judicious about how we've done that. David, do you want to add to that?

Thanks, Mark, and good morning, everyone. It's been an interesting time from a reliability perspective. We've gone through 2 storms. And, as Mark said, our response wasn't quite as fast as it would have been under the -- prior to COVID, but it improved with both storms, and we're now very confident we can respond in a similar manner and similar time frame that we used to, even though we have people working from home. And I'll just add that during COVID, we kept our forestry crews working, our regular forestry crews working because they have such a large impact on reliability. And similarly, we've kept our engineering teams working, continuing to advance the projects and work that grid modernization activities had such an impact on reliability. So I actually see this as an opportunity for us to get better. We do use different methods to perform reliability, perform restoration. And it's also allowed us to focus on how we plan outages. We're seeing an improvement in reliability from fewer planned outages, and we're looking at that and saying, how can we get on -- get back to full-work capacity after COVID and still maintain the reliability but have few -- lower impact from planned outages. Hopefully that answers your question.

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

It does. That's helpful. And then the follow-up really relates to the restarts of industrials that have gone off-line. So to the extent you've got large load industrials in your service territories, how you envision the restarts? Are you being a bit more cautious with the restarts than you would have been in the past? Or is it really business as usual?

David Lebeter - *Hydro One Limited - COO*

I think it's business as usual with the restarts. We've taken this opportunity to address all the critical -- to address some of the critical circuits. We're looking at all the big industrial loads.

They're vital to the economy of Ontario. And we want to make sure when they're ready to come up, we're ready to service them.

Operator

(Operator Instructions) Our next question comes from Mark Jarvi with CIBC Capital Markets.

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

Chris, just want to come back to your comments about the $0.02 impact over 10% decline in load. Does that assume any offsets from modification of OM&A? And then maybe just it seems more specific to transmission and the drop in people. But on the distribution side, I know you want to insulate it given higher fixed charges, but what have you seen so far through the month of April in terms of net revenue impact as you kind of see the higher residential load and drop-off in commercial?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Mark, thanks for the question. So the $0.02 impact is the impact across both transmission and distribution. So it includes both. The distribution business, as you're quite correct, is impacted less because only 60% of that revenue is fixed. So it's got a smaller revenue, and it's a smaller impact. So -- but the total combined impact of a 10% reduction in load per month is $0.02 across the business, and that does not include any offset from OM&A. That is the net impact of the load decrease on its own.

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

Okay. And then just obviously, aside from challenges of workforce, logistics, anything else in terms O&M savings and productivity in terms of supply chain constraints given the economic slowdown globally?

Yes. So what we've seen so far, Mark, is we reacted very quickly, and we increased our materials in our -- that are in stock by approximately 30%. So we did quite well on that front. And then on more recent times, we are seeing delays in materials of somewhere between 4 and 8 weeks at the moment. That's sort of -- it got to that point and then it's leveled off. And that the reason why we're seeing that is because, the leveling off that is, is that China is opening up; Korea, which is where a lot of the electricity parts come from, actually is opening up as well and did quite well in managing their COVID-19 risk, so we -- beyond that, we haven't seen anything else at this point, nothing material that causes us any concern. We'll keep monitoring it, including any of the comments we hear south of the border around any sort of trade war with China. That could have an impact. But at this point, we're not seeing anything that causes us concern.

Operator

(Operator Instructions) Our last question comes from Patrick Kenny with National Bank Financial.

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

Chris, maybe just back to the volume impact there. Based on your residential versus commercial and industrial customer mix, just wanted to get your thoughts on how the reopening plan in Ontario, if successful, of course, might help mitigate some of the impact to load as well as the bad debt expense going forward. Just curious if you had any base case assumptions that you could share?

Christopher Felix Lopez - *Hydro One Limited - CFO*

I think when you look -- we've looked at the experience all around the world in terms of what was the impact at the height of the COVID-19 epidemic and then how they come back since then. And most of them have a 2- to 3-month dip. And then it comes back fairly quickly after that. It won't come back to full load, but it will get fairly close. That's what they're projecting in areas like China, Korea. So I would expect something similar here. I think Canada as a whole has done a fairly good job and Ontario has done a good job of managing COVID-19 compared to some other areas. So we may not see the same dip. The reason why I called out that we had a 7% reduction in load in the first quarter is because, yes, we are seeing a 13% reduction in load in April, but it could be that 7% to 8% of that is coming from weather. So we may not be experiencing the same reductions in load that you're seeing in other parts of the world. The second part I'd say to that is a lot of the statistics that are being quoted, what is the reduction in load compared to this time last year, and last year was a very good weather period. So that difference is accentuated, right? Because last year, you had very good weather. This year had slightly below normal weather, and that weather impact is a big chunk of those reductions. Long story short is we will know more in Q2, Pat. It's probably the best answer. I expect there will be a reduction in Q2. We will capture the cost of that, and we'll seek recovery on that. And we will know exactly how the economy is ramping up. But I don't see this as being 10% for an elongated period of time if that's the question.

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

Okay. And then also just on the 4% to 7% EPS CAGR through 2022. Can you just remind us that at the low end of that guidance range from back at the Investor Day had already factored in any downside to your capital plan related to the Tx decision as well as any OM&A drag from potential COVID risks or otherwise?

Christopher Felix Lopez - *Hydro One Limited - CFO*

The answer is yes because we have reaffirmed guidance in my earlier comments is in light of the Tx decision and COVID-19, we are still of the opinion that over this period, through 2022, we would achieve that 4% to 7% range.

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*

Thank you, Shannon. 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 follow-up 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, and see you at the virtual AGM at 9:30. Thank you, and stay safe.

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.
