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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Hydro One Limited First Quarter 2022 Analyst Teleconference. (Operator Instructions) As a reminder, the call is being recorded.

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

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

Good morning, everyone, and thank you for joining us in Hydro One's first quarter earnings call. Joining us today are our President and CEO, Mark Poweska; and our Chief Financial Officer, Chris Lopez.

In the call today, we will go over our first quarter results and then spend most of the call answering as many of your questions as time permits. There are also several slides that illustrate some of the points we'll address in a moment. They should be up on the webcast now, or if you're dialed into the call, you can also find them on Hydro One's website in the Investor Relations section under Events and Presentations.

Today's discussions will likely touch on estimates and other forward-looking information. You should review the cautionary language in today's earnings release and our MD&A, which we filed this morning regarding the various factors, assumptions and risks that could cause our actual results to differ as they all apply to this call.

With that, I'll turn the call over to our President and CEO, Mark Poweska.

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

Good morning, and thank you for joining us for our first quarter earnings call. As you'll see from this morning's release, our teams continue to operate in a very disciplined manner to serve our customers and the communities in which we operate. I'll briefly discuss some of our notable achievements this quarter and then pass it on to Chris to discuss the financial results in greater detail.

To start with, I'm very pleased with the results that our teams have achieved. Their hard work has enabled us to provide electricity to our customers when and where it's needed. This dedication to great customer service, along with a track record of top quartile reliability for transmission has been recognized.

Most recently, we were delighted to receive news that our transmission license has been amended to develop 4 transmission lines to meet the growing electricity demand in Southwest Ontario. This is in addition to a previous transmission designation for the Chatham to Lakeshore line in 2020. These 5 transmission lines will meet the needs of new and growing industries, help attract future jobs to the region and ultimately, facilitate economic growth in Ontario. We are proud that the provision of low-carbon electricity to the region will drive a more sustainable future for all.

In addition to the positive news on the transmission lines in Southwest Ontario, the Independent Electricity System Operator, the IESO, recently launched an engagement plan for the timing of the Waasigan transmission line. As a reminder, the Waasigan transmission line previously known as the Northwest Bulk transmission line is a line that will transmit power from Thunder Bay to Atikokan, which is Phase 1; and then from Atikokan to Dryden, which is Phase 2. This line will support economic growth in the Northwest region, including the mining sector.

In October of 2018, Hydro One was requested by the IESO to start the development work for the project. Last week, the IESO held a webinar where it indicated that there would be a need to have Phase 1 of the line in service as close to the end of 2025 as possible. We are very pleased with this update that will support the communities and businesses in the north. Our teams will start working immediately to provide feedback to the IESO engagement process as well as designing plans to meet the desired in-service date.

The Waasigan line also allows us to take progressive steps with First Nations communities towards meaningful reconciliation, which I believe is our obligation as members of Corporate Canada. I'm very pleased to announce that yesterday, Hydro One and First Nations communities came to a landmark agreement for the Waasigan transmission line. This industry-leading agreement offers First Nations communities the option to invest in a 50% equity stake in the Waasigan line. We are committed to partnership opportunities and believe this is the way forward for major capital projects.

We operate on the traditional territory of over 100 First Nations across Ontario. We are committed to building long-term relationships with these communities, and Waasigan is an example of that. Last year, we publicly stated that we will provide significant economic participation opportunities for indigenous communities in major capital projects. We also committed to increasing our indigenous procurement spend to 5% of all materials and services by 2026 and ensuring that 20% of our corporate donations and sponsorships support indigenous communities. This proactive approach to economic participation recognizes our obligation to advancing economic reconciliation by providing investment opportunities on large greenfield projects. This provides long-term and meaningful opportunities for First Nations communities, which in turn supports our business strategy.

Hydro One is committed to all communities we serve. For the second year, we announced grants for indigenous communities, charitable organizations and municipalities from the Energizing Life Community Fund. Given to 24 recipients, these grants support initiatives that promote physical, psychological and emotional safety across Ontario. The recipients provide critical local services such as service dog training for youth with autism, interactive technology to foster social engagement for seniors, and environmental educational programming for black and racialized families.

At Hydro One, we feel a responsibility to be present and support local organizations who are working tirelessly to energize life in their communities. At a time when more than 1/3 of Canadians know a child or person who is suffering from mental health problems because of the pandemic, we teamed up with Jack.org to provide adults and educators with mental health strategies to support young people. We are proud to work alongside Jack.org in breaking down barriers to get young people the mental health support they need.

In addition to removing barriers, we're also actively connecting people. In late March, the Ontario Government, Hydro One and Acronym Solutions launched a pilot project that will bring high-speed Internet access to homes and businesses in the municipality of Brighton. The pilot project will allow us to use our existing infrastructure to fast track the development of a high-speed Internet network in this community. The past 2 years have underscored how essential Internet connectivity is to economic productivity and ability to access work, education, health and other critical services. This is just another way in which we are embracing innovative solutions to energize life for our customers.

In addition to this pilot, a regulation under the Ontario Energy Board, OEB Act was passed on April 21 to formalize the important role that all distribution companies play in supporting the government's commitment to connect approximately 700,000 homes and businesses in Ontario. Hydro One welcomes the chance to help enable better access and connectivity for our customers.

Continuing with the regulatory updates. Using a customer-centric approach, we filed an evidence update with the OEB on the joint rate application, JRAP, on March 31. We updated the cost of JRAP to reflect market conditions and the load forecast to reflect the IESO's most recent annual planning outlook. The filing preserves our ability to deliver on our commitments to customers without impacting the proposed transmission and distribution rates during the 2023 to 2027 period.

We believe in keeping our commitments to our customers. We also recognize that our customers and all Ontarians are facing increased pressure due to an exceptional set of economic circumstances. As such, we are proposing a unique deferral mechanism. It ensures customers are not burdened during this difficult period with cost increases affecting investments that will benefit current and future generations. The incremental revenue requirements associated with this evidence update are proposed to be recorded in deferral accounts for recovery commencing in 2028. As a result, there will be no changes to the proposed transmission or distribution rates for the 2023 to 2027 rate period due to the proposed changes in this evidence update.

Following our evidence update, the OEB issued a procedural order, outlining the illustrative hearing schedule. For the schedule, we will enter a period of interrogatories followed by technical and settlement conferences. The oral hearing is now expected to begin in September 2022, with a decision expected in the first quarter of 2023.

In our unregulated segment, we continue to make good strides with our Ivy Charging network. In the first quarter, Ivy opened 32 Level 2 charging stations, now known as Park & Charge, in partnership with various municipalities. Park & Charge provides municipalities and businesses with the opportunity to bring charging to their communities for EV drivers who are not in a rush, backed by Ivy's reliable EV network and customer service.

Ivy also rebranded its Level 3 network as Ivy Charge & Go for drivers who want to quickly get back on the road. Following the agreement with ONroute and its partners, the Canadian Tire Corporation and the Ministry of Transportation, Ivy opened fast chargers at 10 ONroute locations. Once built, Ivy's Charge & Go network will be one of Ontario's largest and most connected with approximately 60 locations and over 150 Level 3 chargers.

Before I pass it over to Chris, I'd like to take a moment to thank Jessica McDonald, who is not standing for reelection to the Board of Directors this year. Hydro One has benefited from Jessica's leadership, experience and forward thinking since 2018. The Governance and Regulatory Committee on behalf of the Board of Directors conducted a search to fill the vacancy created by Jessica's departure and is nominating Mark Podlasly for election to the Board of Directors at the Annual Meeting of the Shareholders on June 8, 2022. You'll hear more about Mark and the depth of this skill he'll bring to the Board after the AGM.

With that, I'll turn it over to Chris to discuss our financial results this quarter. Over to you, Chris.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thank you, Mark. Good morning, everyone, and thank you for joining us today. In terms of our financial results for the first quarter, earnings per share was $0.52 compared to $0.45 in 2021. The key drivers for the change in earnings this quarter were the annual adjustment to OEB-approved rates for the transmission and distribution segments as well as higher peak demand and energy consumption driven by favorable weather and reopening of the economy, which were partially offset by higher OM&A due to an increased allowance for doubtful accounts and higher depreciation, amortization and asset removal costs.

Our first quarter revenue net of purchase power was higher year-over-year by 12.6%. This was made up of the recovery of deferred tax assets or DTA amounts as well as the cessation of DTA amount sharing going forward, following the DTA implementation decision by the OEB in April of 2021. As a reminder, the impact from the DTA implementation decision are cash flow positive, but net income neutral due to a corresponding offset in taxes.

In addition, revenues for the Transmission and Distribution segments reflected the annual adjustment of OEB-approved rates for 2022. Colder weather and reopening of the economy drove up peak demand in all months of the quarter compared to the same period last year. The average monthly peak demand for the quarter was up 3.7%, while the energy distributed to Hydro One customers also increased by 9.1%.

On the cost front, operating, maintenance and administration expenses were higher year-over-year by approximately 2.1%. The increase in OM&A was primarily a result of higher allowance for doubtful accounts or bad debt expense due to the aging receivables in the distribution segment.

As a reminder, in the first quarter last year, we had accelerated certain work programs such as vegetation management, station maintenance, information technology and customer program spend. The M&A on these work programs remain largely consistent with last year's levels.

That said, we are beginning to experience the impacts of the current economic environment, especially as it relates to materials and services in both segments. Impacts such as essential commodities, including copper, aluminum and steel have undergone price increases and supply shortages. Continuous demand and limited supply have led to price increases for freight-based shipping. And rising fuel costs have impacted most categories of materials and services purchases, including Hydro One's vehicle fleet fuel costs, which are expected to increase by 30% to 35% in 2022.

Due to these market changes, Hydro One is experiencing price escalation for many materials and services that will manifest themselves in the upcoming quarters.

Depreciation expense was higher year-over-year by 6.3% due to the increase in capital assets, which is consistent with our stated capital investment program.

On financing, we saw no change year-over-year in our financing charges. However, financing charges decreased from last quarter by $6 million due to the $600 million repayment of long-term debt, which had matured in January. As a reminder, we had borrowed late last year to fund this debt maturity.

We continue to be pleased with the stability of our balance sheet and robust investment-grade credit ratings.

Income tax expense was $79 million for the quarter compared to $26 million in the same quarter last year. The increase in income tax expense was due to the tax expense on account of the DTA implementation decision, which, as discussed earlier, is net income neutral. In addition to the DTA recovery amounts, we also had higher taxes on account of higher pretax earnings, which were partially offset by timing differences.

The effective tax rate this quarter was 20.2% versus the effective tax rate last year of 8.8%. This is consistent with the annual guidance we provided earlier this year of 14% to 22% over the next 5 years. As a reminder, the most significant impact will be over the 2021 to 2023 DTA recovery period.

Moving to investing activities. In the first quarter, we placed $229 million of assets in service, which is a 45.9% increase compared to the prior year. The year-over-year increase related primarily to the Transmission segment in which a significant portion of the East-West Tie project was placed in service. In addition, we had higher spend on station refurbishments and replacement work as well as higher volume of assets being put into service to maintain North American Electric Reliability Corporation, or NERC standards.

Capital investments for the first quarter were $449 million, which is a 14.8% decrease from the first quarter in 2021. The decrease came primarily from the Transmission segment due to the completion of the Ontario Grid Control Center in the city of Orillia in 2021, a lower volume of station refurbishments and replacements and a lower volume of wood pole replacements.

The capital investments in the Distribution segment were also lower due to the completion of the Orillia Grid Control Center that I just mentioned. In addition, we had a lower volume of wood pole replacements and a lower spend on IT initiatives. These are partially offset by reinforcement projects and a higher volume of work to connect customers.

You'll also note that future capital investment profile for both segments have been adjusted since our last call. This was done to reflect the evidence update for the joint rate application, which was filed in March. The new transmission lines, the development surrounding the Waasigan transmission project and the broadband regulatory initiative have not been reflected in these numbers due to their current stage of development.

That said, any amounts on these initiatives will not be part of JRAP and will be additive to future capital investments. As a reminder, the capital investment numbers for future years remain subject to OEB approval. The evidence update we filed has a modest impact on our projected rate base growth for both segments.

On guidance, we continue to be committed to and affirm our target of 4% to 7% earnings per share growth through 2022. As a reminder, we expect to provide updated guidance for the post 2022 period following the approval of the joint rate application.

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

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Maurice Choy with RBC Capital Markets.

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

My first question is on the JRAP. I just wanted to get a little bit more understanding about your cost updates. Specifically, can you just discuss the mix between what is inflation/pricing updates? And how much of it is just shifting of projects between different regulatory periods?

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

Maurice, it's Mark here. As you know, we developed an investment plan based on the engagement with our customers when we put that investment plan together. So over 50,000 customers, we engaged in that. And we still believe in the investment plan, and we still believe that that is what our customers asked us to do. And so the evidentiary update that we filed is to reflect the increase in costs on delivering that program, but the program itself has stayed intact for the JRAP period.

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

Understood. And just as a follow-up to one of your comments in prepared remarks about using deferrals instead of increasing the cost of customer rates. Broadly speaking, has this been something that you thought of with as part of the consultation, or is it something that if you have early thoughts from the regulator about their view about this approach?

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

Yes. So as part of OEB's rules of practice, we're required to update evidence when there's a material change to our filing. And given the economic situation and the increased cost due to inflation, we were required to update that evidence. So that's what we've done. We believe in the commitments we made to our customers, and we wanted to hold to those commitments, which are the rates that we committed to when we filed our evidence. And so we proposed the regulatory mechanism, which will help us to deliver on that commitment and not put those cost pressures on our customers at this time when they're facing pressures in other aspects of their life, and we will look to collect those costs in the future periods.

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

If I could just finish off with thoughts about the election, now that the campaigning is underway. Lots of the tone from the leaders with regards to energy policy and as well as affordability and [profitability].

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

Yes. As you point out, the election is officially underway as of yesterday. The writ has dropped. So we know that an election is going on. We do expect to hear various points of view from parties and several people on that. What we're focused on at Hydro One is to continue executing on our strategy to serve our customers to facilitate economic growth through the things like the new transmission lines where I talked about on my opening and to continue to drive cost out of our business. And we've been successful on that for as you know, many years, consistently finding at least $50 million of cost improvement each year, and we'll continue to focus on doing that.

Operator

Our next question comes from Rob Hope with Scotiabank.

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

I want to follow-up on the deferral treatment of the incremental JRAP cost. So when you evaluated all the different opportunities in front of you, can you maybe give us some puts and takes on why you thought deferral mechanisms would have been the best path forward? I understand it would be net income neutral, but it will be a headwind in terms of cash flow of what you could have gotten. Does the strong balance sheet and kind of credit metrics where you are right now, give you that willingness to give up some cash flow in the near term?

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

Yes, Rob, I think you nailed it. Like I said before, we made a commitment to our customers when we filed this and it was based on that input to those customers. We feel a deep obligation to meeting those commitments to our customers, and we do have a strong balance sheet, and we can support that during the JRAP period. So we thought it was the right thing to do as an organization to support our customers through these times over the JRAP period and look to collect those costs later.

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

I appreciate that. And then maybe just more kind of longer term in conceptual. For years, we didn't see any real demand growth out of Ontario. And then moving forward, we are seeing a relatively good amount of transmission build-out, whether it be to serve Southwestern Ontario and some load there, whether that be greenhouses or battery manufacturing or the kind of the mining of north.

When you take a look at the IESO load forecast and you kind of see some of the puts and takes, do you have a bias upwards in terms of load growth in Ontario, and I guess as an extension, further transmission growth?

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

Yes. So we did see in the latest annual planning outlook from the IESO that they are forecasting an increase in load, which, as you point out, load in Ontario was relatively flat for quite a period of time, started to creep up a bit, but the latest annual planning outlook, which looks 10 years and beyond is showing some increase in load. We are actually seeing that on the ground, and that's why we -- in Southwest Ontario, we've talked in the past about agriculture and the load increases required for meeting the agricultural load. But now we're seeing manufacturing that the announcements on EV and EV battery and remanufacturing, other sectors of the economy are starting to electrify. And that's why we went with the -- with our partners to the IESO and advocated that they need this electricity that they're making commitments to invest in Ontario, and we need to supply the power. So that was part of the impetus around these new lines.

And then when I look at the Northwest, we are seeing a lot more action in mining and a lot of those minerals are actually to support the EV manufacturing or the EV battery manufacturing. So earlier this month, the IESO has actually asked us to see if we could put Waasigan in by the end of -- as close to the end of 2025 as we can. So that's accelerating, and that's driven by investments and requirements in the Northwest.

So we are seeing that people are recognizing that Ontario is a place to set up business with the low carbon electricity we have here. And that's starting to happen and with real commitments and announcements of the company. So we're pleased to see that.

Operator

Our next question comes from Dariusz Lozny with Bank of America.

Dariusz Lozny - *BofA Securities, Research Division - Research Analyst*

Just wanted to maybe continue going down the similar line of questioning about the -- specifically about the 4 transmission projects that were announced that are potentially incremental to JRAP. Just wanted to maybe ask you, at what point do you see yourselves having enough confidence in those projects going forward that they would be added to your formal investment plan? And just wanted to confirm on the financing part of that, it sounds like you wouldn't meet external equity, but if you could just confirm that up, please?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Dariusz, it's Chris. Thanks for that question. So our process usually is when it's awarded, like we've just had, we will now calculate those development costs and we'll put the development cost in. We would put the actual construction costs in when we do what's called a Section 92. That's when we're comfortable around how the cost project would move forward under the regulatory construct.

So it's been allocated to Hydro One. Now we need to do the development work and then we need to put in the construction costs. So you're still a ways off. There'll be a couple of those lines, like there's 5 in total. One is Chatham to Lakeshore. We'd expect Section 92 on that fairly soon. So we'll be able to put that one in. So you'd see them going into our forecast progressively over the next 12 to 18 months is my guess. You'll start to see development costs going in, in the next 6 months. So that's how I'd see it.

Dariusz, in terms of your question on equity, I love having the challenge of more growth. This particular announcement will not require new equity. But the more announcements that come, Mark talked about the further growth in the Northwest and so on, there may come a point when we look at it, but we'll actually communicate that very clearly to all stakeholders if and when that moment comes. This particular announcement will not cause that.

Dariusz Lozny - *BofA Securities, Research Division - Research Analyst*

Okay. That's very helpful. The next one is maybe more long term, maybe a little bit more conceptual. It seems like you guys are making more of an effort to highlight some of the unregulated initiatives, including Ivy charging and the telecom piece. So perhaps as we look ahead to your coming guidance update, which will be on the other side of the JRAP process, are you considering perhaps putting maybe some formal growth targets around that segment, whether it be the charging or some of the other unregulated businesses that you're involved with?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Dariusz, Chris again. Yes, good question. We would. I would remind you that Ivy is more -- we said this a number of times. It really is about supporting our customers. Our customers have asked for it. It's not a high-growth business right now. So I wouldn't want to read too much into that, but it's really about supporting EVs and that whole industry here in Ontario. We talked about manufacturing. We talked about the batteries. You need a good market here in Ontario to support that as well. So that's what that's about. It may develop into a growth business. But right now, it's more of a developing business.

The other areas you're talking about around LDC potentially, that's still regulated. But EMS, absolutely we'll put some guidelines around that when we come out with guidance, which will be after -- the next level of guidance we give will be after the joint rate application decision.

Operator

Our next question comes from Linda Ezergailis with TD Securities.

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

Just wondering if you could maybe talk a little bit more about how management and the Board thinks about balancing incremental growth with incremental marginal cost of capital? Specifically, as you look at potentially acquiring LDCs or adding more growth projects, might there be a point where some of the transmission opportunities that have just been awarded to you could potentially displace certain LCD (sic) [LDC] or delay certain LDC consolidation?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Linda. Good question. I think you're talking about the speed at which we do these transactions. Today, we've got a fair bit of balance sheet capacity. So we don't have that challenge today. Even if that challenge came in to say, we had a number of transmission lines and a number of LDC opportunities that come up at the same time, the economics on them are very similar. It works out that they effectively go in at 1x rate base for us ultimately. So we pay a premium on the LDC. We get a chance to earn back some of that premium in the first 5 to 10 years of ownership. So the economic is identical for us.

So that's a tough one to choose. We would do them all when we look for the right way to finance that. I don't think it would be an incremental -- you're talking about the next cost of that dollar of financing. Like I said, they're effectively both regulated businesses. I don't see a higher cost as a result of that. It becomes a larger business, but not -- the next dollar doesn't cost us smaller to acquire.

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

Maybe just switching gears a little bit. As you progress on your sustainability efforts, can you help us understand which programs would -- are included in the JRAP, what programs are outside of that and how that might evolve over time and how you make that decision?

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

We will be updating our materiality assessment when we issue our next sustainability report. Our ESG initiatives, which we've been focusing on so far in our sustainability report, our diversity, equity and inclusion. So we've made commitments there. And there's no incremental costs on that. That is embedded in our base business. There's commitments to greenhouse gas reductions through things like greening our fleet. Again, no incremental cost. That is part of our JRAP and that, as we replace vehicles due to end of life, we will replace them with lower carbon vehicles. We will continue to support communities and that is part of our base business budget and included in JRAP.

So I don't see our ESG metrics, adding additional pressures to our costs overall. So -- but we will be updating our materiality assessment and you'll see that in what we -- in August likely when we issue our next sustainability report.

Operator

Our next question comes from Ben Pham with BMO.

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

I'm wondering are you able to attach any CapEx with the recent priority projects that were announced?

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

Bill, I think you're talking about the recent transmission lines. And Dariusz asked a similar question. You can expect us to put some development costs in over the next couple of quarters with regard to those projects. And then when we do a Section 92, which is our regulatory application to go and construct, we would put their full cost of construction at that time. So I would expect that we would do that for one of those lines in the near term, and the other 4 are fairly new. So that will come over the next 12 to 18 months.

Christopher Felix Lopez - *Hydro One Limited - CFO*

In Waasigan, we've been working on several years. So we will be filing that application for Section 9 to lead to construct relatively soon. So you'll get visibility in the cost on that one as well.

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

Yes. So just -- there's 2 separate announcements there. One was the Southwest, 5 lines; one we've been working on for a while for a fairly new. And then there's once again one that the IESO said they want it in service by 2025. We haven't had the directive on that yet, but we know it's coming now. When that comes, we would put the construction cost in.

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

Okay. Great. And these projects that you referenced, I mean, some is to facilitate greenhouse and other ones for the battery manufacturing facility. My question is, I mean, it is very tough to figure out EV penetration rates and electrification. Do you anticipate building transmission in a way that you would be overbuilding to facilitate electrification, which you have to be mindful of consumer costs? Or is it going to be more of a piecemeal situation where you see a battery facility or battery plant come up and you build that and then wait for the next one to come?

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

So we work with the IESO to look at the load forecast where the expected growth may come. The ones that we're building now, we do, like I said earlier, have really good visibility into the load is actually going to come to fruition for those. And so for example, the first line that we announced in 2019 for the Southwest is already oversubscribed. And so I wouldn't say this is a building and they will come approach. We actually have the load and customers waiting to get connected. So we'll continue to do that. Ultimately, the IESO makes the decision on whether we go forward with these, but we work with our customers to ensure that the commitment from them to connect to the grid there and then we advocate with the IESO for the need.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Ben, I'd just add to that to say that perhaps that you're referring to is things like Waasigan have been stop start. We've worked on that for the last few years. And that's the reason why we can bring into service very quickly now. The same in the Southwest. Mark just highlighted that first line we've been working on for a number of years, even though they announced 5. One is pretty much ready to construct.

So really, what we're talking about is we've got -- and the whole industry is getting greater certainty around environmental targets, EVs, policies from the federal government, the provincial government. It's that certainty that's allowing these large investments in infrastructure to move forward. So we see that a lot, but the environment is right today. The economic environment, the environmental targets are all being supported federally and provincially. That's what's allowing these things to move forward rather quickly. They've been on the board for a number of years, but it's a certainty more recently that's helped that progress.

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

All right. Excellent. My other question, you mentioned your balance sheet is in good shape, but you also -- it sounds like with the higher CapEx, deferral accounts that there's bit more pressure on your balance sheet than other years. You may need to look at equity. I think that's what I heard. But when you look at HoldCo debt first, perhaps before looking at that? And what are your thoughts about JRAP programs?

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

Yes. So Ben, I'll just clarify my statement earlier, as I said, based on what's been announced today, that's -- the Waasigan line up in the north, the 5 lines in the South, there is no need for equity over that joint rate application period. So that's through 2027.

If additional line came along in that time frame, then we would look at what does that mean. I would not turn away any growth. We would make sure that power gets to all of our customers where and when they need it. So we'd absolutely do that. We are that supplier, we have 99% of transmission in Ontario. So we would not turn that away. At that point, I'd look at how do you finance the next dollar.

You made one suggestion, which I agree with, is we would look at HoldCo debt certainly at that point. We would just ensure that the business stays on the right footing, 60% debt, 40% equity at the regulated level and then we look at the HoldCo to what makes sense in terms of bringing in that additional funding.

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*

Just on the transmission lines, obviously, you saw or seeing some accelerated time lines on Waasigan. Is there a chance for that to play out on the Southwest lines? And then is the right way to think about sort of 3 to 5 years in service once you do the Section 92 filing?

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

Yes, Mark, it's Mark here. So obviously, I can't make commitments on that. That's up to the IESO when they want us to go forward to those. And it is dependent on the length and size of the line (inaudible) construct. But the upfront development work and the environmental assessments and the permitting and all those things does take 2 to 3 years on a major transmission line. And that's the work that we're doing right now on a bunch of the ones that we announced in the Southwest.

So that really enables us that as soon as we get notice on when the in-service needs to be, it enables us to meet those time lines. So I think your time line 2 to 3 years to construct on average is accurate. But the upfront work on these, as you know, long in linear infrastructure, there's a lot of consultation and environmental permitting and check amounts that also take the upfront work and our time, and that's what we're working on a bunch of these already.

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

Got it. And then would you guys assume you'd be 100% owners or would there be First Nation partners on this? Like, what do you guys envisage in terms of your ultimate ownership on these transmission lines?

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

Yes. You may have seen yesterday, we announced an equity partnership with First Nations in the Northwest on the Waasigan line, where we're 50% equity partners. So we're equal partners on that line. We do see that that is the model going forward for linear infrastructure in Ontario is through partnerships like that. So we do see a new greenfield large transmission lines that it will be done through partnerships. I will remind you as well that the OEB has set out a separate regulatory process for those types of projects where we are doing them through partnerships with First Nations. So that is not included in our JRAP application. Those will go through separate regulatory processes.

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

Okay. And then just coming back to the deferral under the refiled joint rate application. Have you been able to get any feedback from stakeholders? And I believe there is a precedent for it. So is the assumption there that the OEB is comfortable with this contract, and maybe you can share some additional thoughts on any feedback?

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

It is one of the mechanisms that is available. It's used in other jurisdictions. I don't think we've used it here as far as my knowledge at Hydro One. And we proposed it. Ultimately, it will be up to the OEB to decide on whether they want to allow us to use an account like that or not. And again, we believe it's the right thing to do for our customers, but ultimately, the OEB will decide.

Operator

Our last question comes from Andrew Kuske with Credit Suisse.

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

I guess this question probably starts with Chris, and then maybe also transitions into Mark. And it's really just on the M&A. And I know there's a commentary in the MD&A that said something to the effect of lower spend on lines maintenance. Is this more of a timing issue? Or is this something structural given just the performance improvements that you've seen across the portfolio over the last few years?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Andrew, for the quarter, I would say it's -- we do have productivity, but I don't think that would be material in terms of lower quarter-over-quarter. So when that analysis is, it's really compared this quarter to the same quarter last year. So we further said the overall work program hasn't changed dramatically in terms of the volume of work being done. So I would not say that that is an ongoing part. We definitely become more productive, but we also have an aging system that we need to prepare. So I wouldn't say it that way.

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

Okay. That is helpful. And then maybe if you could just give us a bit of a refresher on your views on inflationary pressures and how philosophically you've dealt with them in a historical fashion and then how you think about dealing with them on a go-forward basis?

Christopher Felix Lopez - *Hydro One Limited - CFO*

That's a good question, Andrew. So in the past, our productivity program, we aim to offset $50 million per year. And it just happened to be that that $50 million was roughly 2%. It's roughly the long-term inflation rate that we've been seeing since the 1990s. So that was working really well. So in this new environment that we're in today or over the last 2 years, where you're seeing inflation above that, we still continue to perform our productivity program, and we're still targeting $50 million per year, so roughly 2% to 2.5% of our spend. But with inflation above that, we're not able to fully offset it at this point in time.

So that was the main driver behind us bringing forward our joint ratification evidentiary update. And it also will provide a little bit of additional pressure this year. So we're now in the third year of COVID. You've seen the disruption in Europe. We've seen commodities increase. We've seen freight increase. We have really -- we've had really good strategies around locking in costs over a longer period of time, and that's worked well. But the longer this goes on and you renegotiate contracts, that starts to come through our cost structure. That's somewhat protected in JRAP because we go through and do that work with them. This year, we'll need to manage that and offset that in the best way we can.

We've had a good first quarter, we've highlighted that. And then I reiterated that earnings guidance will be at the top end of our range. So that gives you a hint that we have got some cost pressure in the current year, but we've had some good results here in Q1 that will allow us to meet the top end of that range.

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

I appreciate that context. And then maybe just one final question. This ties into just the bigger broader strategy and that $50 million of effectively productivity savings to counteract the inflation. As you bring in some of the capital in replacing aged infrastructure with brand new, does that productivity savings effectively widen and enhance itself?

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

Yes, Andrew, it's Mark here. Actually, when we bring in new equipment, it does have some effect on our OM&A, but not as big as you would think. New equipment doesn't necessarily mean that you reduce your maintenance or you reduce your maintenance cost. So there isn't a one-to-one offset. We do see that as we increase our capital, we're also putting a lot more assets in the ground that need to be maintained over the longer period. So that does offset some of the kind of savings that you may get by replacing old assets with new, if that's the question you're asking.

Christopher Felix Lopez - *Hydro One Limited - CFO*

I think I'd just add to that, Andrew, that our program has expanded to -- over the next 5 years, we're preparing the system for the future. The investment plan is greater. The greater the investment plan, the greater the opportunity is to achieve productivity savings because you're actually investing a higher volume. So we get it from that.

In terms of the offsets, as Mark said, it's not 1:1, but the greater the program and the more transmission lines we're doing, we have higher purchasing power. So we actually end up with a better outcome overall for all consumers.

Operator

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

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

Thank you so much for joining us today. And if there are any follow-up questions, please feel free to reach out. We thank you for your ownership and for your time today. Thank you.

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.
