

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q2 2022 Hydro One Ltd Earnings Call

EVENT DATE/TIME: AUGUST 09, 2022 / 12:00PM GMT

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

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

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to Hydro One Limited's Second 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 in Hydro One's second-quarter earnings call. Joining us today are our Interim President and CEO, Bill Sheffield; and our Chief Financial Officer, Chris Lopez. In the call today, we will go over our second 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. This 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. We should review the cautionary language in today's earnings release and our MD&A, which we filed this morning regarding the various factors, assumptions, and risks that could cause our actual results to differ as they all apply to this call. With that, I turn the call over to our Interim President and CEO, Bill Sheffield.

---

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

Thanks very much, Omar. Good morning, and thank you for joining us for our second-quarter earnings call. I'll briefly discuss some of our notable achievements in the quarter and then pass it over to Chris to discuss the financial results in greater detail. As you'll see in 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. On June 21, Mark Poweska stepped down as the CEO to pursue a leadership opportunity with another utility closer to his family in Western Canada.

I have to admit, I had mixed emotions out is departure, but I can understand and empathize for this desire to be closer to his family. Mark gives a great legacy at Hydro One. During his tenure, Hydro One built an executive team that successfully launched a new strategy and focused the organization on delivering results. We were renewed focus on safety, advocating for customers, being a trusted partner while emphasizing our efforts on the environment, social and governance matters, building the grid for the future, and innovating and growing the business, all of which led to a restoration of shareholder value.

I'm confident that Hydro One's relentless focus on energizing life for all Ontarians is not the only right -- is not only the right track but also one that has been deeply ingrained in our corporate structure and culture. I would like to thank Mark for standing in advisory role to help me transition into my role as the steward for this company and for its importance assets. It's my objective to ensure there is a continuity and stability at the Board as it executes and search for a permanent CEO. We are committed to executing our current strategy

without losing any momentum and given the depth and breadth of the teams, I'm confident we will be able to continue delivering results for all our stakeholders.

As a Board member, I always knew we had excellent teams, but I have now seen first hand that our employees are some of the most dedicated people in the business. An example was the way the crews mobilized on Saturday, May 21st to respond to the devastating storm that impacted the province. With hurricane-level winds, the storm knocked out power to nearly 760,000 customers and left 2,500 broken poles, and damaged approximately 500 transformers. More than 3,000 crew members got to work immediately and worked around the clock to restore power in difficult conditions.

The scale of the devastation necessitated help from beyond Ontario's borders. The call for help was answered from our many partners in Manitoba, Quebec, New York, Michigan, and New Brunswick. I applaud everyone's cooperation. I personally witnessed the affected areas for both Hydro One and Hydro Ottawa and am very proud that together we were able to get our customers' lights on quickly and without any serious injuries. It's no wonder that Hydro One has been repeatedly recognized for its long history of safety and safely restoring power during emergencies. Recently, Edison Electric Institute presented Hydro One with its 12th emergency response award for restoring power to its customers despite challenging conditions following a severe storm in windstorm during the Easter long weekend.

Ultimately, it's our customers who are impacted by these extreme weather conditions, and I want to thank them for their patience while we restore power and for the outpouring of support and acknowledgment for our crews. These storms remind us that we must remain committed to investing in our system as well as adapting and mitigating climate change in a complex business and regulatory environment. Last year, Hydro One took significant steps to understand balance and make commitments to sustainably adapt our infrastructure operations and business to future climate changes and needs, while at the same time, mitigating carbon emissions.

As demonstrated in the sustainability report released this morning, we've made good progress in advancing our performance against environmental, social, and governance goals. Recall last year, we made several commitments and targets that we will report against in the ESG performance scorecard, and I'm pleased to provide a transparent account of our progress. Under planet, we reduced GHG emissions by 9% compared to the 2018 baseline and are on track to achieve our planned goals. While supply chain disruptions affected our pace as envisioned, we converted approximately 14% of our fleet of sedans and SUVs to electric and hybrid vehicles.

For community, we surpassed our indigenous procurement target for 2021, spending \$58.3 million or 3.4% of our total sourceable spend with indigenous businesses, our highest to date. We also allocated 25% of our community investment donations and sponsorships to support indigenous communities beyond our original impact goal of 20%. For people, at 9%, we exceeded our target of having 5% black student hires. However, we know we have a lot more work to do here as we still have -- do not have any black executives or Board members.

With respect to our catalyst to our commitments, our 2021 annual average of executives and Board members identifying as female was 31% of executives and 50% of independent Board of Directors, both exceeding their respective targets. We're deeply committed on this path, and we'll continue to report transparently on our progress. To further demonstrate our strong commitment to our ESG goals, we amended our syndicated lines of credit to include a pricing adjustment, which can increase or decrease our cost of funding based on our performance in these 3 priority areas. Apart from our ESG performance scorecard that I've just discussed, the sustainability report also contains several notable achievements in advancing all our areas of people, planet, and community.

These include building a stronger safety culture, fundraising for charities, advancing indigenous relations, embracing the United Nations declaration on the rights of indigenous peoples, integrating United Nations Sustainability Development Goals, UNSDGs, as it's called in our reporting strategy, and standing up for communities. I am pleased we were recognized for this progress as we won an Electricity Canada Center of Excellence Award for our climate mitigation strategy in addition to winning an award from the Electricity Distributors Association for our Pollinator program.

Finally, we were once again recognized by Corporate Knights as the best 50 corporate citizen in Canada with significant improvements on our year-over-year ratings. Now one more word to tell you about. I'm happy we are making great strides with respect to the way we interact and serve with our customers. Chartwell, a utility industry leader in research recently granted us a Gold Best Practices Award for

improving customer service and customer satisfaction. Amongst other factors, this was a recognition of the increase in our customer satisfaction scores, improvement in coal handle time, and upskilling of staff to better serve our customers. We play out a current role in meeting the needs of our customers, building a grid for the future, and supporting economic growth. Guided by our purpose of energizing life in Ontario, we are living up to our responsibilities to put people, planet, and communities first.

Before I pass it on to Chris, I want to share a couple of housekeeping updates. Lyla Garzouzi, our Chief Safety Officer, has decided to pursue another opportunity. She was terrific, and we wish you the very best in her new endeavor. The health, safety, and environment teams will now report to Megan Telford, our Chief Human Resources Officer, who will continue on with the excellent work already underway. Finally, with respect to the results of the annual meeting of shareholders that was held on June 8th, 2022, I'm happy to report that shareholders voted in favor of all items of business put forth. And as mentioned in last quarter's call, Mark Podlasly was nominated for election and was subsequently elected to the Board of Directors.

Mark brings a wealth of experience and skills to the Board. He is the director of Economic Policy and Initiatives at the First Nation's major project Scholition, where leads policy development at a First Nation's collective seeking ownership in major projects such as pipelines, mines, and electric infrastructure as well as improvements in project environmental practices. We will all benefit from his deep knowledge and strong track record. 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***

Good morning, everyone, and thank you for joining us today. I'd like to start by acknowledging Mark's departure and welcoming Bill. The entire organization is very pleased with the continuity that Bill brings from his time as a Board member. I can assess that the transition has been exceptionally smooth, which is a credit to the efforts of both Mark and Bill. I wish Mark the very best in his new endeavor.

In terms of our financial results for the second quarter, basic earnings per share was \$0.43 compared to \$0.40 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, higher peak demand driven by favorable weather and reopening of the economy, and lower OM&A driven by capitalization of storm costs. These are partially offset by an increased allowance for doubtful accounts and higher depreciation, amortization, and asset removal costs primarily resulting from storm-related asset replacements.

Our second-quarter revenue, net of purchase power, was higher year-over-year by 11.8%. Like previous quarters, 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. 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. Favorable weather and reopening of the economy drove up big demand in April and May with the marginal decline in June. The average monthly peak demand for the quarter was up 3.7%, while the energy distributed to Hydro One customers was flat.

On the cost front, operating, maintenance and administration expenses declined year-over-year by approximately 1%. The decrease in OM&A was primarily the result of capitalization of storm costs. A portion of our corporate support costs are recovered from capital expenditures. Higher storm-related distribution capital expenditures have resulted in a favorable impact to OM&A in this period. In addition, the storm also impacted our vegetation management efforts as resources were redirected to restore power to the affected areas. While these efforts to respond to the outage were capitalized resulting in lower OM&A, the outstanding work still needs to be completed. We expect the deferred work programs will be completed during the balance of this year. Similar to last quarter, we booked a higher allowance for doubtful accounts or bad debt expense.

We continue to see impact of the current economic environment on the ability of our customers to pay their bills. Our early collection efforts have resulted in lower payments than initially expected, and a portion of customers enrolling in payment arrangements is increasing at a rate higher than before the pandemic. Hydro One will continue to help our customers access support and provide various financial assistance and flexible payment options. Depreciation expense was higher year-over-year by 14.7% due to the increase in capital assets, which is consistent with our stated capital investment program as well as higher asset removal costs resulting from storm-related asset replacements.

On financing, we saw a year-over-year increase in our financing charges of \$15 million. The main contributor to this increase was the recognition of the carrying charges in 2021 associated with the recovery of the DTA amount previously shared with rate payers. In addition, we had higher weighted average interest rates on short-term notes. We continue to be pleased with the stability of our balance sheet and robust investment-grade credit ratings. Income tax expense was \$68 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 detailed recovery announced, 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 20.9% versus the effective tax rate last year of 9.8%. 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 second quarter, we placed \$547 million of assets in service, which is an 82.3% increase compared to the prior year.

Both the transmission and distribution segments contributed to increase. Within the transmission segment, the new Lake Shore transmission station was placed in service, which will service Southwest of Ontario, where we are seeing a tremendous amount of growth as well as higher transmission line refurbishments and replacement. For the distribution segment, we serviced approximately \$118 million of assets on accounted storm in May. This was partially offset by timing of system capability reinforcement projects and lower volume of wooden pole replacements. Capital investments for the second quarter were \$612 million, which is a 10.7% increase in the second quarter in 2021. The increase came primarily from the distribution segment due to the higher storm-related asset replacement discussed earlier and higher spend on system capability reinforcement.

The year-over-year increase in spend was partially offset by capital investments incurred last year on the new Grid Control Center, the Lake Shore transmission station that we in service this quarter, and lower volume of work, both in the transmission and distribution segments. There are a couple of notable items with respect to capital this quarter. You'll notice that we've updated our major transmission project table as well as the future capital investment table. In the spirit of maintaining a high level of transparency, we have further outlined the Leamington area transmission reinforcement project into its core components and provided where available, line-by-line estimations on each of the new lines in Southwestern Ontario.

As some of the lines are still in the development phase, the estimation there represents the cost for the development phase only. We will continue to update the table as we get more information. For future capital investment table, we have made 2 updates. We have updated the estimate for the Chatham line for which we have filed a lead to construct application or Section 92 with the OEB. This slide is expected to go in service in 2025, and as a result, increases the capital investment as well as the projected rate base.

Secondly, we also updated the capital table for the regional and system growth outlook, which includes the storm-related asset replacements discussed earlier. To minimize the impact on our customers, we aim to offset the higher capital expenditure on storms incurred in 2022 over the JRAP period. As a reminder, the capital investment and rate base numbers for the future years remain subject to OEB approval. On the regulatory front, the joint rate application remains well on track. As committed in the last call, we recently attended a technical conference in which the intervenors and the OEB had the opportunity to ask us about the specifics of the rate application and inflationary update. We are scheduled to attend a settlement conference in mid-August, followed by a potential oral hearing in September and October.

With the exception of a full settlement, our expectation for a decision in the first quarter of 2023 remains unchanged. Following wellness centers or building broadband faster ages that we discussed in our last call on July 7, the OEB established a deferral account for distributors to record incremental costs associated with activities supporting broadband projects. We are pleased with the opportunity to help enable better access and connectivity for all Ontario as well as the OEB's approach to ensure these efforts do not impact the necessary work that is required to maintain and strengthen the grid. We will continue to assess the impact of broadband initiatives, and we will provide more information as it becomes available. In other updates, we were very pleased with the ratification of the collective agreement with the Canadian Union of skilled workers or CUSW.

The new agreement, which affects about 1,000 skilled workers was ratified by the CUSW membership in May and will be in place through April 2026. Finally, 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'll be pleased to take your questions.

---

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

Thank you, Bill and Chris. We ask the operator to explain how they'd like to organize the Q&A polling process. In case we aren't able to address your calls or 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 then one follow-up question. If you have any additional questions, we request you to rejoin the queue. Please go ahead, operator.

---

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from Ben Pham with BMO Capital Markets.

---

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

I wanted to ask in terms of employee retention, perhaps maybe discussions at the Board level, could you comment on maybe items or factors that you're exploring -- or thing exploring when you think about employee retention, especially as you look for a new CEO the next couple of months, can I appreciate personal drivers moving executives around that CEOs do tend to move around with families and stay for an extended period of time?

---

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

Yes. So thanks for the question. It's Bill. A couple of things. First of all, let me start with what seems like a sort of a simplistic view. This is a sector that's growing and it's a place where you think people would want to be and thinking about the brand set of mine is an electric engineering I'm very happy about that as it's going to grow. With respect to where are we at, we have actually a very low turnover rate. If you take the total employee base, it's just a little over 1%. Have we been affected by the fact that we have good people and other people may be interested in them?

Yes, we have. Will that have a big impact on us recruiting as CEO? I don't really believe so. I was on the Board -- I came to the Board in 2018 that was on the search committee when we went and found Mark Poweska, -- and I think you're pretty happy -- I'm certainly pretty happy as a shareholder with the results that came from that. recruitment. And so the Board will do what it's good at. It's done this before, they're mature.

The search process, of course, has started. We'll look at internal and external candidates, and we'll make sure we do a very good job. And I have no reason to believe we won't have as good a result as we did the last time. In terms of overall retention, one of the nicest things for me, switching from the Board side of the table to the management side of the table is to discover the rest of the bench, so to speak. We've got a lot of really great people here and a lot of them have been here for a long time. So I'm hopeful. Do we face the same problems everybody else does when you have good employees and so on? Yes, we do. Are we successfully keeping really great people? Yes, I'd say we are.

---

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

Okay. Great. And maybe a follow-up on that. What are your thoughts in terms of timing? Is this a 6-month process 3 months longer, shorter?

---

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

Yes. So I'm sorry, I'm not going to really answer that. The first question I usually get asked is who's the new CEO. And then the second question is, if you won't tell me that, how long will it be and so on. And I just really not appropriate. It will be -- it will happen when it's done, and we've got the right choice. I'm sorry, that's all I can really say.

**Operator**

Our next question comes from the line of 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***

Maybe a big broad question. And just with the legislative session starting yesterday in Ontario, albeit a truncated version. How do you think about energy policy and electricity policy on a go-forward basis under the current environment? Because there's obviously a lot of many parts and really exciting developments happening as we transition in not just Ontario, but more broadly.

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

Well, let's start from -- we're excited by what the government has in mind with the growth that's there. And obviously, we're already participating in that. We're trying to make sure that we can handle whatever comes our way and actually think about it ahead of time and see where the next place is that they will probably be needed because the infrastructure doesn't appear instantly if it's not already there. So we're pretty upbeat about this. Even the broadband conversation, which we've now become a bit of a catalyst are to make sure that things can happen. That's interesting. It's hard not to be excited. The forecast, I'm not going to give you a personal forecast, but the forecasts are pretty impressive. And even if only some of that happens, I think it will be great for this company in this sector. Chris, do you want to add anything to that?

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

I think you come to Bill, Andrew, we've had this conversation in the past. But if you look at decarbonization or the energy transition is probably the new word for it, for that to occur by 2050, there's going to be a doubling or tripling of the investment in the energy sector and Ontario is well set up for that. We've got access to minerals in the Northwest, in the South is growing quite quickly. So bringing all those things together in a coherent manner is what we're focused on. We're focused on how do we bring transmission lines. We'd like to know them in advance, we can get them ready. It's not always the case, but how do we do it quicker, faster, better. That's really what we're trying to do is be able to respond to those needs.

**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 the color and commentary. And maybe just a follow-up. Do you see a path in the future to have consolidation of some of the LDCs which you've been doing, but maybe an accelerated version of consolidation of the LDCs that help strip out costs overall of the system to help pay for some of the investments that are needed into the future?

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

It's Bill. I would say we're always interested, and we're always talking to people in even if the consolidation doesn't happen, we work with all of them. You can see that in the storm. I was in Ottawa and I saw what happened with ado-Ottawa and Hydro One together. It was pretty good. And so I'd say we're always open to the conversation. It's unlikely an awful lot is going to happen when municipal elections are in October, to be honest. That's not the time that city councils get organized to do those sorts of things. So we'll buy our time. We'll keep in touch with those. And the ones that are the most beneficial for Ontario's are the ones, of course, we'd be most interested in, and I'm not going to tell you what I think they are.

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

I would just add to that the pace of change is getting quickly not just with the energy transition, but fiber other sort of elements. So as that pace increases, leadership and partnership within this sector, consolidation included in that is more and more required or more and more so out.

**Operator**

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

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

Bill, another question here on the CEO search. Just curious if when you're thinking about market replacement, is it key to have continuity in terms of continuation of the defined strategy? Or are you guys open as you look at candidates to bring in let them come with a potential opportunity to bring in a bit of a different vision as well?

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

Well, I think you know the answer to that. The strategy that came in when Mark came almost double the stock price. So why would we do anything other than that? It's really a simple question. If we had any other thoughts, it would be -- wouldn't be soon, and it would have to be because it's a lot better than what we're doing. And I find that hard to see. So my job is to make sure that we stay focused. We don't lose a beat in getting the strategy executed and hope you guys are happy with the results.

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

Okay. Good to hear. And then, Chris, just a comment on guidance, the 4% to 7%. Is that to say that you couldn't exceed 7% depending on weather and load through the back half of this year? Or just when you see what you have to do to catch up on deferral on M&A that 7% would be sort of the capital where you could get to on the EPS growth?

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

Yes. I think, Mike, you have the [name heads], which is based on what we know today and the work program for the balance of the year, we are reaffirming guidance at \$1.65. The unknowing that could change that is weather and load. So if that ends up being very strong, it could well increase beyond that. But right now, we base our forecast on weather normalized. So on that basis, we are still reaffirming guidance at \$1.65.

**Operator**

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

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

Can you maybe help us understand as we look in the back half of the year, what you've seen in weather so far this Q3? And how you see the cadence of your spending unfolding in Q3 so we can help shape the balance of the year from an earnings perspective.

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

Linda, you always ask me the question on whether -- what the forecasting. So July was up a couple of points. So it was slightly strong, but that's July on its own. There's still 5 months left. The times that are important for us as the shoulder season, so the transition between heating and cooling. So it's difficult to give you a number today, but July was slightly higher, not enough to call out the year on volume yet. In terms of the guidance we gave before, I would still stick with \$1.65. So if you forecast a higher, it's a good indication that our in is expected to be higher in the back half of the year. And I said that in my opening comments around the storm did affect our ability to execute work programs in Q2, and we are committed to completing those work programs in the back half of the year.

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

And maybe just as a follow-up. Some of the items that are most discussed during JRAP. Can you provide some feedback where you expect the sticking points to be where you've made a lot of progress in aligning interest, et cetera?

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

Yes. So I'll just reiterate first the process. So we just completed the technical conference in May, June. That technical conference is really focused on the recast of evidence, so mainly on the inflation and the CDM update, confirmation demand management. So that's now complete, and we're moving into settlement. So every -- all the questions to this point are on the record. Really, what they're focused on is there are increased investments in transmission at the pace, but also distribution. So are those necessary? As a reminder, we had our largest customer outreach in this last round over 50,000 outreaches.

So when we went through that process, we were very comfortable that the plan we put forward and the plan we updated really for inflation that we did was to continue to meet those commitments. So there are no change in themes. The next step of the process is the



settlement conference, which is going to start mid-August. And then if that is not a full settlement. We'll have the oral hearing in September and October. And as I said in my opening comments, today, we expect a decision in the first quarter of next year. There's nothing new to report this quarter. We're still on track. We feel very confident that the application is strong and will be approved.

---

**Operator**

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

---

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

Just want to follow up on the question about CEO. Bill, you mentioned that you were on a search committee that found Mark a few years back. Clearly, Ontario and Hydro One continue to change, not least because of the energy transition and the years ahead in terms of the work and expectation. How does your search parameters reflect this change? And if it helps, is there such thing as a CEO that the Board is not looking for?

---

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

Well, you're asking for the work of the search committee and our matrix -- skills matrix, et cetera. I don't think that's appropriate for me to share. But what I will tell you is that this -- there's a lot of history in this company and the heart and soul of it is actually spread across the country, across the province. And so somebody who can identify with all the players both on Bay Street and Thunder Bay and in the remote communities would be a real plus, and I think you could count on something like that showing up. I don't think I want to make any other comment on the other kinds of attributes that are must-haves or nice to have. But there are a lot, but it's a great job, I can tell you.

---

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

Understood. And maybe just a quick follow-up to that. Obviously, there's a legislation that somewhat limits the compensation of the CEO of the company. How do you approach something like that when you have a legislation in front of you, there is a [sunset clause] to it to go about research?

---

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

First comment is that compensation is the only thing to attract people to this company. A lot of really great people are here, and they could make more money somewhere else. I'm not as concerned about that. I think we'll work our way through it and figure out how to deal with it. One thing I will tell you is the last time we were looking, all of you weren't as happy with the company and our relationships were not as great and it was a -- it was tough to sell at that time. This time, it's much easier. This is a really great place to come with a great future. So I think you could stay tuned and assume they'll be a great result.

---

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

Perfect. And if I could just finish up for just probably about to work on transmission lines. You spoke to how there has been a refinement in terms of estimates that, that made up the talent to transmission lines. Can you just speak about what causes these types of past machines, the scope changes, inflation or global supply pressures? And are there any emerging trends that would be a look-through for other transmission work that you have in the years ahead?

---

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

Maurice, it's Chris. Yes. No, that particular update for Canon is just part of our regulatory process. So we estimate the project at certain points in time, and they have wide variations on estimation. When we do a Section 92, that's the equivalent of us getting approval for that capital expenditure. So the estimates just get much tighter. So it's just part of the normal process. Chatham's reached its Section 92 in Q2, and we were updating the disclosure for that application.

---

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

And nothing from that update would be applicable as we look through to other works that you have planned?

---

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

No, except that we would follow the same process for the other work. So the remaining 4 lines in that group, so you've got 5 lines. But the remaining 4 will go through the same process that will get to a point where we do at Section 92. We end up in front of BOE, and we lay out the cost of construction, and then it gets approved and we move forward on execution.

**Operator**

Our next question comes from the line of Robert Hope with Scotiabank.

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

Just a follow-up question on the JRAP. Since the inflation update provided a couple of months ago, how have your thoughts on inflation changed? We have seen greater clarity on labor and commodity pricing has been volatile to say the least.

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

Robert, it's Chris. It's not like a lonely place when we updated our evidence a few months back. We were foretelling inflation impacts, and we're probably one of the low invoices at that point in the energy space, electricity space. And history has played out now in the last few months, it's showing that we've been fairly much in line with that. So the relationship with the OEB, the intervenors going through the technical conference on inflation, there's been a shared understanding. I like to quote from Janet Yellen, former Treasurer down in the U.S. when she said that they didn't see the magnitude or the scale of inflation. So our approach to that was that no evidence. Let's agree on a true-up before we enter JRAP, and that's because we didn't know exactly what it would be, but it's actually turned out to be very fortuitous and accurate.

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

The other thing I would add...

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

Sorry, the other thing I'd add, Robert, is that the OEB is potentially considering an industry consultation on inflation. So we were the first one out the gates, but certainly, other LDCs are expressing concerns around inflation as well. We are in a fortunate position that we are going to be rebased with an inflation adjustment here. So that's a good outcome for all consumers, but it's a good outcome also for Hydro One.

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

Okay. And then just as we enter to the settlement conference here in a couple of weeks, how far of the goal almost the expectation, just given I'm moving that an oral hearing is more likely? Or is there a road forward to a settlement?

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

I think I've got most of that, Rob, but I think the gist of the question was views on potential settlement versus the oral hearing. We have seen settlements more recently. OPT is a good example of that. So certainly, the OEB part of the modernization process is to look for ways to accelerate the process and have negotiated settlements. So I think the probability is higher. But there are changes in our application, right? We're asking for a step change in investment. You've got the inflation component. So we're hopeful that we can reach a settlement on significant portions of the application. It would be great that we do on the whole thing. We'll do the best we can. I suspect that there will be elements at least of the application that could end up in an oral hearing. The good news is we have certainty that if it does do that, partial or otherwise, we know we'll have a decision by the end of Q1 next year.

**Operator**

Our next question comes from the line of David Quezada with Raymond James.

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

I think just one left for me, and it relates to reliability. I'm just curious, and I realize you're not obviously directly involved in generation in Ontario. But curious what your thoughts are on the adequacy of supply heading out to 2025, what you see as the moving parts there and how that could affect reliability for our customers.

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

Well, everybody understands that Pickering is coming to the end of life. So that's going to have an impact on everybody. I'm not going to try and forecast what the generators need to do, that's the ISOs job. Do we think it has an impact on reliability? I don't think it's going to impact transportation and distribution. If there's some disruption in supply, I suppose that might impact us, but I think the plans will be in place in advance and make sure we're okay. Do you want to add anything to that, Chris?

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

Yes. My understanding, David, is that the generation supply looks -- although it will change. We've just spoken about figuring. Although it will change, it is adequate through 2030. And we know that there are studies going on about what is the right -- what's the right mix of generation post-2030. So I think you can look at that far and be fairly comfortable. The cost of that generation might change, nuclear might be slightly less than gas, depending on the commodity price, but there is adequate capacity to supply the Ontario market.

**Operator**

(Operator Instructions) Our next question comes from Julian [Dumolimit] with Bank of America.

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

This is Dariusz. Just was wondering if as you're looking at the data points out there regarding the formulaic ROE in Ontario, how you're trending versus some of the more recent decisions in previous years?

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

Dariusz, it's Chris. I always love this question that comes every time. I mean, our current ROE is 8.52% for transmission and 9 for distribution, they'll sell at different times. If we were to look at that calculation today, so using July's numbers, you're somewhere in between 9.25% and 9.5%. Distribution, they'll say it at different times. If we were to look at that calculation today, so using July's numbers, you're somewhere in between 9.25% and 9.5%. So it is higher, and that's reflective of the higher bond rates that we've seen in rising interest rates.

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

Great. And maybe just one more, if I can. Could you please just give an update on the forint collective bargaining process? I believe there's one agreement reached with the Union earlier in the year, and I think there's one more ongoing and whether that process once that reaches a conclusion, would that necessitate any update to the JRAP filing? Or is that contemplated in your -- the existing filing?

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

Yes, I can say that, Dariusz. So we just -- I think the one you're referring to, we just completed the Canadian Union of skilled workers. I think Bill spoke about in vein comments. So that was ratified here on May 23rd, and it will run through 23, 24, 25. So we're comfortable that, that's complete. The ones that will come up next year is society and PWU. We've made assumptions that are presented in our joint rate application. They will not affect the rate application. The rate application procedure is, and we will work to meet those assumptions and business conditions in line with JRAP.

**Operator**

Our next question comes from the line of Matthew Weekes with Industrial Alliance.

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

Thinking about sort of the performance of Hydro One through the IR rate-making framework and being able to capture a decent amount of cost efficiencies. As you go into rebasing and thinking about capturing additional efficiencies going forward, I'm just wondering what levers from your perspective, Hydro One has to pull.

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

Let me start first just by saying, Matt, you comment that during the opening comments, we talked about storms impacting other work. The solar is the fact that we have a lot more new connections than we've had for a while. And so that's a sign of health for the province for sure, and it's something we have to respond to and we are. So I would say that that's pretty healthy going forward. Chris, do you want to add?

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

Yes. I think is the question, Matthew, is more around our performance on productivity over the past 5 years. It's been very strong. As you get rebased, this is the benefit of incentive rate making is that we share those benefits with repays. So as we went along if we had above a certain amount that was shared in real-time. And now when we get rebased, they get the full benefit of those benefits that we built up over the last 5 years. We're still confident when we started that program 5 years ago, we didn't have a clear path to how all of those segments will be achieved, but we have a program that gets that we used to see offsetting inflation. And with inflation where it is today, that's much more challenging. But something in the order of 2% is what we've targeted over time, and we've been very successful at that. And that really comes from improvements in tools, processes, and even in the way that our people engage those tools and processes.

So we'll continue to do that. It can come from technology. It can come from better ways to achieve reliability. That's increased investment or better investments on the line. So we don't have to go out to that we can find those folks much faster. So those things, I think, will continue, and we'll continue to aim for those offsets. The other one that Bill spoke to, which is real, is when we keep getting demand pressures, which means new connections, it's a good sign that load is growing. When load grows, that's another opportunity to outperform, especially in the rate period. So yes, we've got to take on additional work, but we also get the benefit of additional revenue if that load eventuate. So we look to both areas, load, and productivity. And I think that will continue. We're still very confident we'll achieve that through the next rate period.

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

Okay. And lastly for me, thinking about interest rates and the rising cost of borrowing. I'm just wondering if you can provide a breakdown at all on what Hydro One's balance sheet looks like in terms of fixed versus variable debt. And then how protected you are at this point from rising rates in the short term?

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

Yes. So we're pretty much on fixed and all of our long-term borrowings. So really, the exposure is any new borrowings that we take on in any particular year. So it's not only made up of our new capital investment, about \$600 million a year of debt we would take on in that path. And then also any debt that's coming due and we refinance. So that's where our exposure comes in. It's mainly on that. So it's about \$1 million to \$1.5 million a year throughout the joint rate application period. Now the good news is that our ROE also gets reset, and it's reflective of those higher rates also. So the balance sheet is in very good condition. I said I'm very pleased with where the balance sheet are today and the investment horizon ahead. So I have no concerns of any particular exposure for Hydro One.

**Operator**

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

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

Thanks, Shannon. The management team at Hydro One thanks everyone for their time with us this morning during what is a busy period. 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...

**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.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022 Refinitiv. All Rights Reserved.