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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Hydro One Limited's Fourth Quarter 2020 Analyst Teleconference. (Operator Instructions) As a reminder, the call is being recorded. I would now like to introduce your host for today's conference Mr. Omar Javed, Vice President, Investor Relations at Hydro One. Please go ahead.

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

Good morning, everyone, and thank you for joining us in Hydro One's fourth quarter earnings call. Joining us today are our President and CEO, Mark Poweska; and our Chief Financial Officer, Chris Lopez. On the call today, we will go over our fourth quarter results and then spend the majority of the time answering as many of your questions as time permits. There are also several slides that illustrate some of the points we'll discuss in a moment. They should be up on the webcast now, or if you've dialed into the call, you can also find them on Hydro One's website in the Investor Relations section under events and presentations.

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

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

Thank you, Omar. Good morning, everyone, and thank you for joining us. This morning, I'd like to talk to you about our fourth quarter and annual achievements, and we'll then turn to Chris to review the financial results.

When I think back to January of last year, we were entering the new year full of optimism. Having released our strategy with wind at our back, we were ready to charge forward in executing our vision and mission. Shortly after our successful inaugural Investor Day in March, the world was

A dedicated and safe employee base allowed us to deliver on the strategy that was put forward at our Investor Day. We've continued to build the grid for the future by investing in our assets. We deployed $1.878 billion of capital and in-serviced $1.639 billion of assets, which is within 2% of our stated goals. This level of discipline and accuracy is commendable in most years, but exemplary when we consider the challenges posed by this past year. We continue to invest in technology, to modernize the grid, to harden and to protect our assets. This led to transmission reliability being the second highest it has been in 12 years. We made sure our essential services, including hospitals, pharmacies and grocery stores, kept their lights on.

Safety and efficiency have always been a key priority for us. We launched our Safety Improvement Team, which, after a thorough review, came back with concrete recommendations to improve the safety culture of our organization to eliminate serious injuries in Hydro One. We will put these recommendations to work in the coming years. One of the things my career in the utility sector has taught me is that a safe utility is an efficient utility. In 2020, we continued to drive operational efficiency and work towards optimizing in all aspects of our business. We generated productivity savings of approximately $286 million, which represents a year-over-year increase in productivity of approximately 41%.

We recognize that our success is dependent on us being a trusted partner in supporting First Nations, customers and communities that we serve. The pandemic gave us an opportunity to further strengthen these partnerships. I am pleased to report that this year, we further accelerated our spending with our indigenous partners. During the pandemic, we have continued to expand the indigenous supplier base and spent $43 million with indigenous businesses for goods and services in 2020, the highest amount to date, and we were delighted to be recognized for the work we are doing by the Canadian Council for Aboriginal Business with silver level certification in Progressive Aboriginal Relations, advancing from our bronze level certification in 2017. Our goal is nothing short of achieving a gold level certification.

Early in the pandemic, we reached out to the First Nations communities that we serve and asked how can we support them. This resulted in US part partnering with GlobalMedic to deliver over 13,000 kits of food and safety supplies to First Nations communities across Ontario. We also launched a new fund to help communities respond to new and urgent challenges. Charitable organizations, municipalities, and indigenous communities can now apply for support towards pandemic response efforts and initiatives that improve physical and emotional safety. This is part of Hydro One's commitment to build safe communities across Ontario.

The focus on customers and customer advocacy has resulted in us achieving our highest customer satisfaction score to date. This reflects the ongoing engagement with our customers and supporting them with programs such as the suspension of late payment charges and returning security deposits, in addition to the pandemic relief measures we put in place. Just days after a global pandemic was declared, we put in place a pandemic relief program to assist customers affected by COVID-19, offering financial assistance and increased payment flexibility. We know people across the province are experiencing monumental challenges and we have a responsibility to be there for them. That's why we recently extended the financial relief and flexibility to small businesses who have been experiencing hardship. We also recently launched the Connected for Life Program. This is our promise to help customers stay connected to safe and reliable power where we help them access financial relief programs and more flexible service options.

The events of the last year gave us the opportunity to advocate for our customers by encouraging and supporting greater customer choice with respect to time of use pricing as well as temporary relief offered by the government. We applaud the government for their efforts to provide assistance during this challenging time. We also applaud the government for improving Ontario's competitiveness, in the last budget, by removing a portion of the global adjustment costs from the electricity bill for commercial and industrial companies. This action will save our commercial and industrial customers between 14% and 16%, and will make electricity prices in Ontario competitive with other North American jurisdictions.

The rate relief is important as we invest responsibly in our core transmission and distribution businesses and continue to innovate and grow our business, primarily through our investments in organic rate base growth. And in addition to this organic growth, we were pleased to announce

23 fast charging sites across Ontario and are on track to have over 160 fast chargers across approximately 50 locations in Ontario by the end of 2021.

Part of our vision of a better and brighter future for all includes a cleaner and greener future. We are proud to transmit and distribute energy that comes predominantly from zero carbon emitting sources. We know we can take this further by reducing our carbon footprint and managing the impacts of climate change on our business. As we reinvest in our system, we continue to adapt to our design and equipment standards to address the impacts of climate change.

We recognize that great companies are those that value diversity and create equitable and inclusive cultures. Gender diversity has always been important to us, and as signatories to the Catalyst Accord, I am proud to say we met those commitments. As a leading Canadian institution, it is also our duty to take a leadership position in the fight against racism. In addition to signing on to the BlackNorth Initiative, we also started a dialogue with our Black employees with the objective of listening and understanding to inform the creation of meaningful racial equality programs. We have now established a diversity inclusion council to help got us through our journey.

In the wake of the COVID-19 lockdowns, we also felt that it was important to address mental health and well-being. Hydro 1 and Jack.org announced a partnership to address a growing demand for mental health resources. The partnership brings free virtual mental health talks to young people and their families across Ontario.

At Hydro One, we believe that governance around our initiatives is important. That is why we chose to enhance our sustainability report further this year. We aligned with the Global Reporting Initiative's core standards and the Sustainability Accounting Standards Board's framework. We also committed to aligning with the task force on climate-related financial disclosures in coming years. This effort is paying dividends as we were yet again designated a sustainable electric company by the Canadian Electricity Association, and we recently received an ESG risk rating of low-risk from Sustainalytics, a global leader in ESG research and ratings, placing us 11th out of 156 in its global industry group for the utilities sector. And we were again voted 1 of the 50 best corporate citizens in Canada by Corporate Knights.

This past year has been a busy one on the legal and regulatory front. We obtained a positive decision from the Ontario Divisional Court on the deferred tax asset, with the expectation to have full resolution of the case from the Ontario Energy Board in the first half of 2021. We received a number of rulings from the OEB that highlighted the constructive nature of our relationship. The OEB approved the Orillia and Peterborough transactions that I referenced earlier. In their decisions, they highlighted Hydro One's unique position to extract value from these transactions. We also obtained a favorable approval on our transmission rate application that set the transmission capital investments and rates until the end of 2022. This means that both our distribution and transmission segments are now in an incentive rate-making framework until the end of 2022, giving us regulatory certainty for the coming years. We like the incentive rate-making framework, as it gives us an opportunity to share the fruits of our labor with our customers. This year, we shared approximately $15 million with our customers on account of high demand and disciplined cost management.

The successes on the regulatory front have helped reaffirm our preparation for the upcoming joint rate application for both transmission and distribution businesses. The j-rap will consist of both the distribution and transmission rate applications for a 5-year period, starting in 2023. To prepare, we have embarked on a robust customer engagement that helps inform our views and plans with respect to affordability and service levels. We are more in tune with the needs of our customers, and this application will be informed by that feedback. We expect to file the application in the second half of the year.

Our ability to problem-solve and be nimble would not have been possible without the devotion and hard-working of our employees and the partnership of our unions. We were pleased that despite the pandemic, we were able to renew 2 collective agreements with the power workers

Canada's best employers for a sixth consecutive time. This honor reflects Hydro One's ongoing commitment to our incredible employees, who proudly energize life for our customers and communities in Ontario. Chris, over to you.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Thank you, Mark. Good morning, everyone, and thank you for joining us today. I hope you and your families are both safe and doing well. As Mark mentioned, there is a lot to be positive about. Together, we've accomplished a great deal since launching our strategy a year ago. Faced with the challenge of COVID-19, our teams have continued to perform admirably. I would like to thank all who have contributed to this positive outcome in unique and challenging circumstances, and look forward to continuing to create a better and brighter future in 2021 and beyond.

In terms of our financial results for the quarter, we saw a decrease in earnings per share or EPS from $0.35 last year compared to $0.27 this year. For the full year, EPS was $2.96 and adjusted EPS was $1.51, compared to EPS of $1.30 and adjusted EPS of $1.54 last year. On a full year basis, our net income in 2020 was over $1.77 billion. While this seems extraordinary, this includes the onetime impact of the Ontario Divisional Court, or ODC, ruling on the deferred tax asset of $867 million. Adjusting for this and comparing to the adjusted net income for last year, we see a marginal decline in earnings year-over-year, with adjusted net income at $918 million last year compared to adjusted net income of $903 million this year.

There are 2 main drivers for the decline in adjusted earnings. First, you will recall the onetime catch up revenues for 2018 following the distribution rate decision, adding approximately $85 million of revenue or $0.11 EPS to 2019 earnings. Second, in 2020, we incurred direct costs of approximately $50 million related to the COVID-19 pandemic, on which I'll elaborate further in the call. Despite the challenges faced in 2020, we were successful in partially offsetting these headwinds with productivity improvements and stringent cost control, leading to an overall reduction in OM&A.

In addition, we recognized revenues related to prior year conservation and demand management and approved rates as part of the transmission and distribution rate decisions by the Ontario Energy Board, or OEB. Finally, the hotter weather drove up demand this past summer, which further supported revenues.

We were once again pleased to share approximately $15 million with our customers via the earnings sharing mechanism, following the admirable performance in the distribution segment over the past year. Consistent with last year, this is an example of a constructive incentive-based [redistribution] model in which together we can and have enhanced value for our customers.

We will continue to strive to be a leading utility in efficiency and productivity. On the productivity front, we achieved $286 million in productivity savings in 2020. This is an increase of approximately 41%, which brings our cumulative productivity gains since the initial public offering to over $735 million. We saw meaningful increases in productivity in areas such as operations, fleet optimization, procurement, corporate costs, IT contract reductions and call center costs. Overall, productivity was split evenly between OM&A and capital expenditures.

Focusing on the fourth quarter, the main driver of lower quarterly earnings as compared to last year was higher COVID-19-related costs. Reduction of insurance proceeds received higher depreciation and asset removal costs due to growth in capital assets and timing of work and higher taxes. These were partially offset by rates previously approved by the Ontario Energy Board. Revenue net of purchase power was higher year-over-year by approximately 2.5%. The distribution business was the primary contributor to the increased revenues, as distribution revenue net of purchase power was higher by 7% year-over-year. This increase was a result of distribution rates approved by the OEB in 2019. The addition of revenues attributable to the Peterborough and Orillia acquisitions and a lower regulatory adjustment related to the earnings sharing mechanism as compared to last year.

quarter of 2019. The increase was primarily due to COVID-19-related costs, lower insurance proceeds received for the Finch, Longwood and Merivale stations in 2020, and OPEB costs that have been collected in revenue and recognized in OM&A following the OEB transmission rate decision. As referenced earlier, these OPEB charges are net income neutral.

With respect to OPEB costs for the fourth quarter, we incurred operating costs of approximately $18 million. There were 2 reasons for these costs. First, following the issuance of the OEB staff proposal in December, we reversed the recognition of the regulatory asset associated with the incremental bad debt provision recognized in the first quarter of 2020. OEB staff issued their proposal following receipt of reports from external consultants regarding how to treat COVID-19-related costs and lost revenues. The staff proposal suggests that utilities must demonstrate a financial need and meet certain criteria to recover COVID-19-related costs and lost revenue. Based on our interpretation of the staff proposal, it is unlikely that we would qualify for recovery of any significant amount of COVID-19-related costs or lost revenues. Accordingly, we have reversed the recognition of the regulatory asset associated with the incremental bad debt provision recognized in the first quarter of 2020 and have recognized this expense in OM&A in the fourth quarter. That said, consultations with the OEB are still ongoing and the final OEB decision is expected in the first half of 2021. Second, we had additional expenses this quarter with the purchase of additional facility and cleaning related suppliers.

Consistent with the previous quarters, the impact of the measures taken by Hydro One to support our customers, including the pandemic relief funds, financial assistance and increased payment flexibility, extending the winter relief program and the temporary suspension of late fees, are not expected to be material.

On financing, we saw a slight increase of $3 million or 2.6% in interest expense in the quarter compared to the same quarter last year due to higher weighted average debt balance driven by the successful debt issuances in 2020. Last year, we issued a total of approximately $2.7 billion of debt between Hydro One Limited and Hydro One Inc., all at competitive rates.

As referenced in the last call, we used the net proceeds of the issuances in the fourth quarter to redeem all outstanding Series 1 preferred shares of Hydro One Limited, an accretive transaction. We expect to use the remainder of the proceeds to repay and/or prepay maturing long-term and short-term debt, including maturities in early 2021 and for general corporate purposes. For the full year, financing charges were lower by $43 million or 8.4% compared to full year 2019 due to financing costs related to the merger incurred in the first quarter of 2019, partially offset by an increase in interest expense due to the increase in the weighted average debt balance in 2020. Overall, we are pleased with the stability of our balance sheet and our robust investment-grade credit ratings. As we look forward to 2021, we will continue to access the debt markets opportunistically.

Turning to the income tax recovery, which was $785 million compared to $6 million last year. The resulting effective tax rate, or ETR, was 77.6% negative compared 0.8% negative last year. The increase in recovery was primarily attributable to one-time $867 million tax recovery recognized following the Ontario Divisional Court ruling on the deferred tax asset. Similarly, last year, the lower effective tax rate resulted from the $51 million recovery related to costs associated with termination of the merger. Adjusting for the 2 nonrecurring events, the adjusted tax expense was $82 million compared to $45 million last year. This represents an ETR of 8.1% compared to 4.6% in 2019. These values are consistent with the ETR guidance range of 6% to 13% that we had provided last year. We expect the ETR to remain in this range for the next 5 years, subject to the timing and manner in which the OEB will implement the divisional court ruling. We expect to start collecting more revenue with a corresponding increase in taxes once that is resolved.

The increase in annual tax expense was related to 2 main factors. First, in 2019, we had higher incremental tax deductions from the deferred tax asset sharing relating to the catch-up revenue for 2018. Second, we had temporary differences related to the mix of assets placed in service, which impacted Accelerated CCA values, and higher tax relating to non-service OPEB costs recovered through OM&A. Together, these factors resulted in a higher ETR.

Moving to investing activities. Capital investments in the quarter increased by 2.7%, with the majority of these increases coming from the transmission segment as we continued investment in multiyear development projects, station refurbishments and building out the New Ontario grid control center. Capital investments in the distribution segment declined year-over-year as there were lower investments in reinforcement projects and lower spend on work for customer connections.

For the year, capital investments were up 12.7% and in line with our expectations. You'll notice that the future capital investments profile for both of the segments have changed marginally for 2021 and 2022. This is due to timing differences in our project planning and does not impact our projected rate base growth. As a reminder, the capital investment numbers for future years remain subject to OEB approval as part of the joint rate application. We placed $878 million of assets in service in the fourth quarter, a 3.4% increase over a year, owing primarily to the distribution segment. Distribution assets placed in service rose by 13.7%, driven by the completion of the customer contact center technology modernization project, the Woodstock operations center and higher volume of storm-related replacements.

The decrease in transmission assets placed in service during the fourth quarter primarily stemmed from a substantial investment placed in service for Leamington transmission station in the fourth quarter of 2019. On a full year basis, assets placed in service were lower by 3.8%. The transmission segment was lower by 12.4%, mainly due to the in-servicing of the Niagara Reinforcement Project in 2019. The distribution segment was up 13.6% versus last year, primarily due to the same reasons that drove the increase in the fourth quarter as well as the completion of the Leamington transmission station feeder development project.

On regulatory matters, we are very pleased that we have stability, with both segments having approved rate cases and certainty on our forward capital investments under the incentive rate-making framework through 2022. As Mark mentioned, we look forward to filing a joint rate application in the second half of this year.

Finally, we are awaiting the final decision on the timing of the DTA recovery and expect a resolution within the first half of the year. Lastly, we continue to be committed to and affirm our guidance of 4% to 7% earnings per share growth through 2022. I'll stop there, and we'd be pleased to take your questions.

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

Thank you, Mark and Chris. We ask the operator to explain how she'd like to organize the Q&A holding 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. Please go ahead, Shannon.

QUESTIONS AND ANSWERS

Operator

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

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

Yes. Maybe, Chris, can you clarify this a little bit. Did you say it was $15 million of earnings sharing with customers and maybe split between distribution and transmission? And maybe you can even share roughly what the sort of earned ROE was for the transmission and distribution, please, this year?

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

Okay. And then I think there was a comment also about opportunistically accessing the debt markets. I mean you did come to market in the fall last year to take care of inventory this year. So what else could that mean? Is there anything longer-dated on some of the higher coupon notes out in 2030 or 2032 that you could opportunistically refinance? Or maybe just share any color in terms of opportunities in the debt market.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. Thanks, Mark. Look, overall, really what we're indicating there is that we ended the year with probably a higher debt -- cash balance than we normally would. So we ended the year with around $685 million at Hydro One Inc., and that really was to pre-fund a debt maturity here in February. So we are not -- we have no need to come to the debt markets until the second half of this year. We may come earlier if the right opportunity presents. We're not looking at those long-term refinancings. They don't really -- I mean, to get out of the ones we have today, we would have to pay out of market, and then you would refinance it at today's rate. So there isn't a large gain for rate payers or for the company in that matter.

So really, we're just highlighting the fact that we don't need to come to market anytime soon, at least until the second half of this year. And when we do come to market, our debt requirements may be slightly lower than normal. But we could also consider funding some of next year's debt maturities. We've got one coming due early in the new year in January. So something that could be in the order of $1 billion to $1.5 billion is normal. We could be on a slightly lower side of that and not until the second half of this year.

Operator

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

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

Just on the COVID costs. You mentioned that you're going to continue to work through their process. But given you've taken this thing to the income statement, how far would you take it if things stay on? And I'm thinking about RMBs or to the court, similar to what you did on the tax side.

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

Yes. It's Mark here. Maybe I'll start with that and then Chris can weigh in. So we are working through the process, as you said, Robert. On December 16, the OEB staff released their proposal of the deferred accounts. And really, this is the staff's opinion. We're still going through the process, and the panel will make the final decision. So there are subsequent sessions underway, and the OEB anticipates finalizing its guidance in the spring of this year. We are participating fully in all of those subsequent sessions with the OEB as along with our other partners and through the associations that we belong to.

Really what the OEB staff proposal was, and again, this is the staff proposal, this isn't the final decision, is that utilities needed to demonstrate a financial need and meet certain criteria to be eligible to seek recovery. And essentially, what they're saying is the mechanisms that are in place right now with our incentive rate-making construct allow for things like this. So we'll continue to participate in those. We did reverse our bad debt provision that we'd taken earlier in the year. And it was primarily based on the staff proposals that we felt there was less certainty around the recovery of that bad debt based on those proposals, but we'll continue to work through that process. Chris, you got anything you want to add?

maybe you shouldn't recover. And then meeting certain criteria is when there was a specific imposition, being the extension of the winter ban or some government's direction as part of COVID-19, that they would make exceptions for that.

So still a lot to be resolved, Robert. We are being conservative at this point, and we're also conscious that every utility is affected differently. So we want to make sure that it's the right decision for the electricity industry in Ontario, not just for last year, but looking forward to this year, we're not really -- the impact could still change from this point forward. So I wouldn't read into that there is no recovery. What we're suggesting is right now, the conservative approach is to write it all off, and that's what we've done. We are still tracking it, and we're still part of the conversation.

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

Just a follow-up, Chris. You brought up a really good point there that it worked out okay for you in 2020 because of all the great work you did on productivity savings and you got saved by weather. If this continues, hopefully, it doesn't, but if it continues to play out through 2021, you can't necessarily -- well, you definitely can't bank on weather and necessarily the same -- further improvement in productivity savings. So I guess the question is just like, how hard are you going to fight this?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Like I said, Robert, we're going to stay in the conversation, and we're going to agree on principles. And I think that's what the OEB staff are trying to do. So they're talking about a principle-based approach that meets the needs of the utility industry overall. So that's why we're still there. So I agree, it's not a case of saying, look, it works for 2019 -- 2020, therefore, it moves forward. The other thing I'd point out, Robert, is that's staff's opinion. Remember, the decision is made by a panel of the OEB; they are 2 separate and distinct parts. So it's still a ways to go here to get to a final conclusion. We're still fairly confident, given the large increases we had on COVID that you're referring to really happened very early in the piece.

I personally don't expect to see that reoccur now. We are kicking along at a much smaller burn rate to stay safe and healthy in operations. But early on, as you'd appreciate, when it first struck, a lot of those direct costs occurred in Q2 and Q3. So I wouldn't expect that to be the same going forward. So I don't think it's a case of it's one for 2020 and one for 2021. I think there are equal and offsetting pieces there. But we're going to remain part of it, Robert. So it's not a case of just walking away, it's a case of staying in that conversation.

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

Only thing I'd add, Robert, is your point around kind of weather helped us out last year, which it absolutely did, but there's a lot of puts and takes to load, and we don't have an approved way from the OEB to really dissect the COVID impacts from weather. But I would point out that in January and February, from the -- and this is all public information, the load is up again over previous years, year-over-year by 1% in January and 3.5% in February. So I think there's -- as I said, puts and takes to load, and we're not trying to dissect those at this point, but just point out that we are entering the year in a fairly good position.

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

Understood. If I can just finish on a general question around customer rates. And you've had a focus on customer-facing initiatives and an advocate for your customers, trying to find different ways to keep rates affordable. And I guess just, Mark, with your integrated utility background and having been in Ontario now for a little bit, are you getting traction at the provincial level with respect to things that you've seen and done that could help achieve efficiencies, reduce duplication, drive costs out of the system to kind of help rate payers but not necessarily impact Hydro One specifically?

that in their November budget, and they took a substantial amount of the global adjustment off of the rate payers and put it on to taxpayers, which I think was prudent from a perspective it was government policy that drove those costs, not the utility sector. So I think that was a really good move, which helped to reduce rates on customers overall, but it also helped to facilitate all the people in the sector.

I do want to point out that we did recently launch our Connected for Life program. And I want to give you a little bit of context about what that was about. And that's really our promise to keep our customers connected during this time. And what we discovered is that a lot of our customers weren't aware of the relief available to them. And so really, the Connected for Life is to attempt to reach out to our customers to get them to contact us and to work with us if they are having trouble paying their bills. So 70% of our customers, when we surveyed, weren't aware of the relief available. 78% said billing would -- our balanced billing throughout the year would help them, but only 30% were aware of it. So there's a bunch of programs that customers weren't aware of. So we launched the Connected for Life program.

On your specific question around -- on what am I seeing as far as opportunities to drive out efficiency in the overall sector, I think we're getting to that. There's new leadership at the OEB who's looking for that and is open to feedback and -- which is a really nice breath of fresh air for us because they are listening to our ideas. The IESO is working with us on options to meet future loads and what the most efficient way of doing that is. And we're working through the other LDCs in the province on putting together joint submissions on these types of things. So I see a real cooperation across the sector in the last year that I'm not sure I saw when I first came in.

Operator

Our next question comes from Rob Hope with Scotiabank.

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

First question is just on the j-rap. You said you had started consultations with your customers. What's your kind of initial ask there? Are you looking for any kind of changes of how the revenues are structured, how the ROE is structured? Or are we a little early there?

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

Yes. Maybe I'll talk a little bit about the process. So we are still under the evidence development stages of preparation. We did do 2 rounds of customer outreach, very extensive about customer outreach, far more than we've done in the past and far more than, from what we understand, any other utility has done. And that's really to test our customers' appetite for different levels of spend and what that might mean to bills and what that might mean to reliability of the system. And so we just finished the second round of customer engagement. About 43,000 customers did participate in that, and it was an extensive online booklet that they had to go through, which really commented on at a certain level of spend, you get this level of reliability. This was what it would mean to your bill. And we got really good feedback from that, which really supported our case and our need to invest in our existing assets to keep them safe and reliable for the long term. So as you know, the setting of the ROE and the process and the regulatory construct, our debt-to-equity construct, that's defined already. So that's not up for debate, and it's formulaic. So we won't be debating that, but we think we're in good shape to file and on track to file, in Q3 of 2021 this year, for that joint rate application.

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

All right. And then just a follow-up on the earnings sharing mechanism. Were the COVID costs, specifically, the ones that you booked in Q4, was that included or was that accounted for in that $15 million of earnings sharing? Or is that set aside from it?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Sure. Thanks, Rob. Yes. So the way the earnings sharing mechanism works is you look at the overall net income of the segment. So in this case, it was distribution. So that $15 million, like all the other COVID costs, would be included in the net income that you calculate for that segment. So it would have been in there, then you work out what your amount of overearn is above your allowed. And clearly, we were above 100 basis points over our allowed ROE, which meant that we shared any of that excess earnings with rate payers, and that's what made up the $15 million. So it is net of all the COVID costs that we've incurred during the year.

Operator

Our next question comes from Linda Ezergailis with TD Securities.

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

Wondering if we can reflect maybe on, as the global pandemic has unfolded, unfortunately, maybe some of the local distribution utilities have not fared as well as Hydro One. So how has Hydro One been able to provide assistance to these LDCs to date (inaudible) over time? And might this ultimately lead to acceleration of consolidation? Can you talk about what the pulse is in your conversations right now at this point?

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

Sure. I'll start with how we support them, and then I'll ask Chris to talk about opportunity for consolidation because he leads that portfolio. So Linda, we've recognized that the LDCs are customers. So we've been there to support our customers through this. Early on, there were liquidity concerns overall with the LDC sector. And we joined forces with them to advocate for certain relief with the IESO, which really gave them a backstop that if their customers weren't paying them, that they had some support from the IESO on payments to the IESO. So really, we've been part of the overall sector to advocate for how the entities can support the sector during this time.

And we have, through our customer and our community outreach, supported customers. So for example, we launched a pandemic program where communities could actually apply to Hydro One for a grant of up to $25,000 to support them with health and safety measures, including mental health measures that they need for the community. And a lot of that was recognizing that we -- in our budgets, we budget and allocate a certain amount for community events in the province, and a lot of those weren't happening. So we're looking for ways to get -- to support our customers through that -- through other mechanisms. So we did that. So Chris, do you want to talk about consolidation and what it might mean?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Sure. Just first, Mike, let's quickly expand on the development of our approach with LDCs. So as Mark said, they're a customer of ours, so that's been developed out, and we're doing everything we can to help them. They're also a peer within the electricity industry in Ontario. Mark sits on a number of associations, as do I, that advocate for our customer, but also for the industry, including the LDCs, so we're working to ensure that they are supported.

And I'll tell you early in the process, there was this belief that, as Mark said, they were going to have credit challenges. Well, through industry consultation and support, they ended up with some support through the IESO. So in terms of if they ran into some financial challenges, they had some financial support there. The government of Ontario as well as the federal government helped the municipalities with purchasing municipal same objectives for profit and for other areas. So we've got to approach each LDC independently and really work with them on what makes sense for their municipality. I do think it will enhance the ability to complete LDC consolidation. What we said early on in the COVID-19 situation was that we weren't going to be predatory anyway. We're there to support them, first and foremost. I think as we're coming out of COVID-19, we are starting this conversation around what can we do more. We've partnered better with them during COVID-19. How can we now help them achieve their objectives in the municipality for the next 15, 20, 40 years? So they're starting now, Linda. I would expect it would help. I don't have numbers for you today, but I expect it would help accelerate LDC consolidation going forward.

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

And as a follow-up, there's, I guess, a drive for economic stimulus spend in the province. And I'm wondering, might that create incremental infrastructure build opportunities for Hydro One? And given the trade-off between reliability and cost and you've gotten some good feedback on that, I'm wondering if that also might support a case for more investment. And I guess the third prong of my question would also be in consultations with your staff and your unions, what sort of support is there for them for innovative solutions to drive efficiencies and enhance the rate process for the next 5 years beyond 2022?

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

So I'll start with the economic recovery. And really, we were expecting that the government, in the last budget, for it to be an economic recovery budget, and then they're going to release another budget in March, which originally we thought was going to be an economic recovery budget. But given where we're at with COVID, we expected it's likely going to be more of a support budget, and they'll likely need to release another budget in the fall. So -- which we're expecting to be the economic recovery one.

So what we're doing is we are offering up where there's opportunities where we could help stimulate the economic recovery. We've also pointed out that our investment in our current rate base growth does have a large spin-off into the economy of Ontario. And as we execute that, we are supporting it. But we have identified opportunities to advance spend on certain projects that one would increase our spend, which can flow back in the communities, but also can open up the industry.

We've talked about the Leamington area in Southwest Ontario. There's opportunity for more transmission down there to unlock more supply to that area, which they're in need of as well as we're working on the Waasigan line, as you know, and there's an opportunity that if the IESO and the government wanted to advance that and accelerate that, we can do that as well. So we're putting those types of things on the table to say, here's how we could support the economy by spending in our existing assets, but also how we could build new assets which would open up other sectors of the economy for further growth.

And the second part of that is -- sorry, Linda, you had a second part of that, which was the innovation of our staff. So a lot of our productivity achievements are ground-up-driven productivity achievements. And there's not one thing that we've done to achieve the level of productivity we've talked about. We have what we call a lighthouse program in our distribution sector, which is really, call it, similar to a Toyota lean type process where we engage frontline employees in problems and solutions which drive out efficiency. So we've got a list of things that we can and will be looking at and engage in our frontline staff in the solutions to that to drive out a more efficient organization.

Operator

Our next question comes from Ben Pham with BMO Capital Markets.

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

Yes. I can talk generally about that. As I said earlier, the OEB hasn't really come up with an approved methodology to kind of dissect how we separate normal patterns from COVID. But we are seeing in the residential, like you said, in Q3 -- or Q4, sorry, the residential overall consumption was up on the distribution side, yet the peaks were down. And really, I think that's just representative of the number of people who are working at home. And as the government puts more constraints on people not moving around the province or going to businesses, you're going to see that on the residential side. It's going to go up simply because people are home all day.

On the peak aspects, a lot of it's driven by weather, but there's things like the hiatus on the industrial conservation initiative which took the pressure off of industry from shaving peaks. So there's weather input and there's decisions such as that, that drive the outcomes. And I think they're all contributing to what we're seeing. But as I said, there's no real approved methodology that we can dissect those right now, and I wouldn't want to speculate on the makeup of each of the segments in what's driving the load, both on the peak side and transmission and distribution.

As I punched it out earlier, we are seeing, in January and February, that they are up year-over-year again. And a lot of that, I think, is because people are working at home as well as we had a bit of a cold snap this -- the last month.

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

Okay. And maybe to follow up on the joint application you're applying, do you think you have or will have enough visibility for the duration that you're thinking here? I mean obviously, the -- as you mentioned, the volumes is somewhat debatable on projections, perhaps on sustained work-from-home impacts. The ROE is moving around a lot given where interest rates are going, and you have to be mindful of that with your going-in ROE and how long you want to fix that for the 5 years, and also the theme of electrification when that comes in. And do you feel that there is going to be a big push for you guys to apply for 5-year duration on the plan? Or maybe something a little bit less?

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

Yes. No, we are required by the OEB to file a 5-year plan. And right now, that includes a 5-year load forecast. We will, this summer, when we file, we will submit based on what we know today, but we will provide evidentiary updates near the end of the process next year, both on the rates aspect based on current rates next year, as well as on current thinking around load forecast. So there is a lot of uncertainty in the load forecasting right now because we're still in the middle of the pandemic. We think that we will get more certainty and clarity on the impacts of -- the longer-term impacts of load. By the end of next year, we'll have more clarity than we do today.

And the load is -- one thing I would say is we reset the load going into this period. So really, there was a decline in load in the 2015 to '18 period. We reset that in our latest applications, which really kind of levelized things. So we're coming from a good position on that, and we'll continue to monitor the load overall. But we do have the opportunity to reset it just as -- just before the period starts.

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

Okay. And the -- you mentioned that the COVID-19 cost, you've -- that's reflected in the ESM. So maybe just to close off the question there a bit. I mean if you push hard on going through, say, appeal on that, the gist of my earlier question, I mean you're basically, you're -- your recovery -- the costs you recovered from customers, you bake in half of that to customer demand?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes, sure. Ben, it's Chris. For part of it, yes. So we shared $15 million with customers, which meant that the overearn was around $30 million. So the first $30 million will be shared 50% with customers. So you're absolutely correct. And hence, that was my comments earlier in the call around the position of OEB staff around if you're in a position where you're above your allowed ROE or your overearn, there are mechanisms in their opinion that they take care of this. And that is a position that's out there. If it was on the downside, the downside would be true as well. So that's the principal-based approach that the OEB staff advocated, and you're correct that we would share 50% of any recovery with rate payers.

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

Okay. And my last question is, on a 2025 CapEx estimate, do you want to put that out maybe around the filing of the joint application in the second half?

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

Chris, do you want to take that?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Can you just repeat that, please, Ben? I couldn't catch it.

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

Yes, sure. So you have a 4-year CapEx program right now. I mean what's the timing with prospect of adding another year there? Is it in conjunction with the joint application, or if you do, could you put something out earlier?

Christopher Felix Lopez - *Hydro One Limited - CFO*

Yes. Exactly correct, Ben. We looked at do we add a year on today, that year would be based on our practices to try and stay as close as we can to what's been approved by the OEB to give certainty to our investors. So as soon as we file the joint rate application, we'll extend that table, and it could be beyond 5 years. As you know, we're going to provide clarity in the application out to 2027. So it's likely that we would do that at that time.

Operator

Our next question comes from Andrew Kuske with Crédit Suisse.

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

Mark, in your opening comments, you outlined reliability and just the improvements you've seen over the last, I think, it was 12 years. Could you just outline a little bit on how you think that translates into economic benefit for Hydro One and rate payers, whether it's by way of smarter maintenance costs, freeing up capital for growth, the better customer relationships? If you just give some color on that, that would be appreciated.

In my opening, I talked about the transmission system. And because the transmission system is the backbone, it's the main arteries, the reliability of that system is really important. And so you can see that our focus has been on ensuring we maintain the reliability of that system.

On the distribution side, it's quite a different story, being our reliability is third quartile overall. Part of that is because we're rural. As part of our joint rate application is recognizing that, over time, because we've had to move costs out and -- or defer spend for other reasons, that we are looking at investing in the distribution side to improve the reliability there. So we do need the CapEx to do that. And part of our customer outreach is to get the support from our customers and the evidence to support our need to do that. And so you'll see that when we file the joint rating application.

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

Okay. That's very helpful. And then a different bench, but a question for Chris, and it's really just on rate sensitivity, given the steepening we've seen in the curve recently, how do you think about just the rate sensitivity of Hydro One overall? And then maybe tied into that is the U.S. shelf that you filed late last year.

Christopher Felix Lopez - *Hydro One Limited - CFO*

Andrew, thanks for the question. Look, rate sensitivity, we're well placed at this point. We're 3 or 5 years into our distribution application for the current rate period. We're 1 of 2 years into our transition. We've done a lot of our refinancing and getting the financing done and setting us up for this period to go into j-rap. We've got about $1 billion per year for the remaining 2 years to go. The debt that's coming off is roughly the same, maybe slightly higher coupon than what our -- what the forecasts are on interest rates for the next 2 years.

The part that I will remind you of, Andrew, is as we go into the next rate period, what's important to us is the ROE that's set at the beginning of that rate period, which is at the back end of 2022. So that's a steepening yield curve that we have seen just recently. And if you speak to some of the banks, you see a little more between now and the end of next year or maybe quite a bit more. That will be supportive of ROEs through the next rate period '23 through '27. So that's how we're thinking about it. We think it's balanced. We're in a good position today. We've got a lot of our large financing that we had to get done with more of the longer-dated maturities that is now complete, which is good.

In terms of the shelf, really what we've done there, Andrew, is that was the shelf that was set up really for [Avista's] at the time. We've paid all of the fees to have that registered. So really, what we're doing is maintaining that flexibility. We have no intention at this point to use that in the coming year. But we thought, look, it's set up, it gives the company additional flexibility in tapping debt markets, these things we can't see in the future, but we have no intention over the next 12 months of using that shelf anyway.

Operator

Our next question comes from Mona Nazir from Laurentian Bank.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - Director of Research & Industrials Analyst*

Firstly, just over the last 12 to 18 months, optically, we're seeing a turnaround from a number of perspectives in that you're hitting and executing a number of targets, customer satisfaction and improvement there, improved regulatory and provincial relationships and recent wins on that front.

Yes, great question, Mona. And it's really the continued execution of our overall strategy. And in the deck, we talk about the 5 elements of the strategy, and we'll continue to do that and continue to focus on Ontario. And really a lot of the turnaround you've seen in the fronts you just talked about, our renewed focus to our strategy on Ontario and on really becoming an excellent operator of a utility. And so we will continue to focus on that and continue to execute on that. We're not done yet. It's a 5-year strategy, and we're a year into it. So I don't think that you'll see a lot of change as far as direction goes, but we will continue to put initiatives in place to execute on that.

Mona Nazir - *Laurentian Bank Securities, Inc., Research Division - Director of Research & Industrials Analyst*

Okay. And just secondly from me, you just commented on a continued Ontario strategy. So is it fair to say that your desire to move into the U.S. is still on hold following this determination? I was just wondering, with the passage of time, ultimately, changeover in management and board since then, your thoughts toward a U.S. acquisition. Or is it really too soon?

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

Yes. It's really too soon. We're still focused on right here in Ontario. We do see that there's good growth potential in our regulated rate base and our need to reinvest in our current rate base. And we've talked about there is opportunity possibly to get a little bit more growth through consolidation in the sector. And we do have relatively small unregulated business in here, in Hydro One that there's small growth in there. But our primary focus will be on Ontario and continue to be Ontario and make sure we do a good job of submitting our j-rap and building the case for why we need to continue to invest in our existing system here.

Operator

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

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

I just wanted to follow up on the COVID-related cost discussion, and I guess including any future costs associated with the Connected for Life program. Obviously, you guys are doing the right thing here. But to that end, I mean should you not be covered for these costs by the Ontario government, at least until the stay-at-home orders are lifted. So thinking more outside of the process you're in with the OEB or potentially pursuing any legal recourse, but more of a direct immediate reimbursement from the government because, again, the right thing to do. So are you planning on having any nonlegal discussions with the government for direct cost recovery?

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

Yes. We're not planning on that. The way the regulatory construct works here is it's through our regulator, not government. And I think the government has done a good job of making sure that they're allowing the regulator to regulate. So we'll continue to work through that avenue. The Connected for Life program is actually a program to support customers and connect them with our relief programs, but also with the programs that are available from government and other areas that our customers actually don't know about or don't know how to access. So it really is a program to connect them with relief we provide, but also broadly what's available to them.

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

Got it, Mark. And then switching over to the energy efficiency front. So just curious how this accelerated pace of technology across the economy over the past year has maybe influenced your ability to implement the smart grid infrastructure? And what it could mean for your, I guess, both your capital investment plan as well as your earnings growth rate over the coming years, say, relative to your pre-COVID outlook?

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

Yes. I would say I'm not sure COVID's had an impact on that. We are -- we do have a -- one of our pillars is building a grid for the future. And part of that is reinvesting in our smart metering assets, reinvesting in our grid control center and things like that. So we do have our work programs that are focused on those types of things. I think that what we're seeing now is that there is a focus on carbon and climate and on decarbonizing the transportation sector. And you're seeing that both in the private sector from the auto manufacturers here and on Ontario, but we're also seeing that from the government supporting the building of EVs in Ontario and the desire for people to be able to charge their vehicles if they buy them here, and that was part of what drove us to starting our Ivy network.

So I think there are a bunch of, I'd call it, things that are climate-related and innovation like distributed energies and batteries and things like that on the horizon. But I don't think COVID has really kind of changed that.

Operator

And our last question comes from Matthew Weekes with Industrial Alliance.

Matthew Weekes - *Industrial Alliance Securities Inc., Research Division - Equity Research Associate*

Most have been asked at this point. But I wanted to just follow up on a bit of what was talked about a bit earlier with kind of increasing interest rates going forward. As we're likely to see some kind of inflationary pressures, how do you see that kind of impacting the capital side of the business and the capital spending plan?

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

Yes. So our rates are locked in until the end of 2022. So it shouldn't have an effect at all on our current capital plan. And we will -- as we put our joint rate application forward, it will be reflective of the needs of the system and what that means. The rising interest rate,s, from an ROE perspective, as you likely know, it's formulaic based on the kind of long bonds in that. So as the interest rate goes up, our ROE formulaically goes up. So I don't think it will have an impact on the short-term capital program. On the longer-term capital program, we are, as I said before, building the case for what we need to invest to keep the system reliable. So interest rates shouldn't have an effect on that, but it will impact our ROE. And if they go up, they impact it in a positive way.

Omar, are you on mute?

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

Thanks, all.

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.