

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1897

In the Matter of the Application of Hydro)
One Limited (acting through its indirect) SECOND SUPPLEMENTAL REPORT TO
subsidiary Olympus Equity LLC) for an) HYDRO ONE LIMITED’S RESPONSE TO
Order Authorizing Hydro One Limited To) JUNE 14, 2018 BENCH REQUEST
Exercise Substantial Influence Over the)
Policies and Actions of Avista Corporation)

1 Hydro One Limited (“Hydro One”) provides the following second supplemental report to
Hydro One’s response, dated June 19, 2018, to Administrative Law Judge Patrick Power’s June
14, 2018 Bench Request.

I. BENCH REQUEST

2 The Bench Request requires Hydro One to file a report on the following issues: (1)
implications of the recent Ontario election for (a) the future management and plans of Hydro One,
and (b) Hydro One’s acquisition of Avista; (2) a plan for keeping the Oregon Public Utility
Commission (“OPUC” or “Commission”) informed on a timely basis as to new developments; and
(3) what further measures might be necessary to fully develop the record if material changes are
made in Hydro One’s management or Board of Directors (“Board”).

II. BACKGROUND

3 On June 19, 2018, Hydro One filed its response to Administrative Law Judge Patrick
Power’s June 14, 2018 Bench Request. Section V of that response outlines a plan for keeping the
Commission informed on a timely basis as to new developments in Ontario in respect of the

management of Hydro One. Consistent with that plan, this second supplemental report provides further information on developments related to the July 11 retirement of Hydro One's CEO and the replacement of its board of directors.

III. STANDARD AND POORS UPDATE OF JULY 18, 2018

4 Attachment A is an update from Standard and Poors, which (a) maintains the credit watch negative reflecting the potential for a one notch downgrade to Hydro One Limited's (HOL) current credit rating because of the Avista transaction, and (b) notes the possibility that HOL's governance structure could result in an additional one-notch downgrade, if it concludes that recent developments adversely affect management decision-making and fail to promote the interests of all stakeholders.

DATED: July 19, 2018.

K&L GATES LLP on Behalf of Hydro One Limited and
Olympus Equity LLC



By: _____
Elizabeth Thomas, Partner (admitted pro hac vice)
Kari Vander Stoep, Partner (admitted pro hac vice)
925 Fourth Avenue, Suite 2900
Seattle, WA 98104-1158
Liz.thomas@klgates.com
kari.vanderstoep@klgates.com

Hydro One Ltd., Hydro One Inc. Ratings Remain On CreditWatch Negative Following CEO Exit And Board Resignation

Primary Credit Analyst:

Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contacts:

Vinod Makkar, CFA, Toronto + 1 (416) 507 3271; vinod.makkar@spglobal.com

Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com

- Toronto-based Hydro One Ltd. (HOL) recently announced the retirement of its chief executive officer (CEO), effective immediately, and the resignation of its entire board of directors on or prior to Aug. 15, 2018.
- Our base case continues to reflect the likelihood that HOL's pending transaction with Avista Corp. will close.
- However, the CEO's departure and pending resignation of the entire board create uncertainty regarding the effectiveness of HOL's governance structure, particularly with respect to the influence on management decision-making and promoting the interests of all stakeholders.
- As a result, we are updating our CreditWatch negative placement on HOL and Hydro One Inc., to reflect the governance developments and the potential for up to a two-notch downgrade of both entities and their rated debt.
- The CreditWatch placement now incorporates the risk of a one-notch downgrade related to the Avista transaction closing, and the possibility that the company's governance structure could result in an additional downgrade. Overall, these distinct developments could collectively result in a two-notch downgrade from our current ratings on both entities and the rated debt.

TORONTO (S&P Global Ratings) July 18, 2018--S&P Global Ratings today stated that its 'A' ratings on Toronto-based Hydro One Ltd. (HOL) and Hydro One Inc.

Hydro One Ltd., Hydro One Inc. Ratings Remain On CreditWatch Negative Following CEO Exit And Board Resignation

(HOI) remain on CreditWatch with negative implications, where they were placed June 15, 2018.

The CreditWatch placement on HOL and HOI continues to reflect the likelihood of a one-notch downgrade to both companies because of the Avista transaction. This reflects the extent of the regulatory settlements and approvals thus far, supporting our expectation that the pending transaction with Avista will close. In addition, the CreditWatch now incorporates the possibility that HOL's governance structure could result in an additional one-notch downgrade, if we conclude that recent developments adversely affect management decision-making and fail to promote the interests of all stakeholders. Overall, these distinct developments could collectively result in a two-notch downgrade from our current credit ratings on both entities.

We will resolve the CreditWatch when the transaction with Avista closes, and after our review of the company's governance structure, including our evaluation of its effectiveness in promoting the interests of all stakeholders.

RELATED CRITERIA

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further

Hydro One Ltd., Hydro One Inc. Ratings Remain On CreditWatch Negative Following CEO Exit And Board Resignation

information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.