

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1897

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

1 Hydro One Limited (“Hydro One”) and Avista Corporation (“Avista”) provide the following eighth 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. S&P GLOBAL RATINGS REPORTS FOR HYDRO ONE AND AVISTA

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.

4 On December 10, 2018, S&P Global Ratings (“S&P”) issued two reports, one each on Hydro One and Avista, in response to the Washington Utilities and Transportation Commission’s (“WUTC”) decision denying the companies’ Joint Application for Transfer of Property.

5 The S&P report on Hydro One, titled “Hydro One Ltd. And Sub Ratings Affirmed As Regulator Rejects M&A Deal With Avista, Off Watch; Outlook Negative,” is attached as Attachment A.

6 The S&P report on Avista, titled “Avista Corp. Ratings Affirmed; Off Watch Positive; Outlook Stable,” is attached as Attachment B.

III. CONCLUSION

7 By filing this report, Hydro One and Avista continue to keep the Commission informed on a timely basis as to new developments in Ontario in respect of the management of Hydro One and the Proposed Transaction.

8 We trust that this information will prove helpful as the Commission deliberates in this matter.

DATED: December 11, 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

AVISTA CORPORATION

By:  _____
David J. Meyer, OSB No. 086383
Chief Counsel for Regulatory and Governmental Affairs
Avista Corporation
1411 E. Mission Ave., MSC-27
Spokane, WA 99220-3727
David.meyer@avistacorp.com

Attachment A

RatingsDirect®

Research Update:

Hydro One Ltd. And Sub Ratings Affirmed As Regulator Rejects M&A Deal With Avista, Off Watch; Outlook Negative

Primary Credit Analyst:

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

Secondary Contact:

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

Table Of Contents

Rating Action Overview

Rating Action Rationale

Outlook

Company Description

Our Base-Case Scenario

Liquidity

Environmental, Social, And Governance

Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot(Hydro One Ltd.)

Ratings Score Snapshot(Hydro One Inc.)

Table Of Contents (cont.)

Related Criteria

Ratings List

Research Update:

Hydro One Ltd. And Sub Ratings Affirmed As Regulator Rejects M&A Deal With Avista, Off Watch; Outlook Negative

Rating Action Overview

- The Washington Utilities and Transportation Commission (WUTC) has denied the merger petition between Hydro One Ltd. (HOL) and Avista Corp.
- The WUTC's decision, in our view, significantly increases the likelihood that the transaction will not close as expected, reducing the possibility of an imminent ratings downgrade on HOL.
- However, in our assessment, the WUTC's decision weakens HOL's ability to track, adjust, and control the execution of its strategy, and raises broader concerns regarding HOL's governance and strategic direction as it seeks a permanent CEO.
- On Dec. 10, 2018, S&P Global Ratings affirmed its 'A-' issuer credit ratings on HOL and subsidiary Hydro One Inc. (HOI) and removed the ratings from CreditWatch, where they were placed with negative implications on June 15, 2018. The outlook on both entities is negative.
- We also affirmed our issue-level ratings on HOI, including the 'A-' rating on its senior unsecured debt, and the 'A-2' global and 'A-1 (LOW)' Canadian National Scale ratings on its commercial paper program. We removed the ratings from CreditWatch with negative implications.
- The negative outlooks reflect uncertainty about HOL's ability to convert its strategy into constructive actions that support the company's financial performance. In addition, the negative outlook incorporates broader concerns related to HOL's governance, uncertainty regarding the company's strategic direction, and our revised base-case assumption that the Avista transaction is unlikely to close as expected, the effect of which results in weaker stand-alone financial measures for HOL through 2019.

Rating Action Rationale

The removal of our CreditWatch negative listing reflects the decreased likelihood for a one-notch downgrade, incorporating our revised assumption that the pending transaction with Avista Corp. is unlikely to close as expected. As a result we forecast HOL's funds from operations (FFO) to debt, without Avista, to be about 12% during our 2019-2020 outlook period. However, the WUTC's decision weakens our view of HOL's ability to track, adjust, and control the execution of its strategy, and raises broader concerns related to

HOL's governance and strategic direction. Moreover, our revised base-case assumptions suggest weaker stand-alone financial measures for the company through 2019, collectively warranting a negative outlook for HOL and HOI.

Our assessment of HOL's business risk is unchanged and continues to reflect the utility's large electricity distribution and transmission operations that serve about 1.3 million electricity customers covering approximately 75% of the province of Ontario. The company has historically benefited from supportive regulation in Ontario that enables utilities to earn close to their authorized return on equity. This is done through the use of a forward-looking test year, multiyear rate-setting that adjusts to keep costs and rates aligned, decoupling, and variance accounts that foster full cost recovery. Our base-case assumes the regulatory framework in Ontario remains transparent, stable, and independent from government or political influence.

We assess HOL's financial risk using our low volatility financial benchmark table, reflecting the company's low-risk regulated utility operations, and management of regulatory risk. Under our revised base-case scenario, which assumes merger termination fees, redemption of the first installment of the convertible debentures of about C\$500 million and accrued interest, and transaction fees incurred thus far, we expect FFO to debt of about 11.5% in 2019.

Historically, the rationale for the positive ratings analysis modifier reflects our view that the consolidated credit profile of HOL was incrementally stronger than other peers with similar business profiles, which is no longer the case. Currently, our assessment of the positive ratings analysis modifier reflects our expectation of robust financial measures for HOL at its current financial risk profile category. Any material deterioration in HOL's financial performance from our base case scenario could warrant a revision of this modifier, possibly resulting in a one-notch downgrade.

Outlook

The negative outlooks reflect uncertainty about HOL's ability to convert its strategy into constructive actions that support the company's financial performance. In addition, the negative outlook incorporates broader concerns related to HOI's governance, uncertainty regarding the company's strategic direction, and our revised base-case assumption that the Avista transaction is unlikely to close as expected, the effect of which, results in weaker stand-alone financial measures for HOL through 2019.

Downside scenario

We could take a negative rating action on HOL over the next 12 months if the WUTC reverses its decision on the HOL-Avista merger. We could also lower the rating if the company's strategic decisions result in weaker business or financial risk assessments, including FFO to debt that consistently remains below 12%.

Alternatively, we could downgrade HOL if the Ontario government intervenes further in HOL's business or operating decisions, resulting in additional governance deficiencies that we consider severe.

Upside scenario

We could revise the outlook on HOL to stable if the company continues its historic focus on low-risk regulated utility operations and the company's forward strategy does not weaken its business risk and financial measures, maintaining FFO to debt above 12%, consistently.

Company Description

Hydro One, through its subsidiaries, operates as an electrical transmission and distribution (T&D) company in Ontario. It operates through three segments: transmission, distribution, and other business. The company owns and operates approximately 30,000 circuit kilometers of high-voltage transmission network, 123,000 circuit kilometers of low-voltage distribution network, and 308 transmission stations. It serves approximately 1.3 million residential and business customers across the province of Ontario, as well as large industrial customers and local distribution companies.

Our Base-Case Scenario

- Assessment of HOL on a stand-alone basis without Avista.
- Merger termination fees per the terms of the merger agreement.
- Redemption of the first installment of the convertible debentures of about C\$500 million, plus accrued interest, issued in 2017.
- No structural change to the utility regulatory framework in Ontario.
- The Ontario utility regulator, the Ontario Energy Board (OEB) remains independent from government interference.
- No adverse regulatory decisions from the OEB.

Liquidity

We assess HOL's liquidity as adequate. We expect liquidity sources to exceed uses by more than 1.1x over the next 12 months. In the event of a 10% decline in EBITDA, we also expect liquidity sources will cover uses. In our view, the company has sound relationships with banks and a generally satisfactory standing in the credit markets. In the unlikely event of liquidity distress, we expect HOL to scale back its capital spending to preserve its liquidity position.

Principal liquidity sources:

- About C\$615 million cash as of Sept. 30, 2018;
- Committed credit facilities availability of about C\$2.55 billion as of Sept. 30, 2018; and
- Cash FFO of about C\$1.6 billion over the next 12 months.

Principal liquidity uses:

- Debt maturities of about C\$1.9 billion over the next 12 months, including long-term, short-term, commercial paper, and redemption of the convertible debentures;
- Capital spending of about C\$1.6 billion over the next 12 months;
- Dividend payments of about C\$600 million over the next 12 months; and
- About C\$105 million for the acquisition of Peterborough Distribution Inc.

Environmental, Social, And Governance

HOL's exposure to environmental risk is quite manageable compared with its electric utility peer group, since T&D companies are more favorably positioned than their counterparts with owned power generation assets.

From a social perspective, high power prices and consumer electricity bills are highly politicized in Ontario. We view this negatively in terms of regulatory advantage, since political interference is a potential negative credit factor. However, the primary goal of the company's critics is focused on reducing power costs, not T&D rates. These objectives can reduce social risks in the short term, but excessive political interference could constraint management's effectiveness over time and hinder long-term credit quality.

From a management and governance standpoint, the Ontario government recently passed an amendment to the Ontario Energy Board Act (OEBA) to exclude any compensation paid to HOL's CEO and other senior executives from consumer rates. We view this legislative action as a governance deficiency related to HOL's ownership structure since the Ontario Province exercised its legislative authority to lower electricity rates, consistent with the government's election campaign promises. In our view, the use of this legislative authority to influence HOL's compensation structure for executives undermines the effectiveness of the company's governance structure, and potentially promotes the interests and priorities of the Ontario government above those of other stakeholders. We also note that these events followed the recent resignation of Hydro One's entire previous board of directors. Additional interferences in HOL's business or operating decisions could result in a weaker assessment of the company's governance, reflecting severe deficiencies.

With respect to HOL's strategic positioning, the WUTC's rejection of its merger petition with Avista suggests that HOL may be unable to convert strategic decisions into constructive actions, which in our assessment weakens the company's overall ability to track, adjust and control the execution of

its strategy.

Issue Ratings - Subordination Risk Analysis

Capital structure

HOL's capital structure consists of about \$10.5 billion of senior unsecured long-term debt, all of which is issued by HOI. There is no senior unsecured debt at the HOL level.

Analytical conclusions

We consider HOI as a qualifying investment-grade regulated utility under our criteria. As such, we rate its senior unsecured debt the same as our issuer credit rating on HOI.

Ratings Score Snapshot(Hydro One Ltd.)

Issuer Credit Rating: A-/Negative/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (-1 notch)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: a-

Group credit profile: a-

Status within group: Parent

Ratings Score Snapshot(Hydro One Inc.)

Issuer Credit Rating: A-/Negative/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Excellent

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (-1 notch)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: a-

Group credit profile: a-

Status within group: core (no impact)

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: 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: Group Rating Methodology, 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: Country Risk Assessment Methodology And Assumptions, 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

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Hydro One Limited Issuer Credit Rating	A-/Negative/--	A-/Watch Neg/--
Hydro One Inc. Issuer Credit Rating	A-/Negative/A-2	A-/Watch Neg/A-2
Hydro One Inc. Senior Unsecured Commercial Paper	A- A-1 (LOW)	A-/Watch Neg A-1 (LOW)/Watch Neg
Commercial Paper	A-2	A-2/Watch Neg

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Attachment B

Research

Research Update:

Avista Corp. Ratings Affirmed; Off Watch Positive; Outlook Stable

Primary Credit Analyst:

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

Secondary Contacts:

Sloan Millman, New York + 1 (212) 438 2146; sloan.millman@spglobal.com

Kevin M Sheridan, New York + 1 (212) 438 3022; kevin.sheridan@spglobal.com

Table Of Contents

Rating Action Overview

Rating Action Rationale

Outlook

Company Description

Liquidity

Environmental, Social, And Governance(ESG)

Issue Ratings - Subordination Risk Analysis

Issue Ratings - Recovery Analysis

Ratings Score Snapshot

Related Criteria

Ratings List

Research Update:

Avista Corp. Ratings Affirmed; Off Watch Positive; Outlook Stable

Rating Action Overview

- The Washington Utilities and Transportation Commission (WUTC) has denied the merger petition between Avista Corp. and Hydro One Limited (HOL).
- The WUTC's decision, in our view, significantly increases the likelihood that the transaction will not close, despite other regulatory approvals achieved from other states.
- We are affirming our ratings on Avista, and removing our CreditWatch Positive listing on the company.
- The stable outlook reflects our base-case expectation that Avista will most likely continue to operate as a stand-alone regulated utility, and that the company's funds from operations (FFO) to debt will stay at about 16% through 2020.

Rating Action Rationale

On Dec. 10, 2018, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on Avista Corp. and the 'A-' issue rating on its senior secured debt. At the same, we removed the ratings from CreditWatch with positive implications, where they were placed on June 15, 2018 (see "Hydro One Ltd. And Hydro One Inc. Placed On Watch Negative, Avista Corp. On Watch Positive Ahead Of Regulatory Approvals"). The outlook on Avista is stable.

The rating action follows the WUTC's rejection of the merger petition between Avista and HOL. Because Washington is Avista's largest jurisdiction, the WUTC's decision, in our view, significantly increases the likelihood that the transaction may not close as expected, despite other regulatory approvals achieved from other states. As such, we no longer incorporate in our base case the potential for ratings uplift on Avista as previously expected, given that Hydro One Limited is rated higher than Avista.

Our assessment of Avista's business risk profile primarily reflects its management of regulatory risk, since about 95% of the company's overall EBITDA is derived from low-risk regulated utility operations. The company is generally authorized to use various cost recovery mechanisms to help alleviate regulatory lag, but is somewhat exposed to potential excess power costs, typically tied to an earnings sharing mechanism in Washington. Our business risk assessment also incorporates our view of the company's regulatory diversity and generation mix. Avista primarily operates in Washington and Idaho; Oregon and Alaska jointly contribute less than 10% of its consolidated

revenues. Moreover, the company's dependence on hydro-electric generation introduces fuel replacement risk during periods of unfavorable hydro conditions.

We assess Avista's financial risk profile under our medial volatility financial benchmark table, reflecting the company's business risk derived from its low risk regulated utility operations and average management of regulatory risk. Under our base-case scenario--including capital spending averaging about \$430 million, dividends of about \$100 million, periodic rate cases, and the effects of U.S. tax reform--we expect FFO to debt to average about 16% through 2020. Our base case also assumes a merger termination fee payment to Avista from Hydro One, as per the merger agreement terms, reflecting the lack of regulatory approval in Washington.

Outlook

The stable outlook reflects our base-case expectation that Avista will most likely continue to operate as a stand-alone regulated utility, and that the company's FFO to debt will stay at around 16% through 2020.

Downside scenario

We could lower our ratings on Avista during the next two years if the company shifts its strategic focus to other business activities that weaken its credit quality, or if the company's management of regulatory risk weakens, relative to our expectations. We could also lower our ratings if adverse regulatory decisions weaken the company's FFO to debt consistently below 15%.

Upside scenario

We could raise the rating on Avista if the company materially improves its financial measures, including FFO to debt that is consistently above 21%.

Company Description

Avista is a vertically integrated regulated electric and natural gas utility company. It operates through two segments, Avista Utilities and AEL&P. Avista Utilities provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho; and natural gas distribution services in parts of northeastern and southwestern Oregon. AEL&P offers electric services to approximately 17,000 customers in the city and borough of Juneau, Alaska. Overall, Avista has about 382,000 electric customers and approximately 347,000 natural gas customers.

Liquidity

We assess Avista's liquidity as adequate. We expect the company's sources to cover uses by more than 1.1x over the next 12 months even in the event of a 10% decline in EBITDA. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally

satisfactory standing in the credit markets.

Principal Liquidity Sources

- Revolving credit facility of \$400 million;
- Cash FFO of \$330 million; and
- Minimal cash assumed.

Principal Liquidity Uses

- Long-term debt maturities of about \$272 million in 2019;
- Assumed maintenance capital spending of \$245 million; and
- Dividends of approximately \$100 million.

Environmental, Social, And Governance(ESG)

With a total generation fleet capacity of over 1,800 megawatts, close to 45% of which is based on fossil-fired generation, Avista's environmental footprint is a significant risk factor, including from natural gas (35%) and coal (around 10%). This reflects the potential for ongoing cost of operating fossil units in the face of disruptive technology advances and the potential for changing environmental regulations that may require significant capital investments. In addition, the company's dependence on hydro-electric generation introduces fuel replacement risk during periods of unfavorable hydro conditions. From a social perspective, Avista's safety and health management systems processes enable it to effectively serve electricity customers across four states. Governance factors are neutral to our ESG assessment. Avista has board of directors who, in our view, are capably engaged in risk oversight, including on matters that affect the company's financial performance, regulatory relations, and environmental mandates.

Issue Ratings - Subordination Risk Analysis

Capital structure

Avista's consolidated capital structure comprises about \$1.8 billion of long-term debt, most of which is secured, and about \$50 million of preferred stock, issued through Avista Capital II.

Analytical conclusions

We rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends, and because it is deeply subordinated to other instruments in the company's capital structure, consistent with our criteria. The short-term rating on Avista is 'A-2', based on our long-term issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real

property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue rating, two notches above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 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
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Avista Corp. Issuer Credit Rating	BBB/Stable/A-2	BBB/Watch Pos/A-2
Avista Corp. Senior Secured	A-	A-/Watch Pos
Avista Capital II Preferred Stock	BB+	BB+/Watch Pos

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

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