

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1897

In the Matter of the Application of Hydro)
One Limited (acting through its indirect) SEVENTH 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”) provides the following seventh 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. RECENT DEVELOPMENTS

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 Exhibits A and B: On the evening of Friday, November 30th, the Toronto Globe & Mail newspaper published an article (Exhibit A) related to Hydro One’s CEO selection process. We have enclosed this article in the spirit of ensuring that the Commission is apprised of any media activity related to our merger application. The article is based on anonymous sources who have clearly provided inaccurate information to the media. We have elected not to comment. The selection of the CEO is a highly confidential matter and our board of directors is in the final stages of our CEO appointment process and does not wish to engage in a public discussion before a candidate is selected. Our submissions and testimony continue to reflect the fact that our board is independent and has not had any interference from the government since taking office in August of this year, and we stand by that testimony. We are also including another newspaper article posted on Monday, December 3, by the National Post (Exhibit B). We will continue to notify the Commission of further media developments and would be pleased to address any further questions. We recognize that Chief Administrative Law Judge Michael Grant gave Notice of Official Notice of these two newspaper articles. In an effort to provide a similar package of materials to each state in which this transaction is pending, we have included them again in this filing.

5 Exhibit C: Through our proceedings at the OPUC, the Oregon Citizens’ Utility Board has requested an affidavit from the Province of Ontario (“Province”), attesting that the Province will not exercise substantial influence over the policies and actions of Avista Corporation (“Avista”) if Avista is acquired by Hydro One. Hydro One requested an affidavit from the Province. The Province responded with a letter. The letter is attached as Exhibit C.

6 Exhibit D: Through our proceedings at the Idaho Public Utilities Commission (“IPUC”), IPUC Staff requested that Hydro One form the LLC that will be the immediate parent of Avista, Olympus Equity LLC, in Idaho instead of Delaware. IPUC Staff advises this is necessary to ensure compliance with Idaho Code § 61-327. Hydro One agreed to make this change in the post-closing corporate structure. Exhibit D is a revised chart for the post-closing corporate structure that shows Olympus Equity LLC as an Idaho LLC.

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 4, 2018.

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



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EXHIBIT A

Ford, Hydro One at odds over CEO

The Globe and Mail

December 1st, 2018

Author: ANDREW WILLIS, KAREN HOWLETT

Ontario Premier Doug Ford is in a standoff with independent directors on the Hydro One board over who will be the utility's next CEO. The outcome of the fight is expected to determine the future direction of the company that transmits electricity in the province.

The six independent directors on Hydro One's 10-person board want to select the next boss from one of three former senior executives at British Columbia's electrical utilities, according to government officials, industry executives and lawyers working for Hydro One. The three candidates are all women. The strongest contender is said to be former B.C. Transmission Corp. CEO Jane Peverett.

Other hopefuls include former BC Hydro executive Janet Woodruff and former BC Hydro CEO Jessica McDonald, who is currently an independent director on the Hydro One board.

Hydro One is looking for a new leader after Mr. Ford forced out former CEO Mayo Schmidt over what the Premier claimed was an outsized \$6.2-million annual pay package during Ontario's election campaign last spring.

The entire Hydro One board, which included Ms. Peverett, resigned after Mr. Ford was elected. The new board, with four members chosen by the province and six directors named by Hydro One's institutional shareholders, was announced in August.

Mr. Ford has his own favoured candidates to lead Hydro One, including current Toronto Hydro CEO Anthony Haines, according to government and industry sources. Hydro One executives declined to comment on the CEO search. Mr. Ford is a former Toronto city councilor and worked closely with Mr. Haines in the past. Mr. Haines declined comment. He has been running Toronto Hydro for nine years - he was appointed by former Toronto mayor David Miller - and made \$1.1-million last year.

Two sources familiar with the situation said Hydro One's board rejected Mr. Haines at a recent meeting, with all six independent directors voting against and the four government-appointed directors voting in favour. Despite the vote, the Premier's chief of staff, Dean French, continued to exert pressure on the board to appoint Mr. Haines as CEO, according to the sources.

"As a private corporation, the board of Hydro One is responsible for their own hiring decisions," said Simon Jefferies, the spokesman for Mr. Ford. In an e-mail, he said: "Following years of outrageous Liberal scandals and \$6-million salaries, the government for the people has taken measures to improve accountability and transparency at Hydro One. This includes a legislative provision to approve a responsible and reasonable compensation package for the CEO the board selects, which we will be proceeding with in the near future."

Tiziana Baccega Rosa, a spokeswoman for Hydro One, said the company had no comment.

Hydro One's independent directors are looking at CEO candidates with Western Canadian experience at a time when the utility is in the midst of a \$6.7-billion takeover of Avista Corp. The U.S. company runs electrical and gas transmission networks in Idaho, Washington State, Oregon and Alaska, states that buy

and sell power with British Columbia. The Ontario government owns a 47-per-cent stake in Hydro One after the utility was partly privatized by the previous Liberal regime.

Hydro One's six independent directors have hired Bay Street lawyer Vincent Mercier at law firm Davies Ward Phillips & Vineberg LLP, to advise them on dealing with Ontario's Progressive Conservative government. Mr. Mercier declined to comment on his role. He was also the lawyer to Hydro One's former directors, all of whom stepped down in July following Mr. Ford's election.

In addition to help on the CEO search, Hydro One board members want guidance on how to deal with potential political interference, according to lawyers who work for the utility and its employees. Mr. Ford and members of the Premier's staff are attempting to appoint a CEO and set strategy despite legislation put in place by Ontario's previous Liberal government that explicitly states the province will act as an investor in Hydro One and not get involved in the company's affairs.

The Progressive Conservatives have already introduced their own legislation, known as the Hydro One Accountability Act, which gives the Premier a veto over executive pay. The act also requires the company to disclose what it plans to pay senior executives, something the new board has not done. Government and industry sources say anyone agreeing to be Hydro One's CEO at the current time would be taking the job without knowing the compensation.

The PCs are said to favour offering the next Hydro One CEO a pay package in the \$400,000-to-\$600,000 range, according to sources in the government.

EXHIBIT B

Kelly McParland: Ontario Premier Doug Ford should focus on the deficit and leave Hydro One alone

If Ford wants to prove allegations against him — that he's bully who wants his own way — he couldn't do better than to turn Hydro One into a political pawn



Ontario PC Leader Doug Ford announces his intention to fire the CEO as well as the entire board of Hydro One, in Toronto, Ont. on April 12, 2018. Stan Behal/Toronto Sun/Postmedia Network



[Kelly McParland](#)

December 3, 2018

8:39 AM EST

Ontario Premier Doug Ford has a really good chance to send his young government's reputation and credibility straight into the dumpster. Having inherited a provincial power system that was grossly mishandled by two previous Liberal governments, he seems intent on doing the same with his own, young Conservative regime.

Ford might not be premier if not for the inability of premiers Dalton McGuinty and Kathleen Wynne to keep their fingers out of the affairs of the electricity business. McGuinty saddled it with a great heaping mountain of bad environmental ideas, which continue to siphon money from the pockets over overcharged Ontarians. Wynne went further, mismanaging its affairs directly from the office of the responsible minister, then selling off majority ownership in Hydro One in a deal that sacrificed rich annual payments for a one-time sum the government could immediately spend on voter-friendly projects.

The uproar over Hydro One contributed substantially to the collapse of Wynne's public support and the annihilation of the Liberals in June, when they fell from 55 seats to seven and Ford marched into office after just a few weeks as Tory leader. Bizarrely, he seems to have interpreted the result as evidence that voters weren't opposed to the meddling, just the meddler.

A report Friday indicated that Ford and Dean French — the chief of staff whose heavy-handed tactics have [already won him an ugly reputation](#) — are [butting heads](#) with the Hydro One board over who gets to be the next chief executive. Six independent board members reportedly want one of three women who each have extensive experience in British Columbia, deemed important because Hydro One is in the midst of buying a U.S. power company with extensive activities in the U.S. west. Ford, via the four board members appointed by the province, wants someone else, possibly Anthony Haines, chief executive of Toronto Hydro.

If Ford deliberately set out to prove all the worst allegations against him by his most vociferous opponents — that he's a stubborn, impulsive bully who wants his own way no matter how ill-considered or under-informed — he couldn't do better than to turn Hydro One into a political pawn to be jerked around by a bunch of appointees linked to the premier's office.

He's already wandered a considerable distance down that path by allegedly allowing French to throw his weight around with all the subtlety of a crowbar. Alykhan Velshi, a former chief of staff to Patrick Brown, Ford's predecessor as Tory leader, was hired in September as a vice-president at Ontario Power Generation, the utility that produces the power Hydro One distributes. On his first day at work he was informed he'd been fired, and officially left the job

on Friday, [reputedly at the insistence of French](#). Though Ford denied media reports of French's involvement, no alternative explanation has been offered, or details on the hefty severance Velshi is said to be due for a few weeks' work.

“As a private corporation, the board of Hydro One is responsible for their own hiring decisions,” a spokesman for Ford insisted, though the premier says he hasn't asked French about the claims.

If Velshi's main crime was his association with Brown it would surprise no one. Ford is not fond of Brown, who was forced from the leadership after allegations of sexual misconduct he denies. When Brown tried for a quick political comeback with a run for office in Peel Region, [Ford cancelled the vote](#). Instead Brown ran for mayor of Brampton, a thriving municipality west of Toronto, and [won an upset victory](#) in October. Just days after the election he publicly berated the premier for spiking a planned construction project in Brampton as part of the province's efforts to reduce spending.

If it all sounds like the plot line of a Netflix political intrigue, perhaps it's not a surprise. Ford came to office amid assertions — both from media and opponents — that he had little understanding of the office or the job, and was too used to getting his way. As a wealthy businessman in a family firm, he wasn't accustomed to being challenged, or listening to advice outside his circle of comfort. His short stint as a Toronto city councillor did little to challenge that view.

Treating Hydro One like an offshoot of caucus would go a long way to confirming the charges. Though the province owns a large minority share and has four seats on the 10-seat board, the utility is meant to operate independently, as well it should. Ford attacked it relentlessly throughout last spring's campaign, focusing his complaints on chief executive Mayo Schmidt, who he dubbed “the six million dollar man” over his healthy pay package. [Axing Schmidt](#) was one of his earliest actions as premier.

Schmidt served as proxy for Ontarians' belief that the power business had careened out of control after years of political meddling. The Liberals weren't the first to interfere with Hydro One and OPG, but they took the practice to new levels, with ambitious green energy plans that proved ill-considered and immensely costly, pushing up bills to thousands of customers. Ford is badly mistaken, though, if he thinks voters wanted to replace Liberal interference with Tory interference. What they want is a well-run, independent, professional operation that makes decisions based on the best and most effective means of providing affordable power. They don't want a premier who thinks he knows more about power generation than the people who spend their lives in the business.

Ford has his hands full trying to wrestle down the mammoth deficit he inherited. The outcry that has met his first few modest attempts demonstrates how tough it will be. He'd be better off focusing on the job he was elected for, rather than messing with utility that needs to be left to get on with the job.

EXHIBIT C

Ministry of Energy,
Northern Development
and Mines

Ministère de l'Énergie,
du Développement du Nord
et des Mines



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November 29, 2018

Tom Woods
Chair, Hydro One Ltd.
483 Bay Street,
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Toronto, ON M5G 2P5

Dear Mr. Woods,

Re: Proceeding before the Public Utility Commission of Oregon regarding the proposed acquisition of Avista Corporation ("Avista") by Hydro One Limited ("Hydro One") – Request for Affidavit from the Province of Ontario

I am sending this in response to email correspondence I received from you on November 6, 2018. I understand that Hydro One is requesting that the Province of Ontario, as represented by the Minister of Energy, Northern Development and Mines ("Province"), provide a sworn affidavit to be filed in support of the ongoing proceedings before the Public Utility Commission of Oregon ("OPUC") related to the proposed acquisition of Avista by Hydro One ("OPUC Proceedings"). A draft copy of the proposed affidavit, as well as a briefing note on this matter, was included in your email to me.

I understand that the purpose of the proposed affidavit would be to provide assurance that the Province will not exercise any substantial influence over the policies and actions of Avista after the company has been acquired by Hydro One. You advised that there may be a concern amongst the parties to the OPUC Proceeding regarding the Province's potential influence over Avista after it has been acquired by Hydro One.

I understand that Hydro One has already indicated to OPUC that there are a number of factors that mitigate against the risk that the Province might be able to exercise a substantial influence over Avista after the transaction is completed. First, the rights that the Province might normally be able to exercise as the largest shareholder of Hydro One are significantly limited by the terms of the Governance Agreement. Moreover, all of the directors on Hydro One's Board (and all of Hydro One's subsidiary boards) are independent of the Province and there are no provincial nominees or representatives among the corporation's senior management team. Finally, Hydro One has already made a series of governance and ring-fencing settlement commitments that are intended to insulate Avista's business operations after Avista has been acquired by Hydro One.

I also understand that Avista and Hydro One have proposed a series of further stipulated commitments that would facilitate immediate intervention by the OPUC in the event that (1) Avista's CEO or any other member of the Avista board believes the Province is directly or indirectly exercising substantial influence over Avista's policies or actions; or, (2) the Hydro One Board or any member thereof becomes aware of a proposal to amend, effectively modify, or eliminate the Governance Agreement. I have been advised that these additional stipulations should provide the OPUC with direct avenues for any regulatory action it considers appropriate should either of these circumstances arise.

In light of the factors set out above, the affidavit Hydro One has requested from the Province does not appear to be necessary for the purposes of the OPUC Proceedings. The evidence already provided by Hydro One should be sufficient to address any concerns that the parties to the OPUC Proceeding may have with respect to the Province's relationship with Hydro One. In addition, as you know, there are significant restrictions on the legal authority of government officials to bind the future exercise of legislative and regulatory powers and any affidavit would need to be carefully tailored with these restrictions in mind. We are of the view that it would be preferable that Hydro One not offer to provide any such affidavit to OPUC.

I want to reiterate the Ministry's commitment to supporting Hydro One in its efforts to complete the Avista acquisition.

Should you have any further questions, please feel free to contact me.

Sincerely,



Stephen Rhodes
Deputy Minister, Energy
Ministry of Energy, Northern Development and Mines (ENDM)

cc: Nina Chiarelli – Chief of Staff, Minister of ENDM
Carolyn Calwell – ADM, Strategic, Network and Agency Policy Division, ENDM
Maud Murray – Legal Director, Energy

EXHIBIT D

Post-Closing Corporate Structure

