



# Oregon

Kate Brown, Governor

## Public Utility Commission

201 High St SE Suite 100

Salem, OR 97301

**Mailing Address:** PO Box 1088

Salem, OR 97308-1088

**Consumer Services**

1-800-522-2404

Local: 503-378-6600

**Administrative Services**

503-373-7394

February 12, 2018

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OREGON PUBLIC UTILITY COMMISSION

ATTENTION: FILING CENTER

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SALEM OR 97308-1088

**RE: Docket No. UM 1897 – In the Matter of  
HYRDO ONE LIMITED, Application for Authorization to Exercise Substantial  
Influence over the Policies and Actions of AVISTA CORPORATION.**

Attached for filing are the following Exhibits:

UM 1897 Exhibit 100 Muldoon

UM 1897 Exhibit 200-201 Muldoon

UM 1897 Exhibit 202-203\* Highly Confidential Muldoon

UM 1897 Exhibit 204-205 Muldoon

UM 1897 Exhibit 300-302 Gardner

UM 1897 Exhibit 400-406 Zarate

UM 1897 Exhibit 500-511 Anderson and

UM 1897 Cover Letter, Service List and Certificate of Service

Exhibits 202-203\* are provided on green papers and mailed to parties who have signed Modified Protective Order No. 17-362.

/s/ Kay Barnes

PUC- Utility Program

(503) 378-5763

kay.barnes@state.or.us

CERTIFICATE OF SERVICE

UM 1897

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 12<sup>th</sup> day of February, 2018 at Salem, Oregon



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Kay Barnes  
Public Utility Commission  
201 High Street SE Suite 100  
Salem, Oregon 97301-3612  
Telephone: (503) 378-5763

UM 1897 – SERVICE LIST

<b>AVISTA UM 1897</b>	
PATRICK EHRBAR (C) (HC) AVISTA UTILITIES	PO BOX 3727 SPOKANE WA 99220-3727 pat.ehrbar@avistacorp.com
DAVID J MEYER (C) (HC) AVISTA CORPORATION	PO BOX 3727 SPOKANE WA 99220-3727 david.meyer@avistacorp.com
<b>HYDRO ONE UM 1897</b>	
JAMES SCARLETT (C) (HC) HYDRO ONE	483 BAY STREET, 8TH FLOOR, SOUTH TOWER TORONTO ON M5G 2P5 jscarlett@hydroone.com
ELIZABETH THOMAS (C) (HC) K&L GATES	925 FOURTH AVENUE, SUITE 2900 SEATTLE WA 98104 liz.thomas@klgates.com; kari.vanderstoep@klgates.com
<b>LIUNA UM 1897</b>	
CHARLES D COLETT (C) (HC) COLETT LAW GROUP LLP	1 LINCOLN CENTER STE 310 10300 SW GREENBURG RD PORTLAND OR 97223-5489 chuck@colettlaw.com
DAVID W. M. FUJIMOTO (C) (HC) WEINBERG ROGER & ROSENFELD	1001 MARINA VILLAGE PKWY STE 200 ALAMEDA CA 94501 dfujimoto@unioncounsel.net
ERIN HUTSON (C) (HC) LABORERS INTERNATIONAL	905 16TH ST NW WASHINGTON DC 20006 ehutson@liuna.org
<b>NWIGU UM 1897</b>	
TOMMY A BROOKS (C) (HC) CABLE HUSTON BENEDICT HAAGENSEN & LLOYD	1001 SW FIFTH AVE, STE 2000 PORTLAND OR 97204-1136 tbrooks@cablehuston.com
EDWARD FINKLEA	545 GRANDVIEW DR ASHLAND OR 97520 efinklea@nwigu.org
CHAD M STOKES (C) (HC) CABLE HUSTON BENEDICT HAAGENSEN & LLOYD LLP	1001 SW 5TH - STE 2000 PORTLAND OR 97204-1136 cstokes@cablehuston.com
<b>OREGON CITIZENS UTILITY BOARD</b>	
OREGON CITIZENS' UTILITY BOARD	610 SW BROADWAY, STE 400 PORTLAND OR 97205 dockets@oregoncub.org
ROBERT JENKS (C) (HC) OREGON CITIZENS' UTILITY BOARD	610 SW BROADWAY, STE 400 PORTLAND OR 97205 bob@oregoncub.org
ELIZABETH JONES (C) (HC) OREGON CITIZENS' UTILITY BOARD	610 SW BROADWAY, STE 400 PORTLAND OR 97206 liz@oregoncub.org
<b>STAFF UM 1897</b>	
KAYLIE KLEIN (C) (HC) PUC STAFF--DEPARTMENT OF JUSTICE	1162 COURT STREET NE SALEM OR 97301 kaylie.klein@state.or.us
MATTHEW MULDOON (C) (HC) PUBLIC UTILITY COMMISSION OF OREGON	PO BOX 1088 SALEM OR 97308-1088 matt.muldoon@state.or.us

CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 100**

**Reply Testimony**

**February 12, 2018**



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**I. QUALIFICATIONS & RECOMMENDATION**

**A. Qualifications**

**Q. Please state your name, occupation, and business address.**

A. My name is Matt Muldoon. I am a Senior Economist for the Public Utility Commission of Oregon (Commission or OPUC). My business address is 201 High Street SE, Salem, OR 97301.

**Q. Please describe your educational background and employment experience.**

A. My educational background and employment experience are set forth in my Witness Qualification Statement, which is provided as Exhibit Staff/201.

**Q. What is your role in this docket?**

A. I am the Staff case manager in UM 1897. As the case manager, I am responsible for Staff’s overall recommendation on Hydro One Limited’s (Hydro One or Applicant) request for authorization to exercise substantial influence over Avista Corporation (Avista or Company).

**B. Testimony Organization**

**Q. What is the purpose of your testimony?**

A. As the Summary Witness in Staff/100, I present Staff’s collective findings and overall recommendation compiled from the analysis of all testifying Staff witnesses in Staff/200-Staff/500. Staff has reviewed the Applicant’s history, identified new concerns and attendant risks presented by Hydro One ownership, and evaluated the benefits that Hydro One claims will accrue to Avista and its ratepayers as a result of the merger.

1 **Q. How is the Staff testimony organized?**

2 A. Four Staff witnesses in the Energy Rates, Finance, and Audit Division offer  
3 Reply Testimony on Hydro One's application (Application) as outlined in the  
4 chart below.

Exhibit No.	Staff Person	Description
Staff/100	Matt Muldoon	Legal Standard, Background, Summary of Staff Review in Staff/200-500
Staff/200		Transaction Fairness, Financial Risks, Regulatory Risks, Political Risks
Staff/202		Highly Confidential Supporting Testimony
Staff/300	Marianne Gardner	Access to Information, Accounting, Corporate Overheads, Cost Allocation, Affiliated Interests, Taxes
Staff/400	Kathy Zarate	Hydro One Customer Service, Safety and Reliability, Environmental Concerns, Relevant Experience
Staff/500	Rose Anderson	Governance and Hydro One Control, Analysis of Claimed Benefits

5

6 **Q. Did you prepare exhibits in support of the Staff/100 testimony?**

7 A. No. All supporting exhibits can be found attached to Staff/200-Staff/500.

8 **C. Summary of Recommendation**9 **Q. What is Staff's recommendation at this time?**

10 A. Staff recommends that the Commission deny Hydro One's application to  
11 acquire Avista. The application as filed does not provide a net benefit to  
12 Avista customers, nor are the ring-fencing conditions offered by Hydro One in  
13 its Application<sup>1</sup> adequate to protect utility customers from harm.

<sup>1</sup> Application of Hydro One Limited/Olympus Equity LLC, hereinafter "Application," (Sept. 14, 2017).

1 **Q. Please provide an executive summary of your review and**  
2 **conclusions.**

3 A. Hydro One has asked the Commission to approve its Application to acquire  
4 Avista whereby Avista would become an indirect wholly-owned subsidiary of  
5 Hydro One, a Canadian utility company.<sup>2</sup> Hydro One is predominantly an  
6 electric transmission and distribution utility located in Ontario, Canada.  
7 However, Hydro One also offers broadband fiber-optical internet service,  
8 leveraging its communications over transmission line capabilities.

9 Not long ago, Hydro One was Ontario Hydro, a vertically integrated  
10 Crown Corporation, wholly-owned by the Province of Ontario (Province of  
11 Ontario). In 1998-1999, Ontario's Energy Competition Act functionally  
12 restructured Ontario Hydro, establishing the new Hydro One with Ontario as  
13 its sole shareholder.<sup>3</sup> It is worth noting that as sole owner of Hydro One, the  
14 Province of Ontario generally chose not to reinvest the proceeds gained from  
15 the sale of Hydro One shares of stock, or the transfer of assets like Hydro  
16 One Brampton networks, back into Hydro One's local distribution utility for  
17 ratepayers' benefit. This historical track record raises questions as to  
18 whether Hydro One—which is still at least 40- percent-owned by the  
19 Province—will be willing to invest time and capital to raise Avista's Oregon

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<sup>2</sup> See Exhibit Staff/205 Muldoon/1-2.

<sup>3</sup> See Appendix 6 to Application at 14 (p. 367 of 415) (Hydro One 2016 Annual Report discussing Hydro One historical transformation steps from a vertically integrated utility of the Crown Corporation through the end of 2016).

1 performance, even when the benefits to Hydro One and the Province are  
2 derived directly from Avista holdings.

3 The Province, seeking to unlock the wider potential of an approximately  
4 60 percent investor owned utility (IOU), conducted an initial public offering on  
5 the Toronto Stock Exchange in 2015, and a secondary offering in 2016.<sup>4</sup>  
6 Additional shares were also sold or supplied to union labor and to First  
7 Nations' OFN Power Holdings, generally financed by the Province, and  
8 guaranteed by the shares transferred. Again, note that Hydro One's local  
9 ratepayers did not benefit from the proceeds of the sale of Hydro One  
10 common shares formerly held by the Province; rather, the Province used  
11 those proceeds for non-utility purposes.<sup>5</sup> This is an important historical  
12 indicator on how the Province may view reinvestment in future Hydro One  
13 U.S. utility holdings, including Avista.

14 In the past three years alone, Hydro One has undertaken tremendous  
15 transitions.<sup>6</sup> Besides first becoming a public company in 2015, Hydro One is  
16 moving from cost-based to performance-based rates in Ontario.<sup>7</sup> Hydro One  
17 is also assembling a new management team. And now, the Applicant comes

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<sup>4</sup> See Ontario Ministry of Energy, Glenn Thibeault's perspective at Exhibit Staff/205, Muldoon/5.

<sup>5</sup> Exhibit Staff/204 explains how the Province plans to "unlock value" from its electricity assets. See discussion in Exhibit Staff/200-202 for more information on the Trillium Trust as a vehicle for infrastructure investment in Ontario.

<sup>6</sup> See Exhibit Staff/205, Muldoon/13 for CapitalCube's look at Hydro One.

<sup>7</sup> See Appendix 6 to Application at 12 (p. 365 of 415) (Hydro One 2016 Annual Report).

1 to the Pacific Northwest, seeking to acquire Avista in order to move beyond  
2 the confines of Ontario.<sup>8</sup>

3 This is a dynamic story that has substantial opposition in Ontario, as  
4 demonstrated by news articles provided in Exhibit Staff/205. These articles  
5 illustrate just how much energy policy continues to be at the nexus of divisive  
6 politics in Ontario.<sup>9</sup> Still, beyond the shifting political debates, another  
7 momentous change has occurred with Ontario's "Fair Hydro Plan," that  
8 recently lowered electricity bills to all residential customers. Some customers  
9 in rural or remote communities, or with low incomes, saw rate drops of up to  
10 50 percent. Against this ever demanding backdrop, achieving diversity of  
11 regulatory exposure, the potential for higher rates of return in the Pacific  
12 Northwest than are possible in Ontario, and securing an expanded portfolio of  
13 utility operations, offers understandable appeal to Hydro One, Ontario  
14 provincial leadership, and other shareholders.

15 Avista appreciates the interest by Hydro One because Avista believes it  
16 can benefit from being part of a larger organization.<sup>10,11</sup> Avista evaluated a  
17 number of possible alternatives, finding the proposed acquisition by Hydro  
18 One to be the best option at this time. However, Staff's role is to examine the

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<sup>8</sup> See Exhibit Staff/205, Muldoon/17 for "Hydro One CEO Schmidt Sees Investor Appetite for \$5.3B Avista Buy" by Gene Laverty, SNL Financial LC, Aug. 2017.

<sup>9</sup> See Exhibit Staff/205, Muldoon/15 for "Ontario Liberals' Hydro Rate Cut Plan Did Little to Spark Voter Support, New Poll Suggests" by the Canada Press on Mar. 15, 2017.

<sup>10</sup> See Exhibit Staff/205, Muldoon/67 for "Small IPOs Are Dying – That's Good" by James Mackintosh, Streetwise Column of WSJ, Nov. 14, 2017 articulating the argument: "If big companies can raise equity more cheaply ... it makes sense to merge to get bigger."

<sup>11</sup> See Application at 10, part 21, for further discussion of scale.

1 proposed acquisition with caution. Avista has been focused on providing  
2 reliable and safe energy services to Northwest customers since 1889, and is  
3 a well-run, standalone utility today.<sup>12</sup> In that context, not only it is important  
4 for Staff to consider new risks and uncertainties caused by the proposed  
5 merger while pinning down tangible benefits to Oregon ratepayers, but  
6 Oregon law requires us to do so.

7 But for the conditions placed on Hydro One during the pendency of this  
8 docket, the Commission will have no authority over Hydro One.<sup>13</sup> This  
9 proposition concerns Staff because poor credit ratings at Hydro One, or the  
10 further transformation or bankruptcy of Hydro One, could cause serious harm  
11 to Avista customers if adequate separation is not achieved between Hydro  
12 One and Avista.

13 Which further highlights the importance of the decision in this docket—if  
14 the Commission approves the application but does not adopt adequate ring-  
15 fencing conditions *in this docket* that protect Oregon ratepayers from future  
16 actions by Hydro One, there is no second opportunity to insulate Avista from  
17 Hydro One decision-making that may not align with the interests of distant  
18 Oregon utility customers.

19 Further, to be approved by the Commission, Oregon law requires that  
20 the transaction result in a “net benefit” to Avista customers and no harm to

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<sup>12</sup> For clarification, 1889 is the year in which Avista’s predecessor was founded.

<sup>13</sup> Acquisition of another Oregon public utility by Hydro One or its subsidiaries would require Commission approval.

1 Oregon citizens as a whole. Commitments and guarantees (conditions)  
2 proposed by Hydro One to mitigate or offset the risks that arise from the  
3 transaction itself are not viewed as benefits, but are instead ways to mitigate  
4 the harm that could result from the acquisition and new ownership structure,  
5 as well as any new parent-specific risks. Therefore, Hydro One must carry its  
6 burden of demonstrating to the Commission that the proposed acquisition  
7 provides an actual net benefit to Avista's *Oregon* customers, not simply no  
8 harm.

9 The transaction itself undoubtedly brings with it new potential risks not  
10 present today.<sup>14</sup> Some of these risks are through no fault of Hydro One, such  
11 as the political and regulatory risks of having one's provincial government  
12 also be one's primary shareholder; especially at a time when the provincial  
13 government is undertaking substantial infrastructure builds that require  
14 extensive capital outlays, while simultaneously managing the equity concerns  
15 of citizens in Ontario for rates being paid for Crown Corporation energy  
16 generation.<sup>15</sup> Other risks are reflective of new management taking on large  
17 tasks as a team for the very first time, and of Hydro One owning electric  
18 operations but no gas operations to date. Further, on February 8, 2018,  
19 Canadian Prime Minister Justin Trudeau announced that Canada's

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<sup>14</sup> As an example, Hydro One represents that it can issue equity forwards in its response to Staff DR 110, but Staff suspects that the current spotlight in Ontario on Hydro One's transformation to an international IOU and Ontario's role as its largest shareholder makes financing mechanisms like equity forwards more difficult.

<sup>15</sup> See Exhibit Staff/205, Muldoon/41 for a look at Ontario's innovative funding and financing approaches to infrastructure funding.



1 Parliament will revise how electric transmission projects are reviewed –  
2 shifting responsibilities to new about-to-be-formed agencies rather than the  
3 current National Energy Board (NEB). This means heightened regulatory risk  
4 for Hydro One and also for Avista if the merger is approved.<sup>16</sup>

5 Perhaps in the future, Hydro One strategizes to acquire additional U.S.  
6 utilities as routinely as Berkshire Hathaway, Inc. or Fortis, Inc.—but today—  
7 Hydro One is still in infancy stages of integrating its team and developing its  
8 core competencies. Recall that 2016 was Hydro One’s first full year as a  
9 public company.<sup>17</sup> Clearly, additional safeguards are crucial to ensure that  
10 necessary learning does not come at the expense of Avista ratepayers.  
11 Avista operations must be carefully compartmentalized such that concerns  
12 weighing heavily in Ontario cannot negatively impact affordable, safe and  
13 reliable utility service here in Oregon.

14 As currently filed, the Application fails to adequately address these  
15 concerns and others highlighted below. It may be possible for the Applicant  
16 to remedy deficiencies and creatively bolster its proposed controls and  
17 benefits. Staff’s view is informed by Avista’s prior efforts in the acquisition of  
18 Alaska Energy and Resources Co. (AERC). But there remains a substantial

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<sup>16</sup> Premier Trudeau’s initiative was published in S&P Global Financial Intelligence on February 8, 2019 and in the Wall Street Journal on February 9, 2019. Because Mr. Trudeau enjoys majority support in Canada’s Parliament, these proposal proposals are likely to become law

<sup>17</sup> Appendix 6 to Application (p. 252 of 415) (In Hydro One’s 2016 annual report, David Denison, Chair of the Board of Hydro One Limited notes that, “2016 was Hydro One’s first full year as a public company.”).

1 amount of work on the part of Hydro One and Avista before Staff might have  
2 confidence in the advancement of the proposed merger.

3 **Q. Is this Staff's final word in this docket?**

4 A. No. Staff will review the reply testimony of other parties, and a Commissioner  
5 workshop is scheduled for February 26, 2018. The current procedural  
6 schedule provides three more rounds of testimony with two settlement  
7 opportunities, prior to a hearing in June.

## 8 **II. BACKGROUND**

### 9 **A. Legal Standard**

10 **Q. What Commission statute governs Hydro One's Application?**

11 A. Hydro One's application is governed by ORS 757.511. This statute is  
12 triggered any time a person seeks to "acquire the power to exercise any  
13 substantial influence over the policies and actions of a public utility" if such  
14 person is, or by acquisition would become, an affiliated interest with the public  
15 utility.<sup>18</sup> This statute applies to applications for the merger and acquisition of  
16 a public utility and for corporate reorganizations to form holding company  
17 structures. The applicant, in this case Hydro One, bears the burden of  
18 showing that Commission approval of the application will "serve the public  
19 utility's customers and is in the public interest."<sup>19</sup>

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<sup>18</sup> ORS 757.511(1)("affiliated interest" for purposes of this statute is defined in ORS 757.015).

<sup>19</sup> ORS 757.511(4)(a).

1 **Q. What is the legal standard under ORS 757.511 required for approval of**  
2 **Hydro One’s Application?**

3 A. In 2001, the Commission opened Docket No. UM 1011 to determine the legal  
4 interpretation of ORS 757.511’s requirement that the transaction “serve the  
5 public utility’s customers” and be “in the public interest.”<sup>20</sup> Parties to the  
6 docket disagreed as to whether the statute simply required a “no harm”  
7 standard or a “net benefit” standard. The Commission determined that “to  
8 serve the public utility’s customers” requires a higher standard than no harm,  
9 and articulated a two-step analysis for the approval of future transactions  
10 under ORS 757.511:

- 11 • First, the Commission must make the assessment that the utility’s  
12 customers will be served, which means that the transaction will  
13 provide *a net benefit to the utility’s customers*.<sup>21</sup>
- 14 • Second, the Commission must also find that granting the  
15 application is in the public interest, meaning that it will cause no-  
16 harm to the public at large, specifically, “the proposed transaction  
17 may *not impose a detriment to Oregon citizens as a whole*.”<sup>22</sup>

18 The Commission explained that the net benefit determination is not a  
19 rigid standard based solely on economic considerations. Rather, the  
20 legislature gave the Commission discretion in its assessment of whether a net  
21 benefit will result—such a decision is flexible, and depends on the facts and

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<sup>20</sup> Prior to Order No. 01-778, the Commission had not interpreted the ORS 757.511 legal requirement that the transaction “serve the public utility’s customers” because the applicants of prior approved transactions, such as the acquisitions of Enron/PGE in UM 814, Scottish Power/PacifiCorp in UM 918, and Sierra Pacific/PGE in UM 967, had sufficiently demonstrated that the transaction would meet the more stringent net benefit standard.

<sup>21</sup> *In the Matter of a Legal Standard for Approval of Mergers*, Docket No. UM 1011, Order No. 01-778 at 11 (Sept. 4, 2001).

<sup>22</sup> *Id.* at 11 (emphasis added).

1 total set of concerns of each case.<sup>23</sup> Additionally, the Commission need not  
2 always require monetary credits to demonstrate that customers will receive a  
3 net benefit, although past orders have generally required such terms. Staff  
4 agrees that the Commission has discretion in its decision-making, but notes  
5 that conditions proposed by an applicant solely to mitigate the risks and  
6 harms of the transaction should not be viewed as benefits.

7 **Q. What is the appropriate “comparator”?**

8 A. To determine whether a utility’s application satisfies the two requirements of a  
9 net benefit to the utility’s customers and no harm to Oregon citizens, a  
10 comparator is used. The Commission explained that it will measure the  
11 benefits by comparing the transaction proposed in the application to the  
12 continued prudent and well-managed operation of the utility today.<sup>24</sup> By way  
13 of example, in the MidAmerican Energy Holding Company (MEHC)-  
14 PacifiCorp merger docket, the Commission explained that the merger benefits  
15 would be compared against “the continued prudent and well-managed  
16 operation of PacifiCorp, [which] under Scottish Power, has maintained  
17 PacifiCorp’s system; provides good customer service; and ready access to  
18 capital at relatively favorable rates.”<sup>25</sup>

19 In sum, to gain approval of this application, Hydro One bears the burden  
20 of showing that: (1) net benefits result from the proposed restructuring and (2)

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<sup>23</sup> *Id.* at 11.

<sup>24</sup> *In the Matter of MidAmerican Energy Holdings Company Application for Authorization to Acquire Pacific Power & Light*, Order No. UM 1209, Order No. 06-082 at 3 (Feb. 24, 2006).

<sup>25</sup> *Id.* at 3.

1           there will be no harm to Oregon citizens as a whole, as compared with the  
2           continued prudent management of Avista today. Additionally, the statute also  
3           requires that the Commission examine the effect of the merger on income  
4           taxes paid by the utility.<sup>26</sup>

### 5                           **B. Mergers and Acquisitions Background**

6           **Q. Could you explain what corporate structure regulation is and what**  
7           **concerns it addresses?**

8           A. Yes. The objective of corporate structure regulation is to encourage mergers  
9           and acquisitions that serve the public interest and increase utility  
10          performance, and discourage ones that do not. Importantly, the regulated  
11          utility must remain financially healthy in terms of credit ratings and access to  
12          low-cost capital markets, and control of its utility assets and resources.

13                 Likewise, utility management must remain undistracted by investment  
14          activity or obligations at the parent-level and other subsidiary operations that  
15          are unrelated to its first and foremost priority—its obligation to serve utility  
16          customers. Said another way, the parent management should be focused on  
17          the long-term financial performance of the utility and not seek opportunities or  
18          cost-avoidance for the parent at the expense of greater long-term costs to the  
19          acquired utility, Avista in this case. The common “short-term gain”  
20          perspective was a major concern for this Commission in prior ORS 757.511  
21          dockets such as Texas Pacific Group’s (TPG) proposal to purchase Portland

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<sup>26</sup> See ORS 757.511(4)(b).

1 General Electric (PGE) in UM 1121, which the Commission denied.<sup>27</sup> Finally,  
2 should new business ventures pursued by the parent, Hydro One in this case,  
3 fail, the utility must be protected from the possibility of being dragged into the  
4 bankruptcy proceeding of its parent or the parent's affiliates.

5 **Q. Are federal laws, including the Public Utility Holding Company Act of**  
6 **1935 (PUHCA) controls that addressed holding company transfer**  
7 **pricing abuses and over-leveraging of utility companies that gave rise**  
8 **to bankruptcy, still in effect?**

9 A. No. The federal regulatory boundaries on utility holding companies were  
10 largely eliminated with the 1992 amendments to PUHCA and the repeal of  
11 PUCHA in 2005. Therefore, Staff looks to the Commission's ring-fencing  
12 conditions (or commitments) to protect ratepayers.

13 **Q. Then what tools do we have to ensure that utility customers are**  
14 **protected from the actions of its parent company?**

15 A. To be clear, we cannot ensure that customers are *100 percent* protected from  
16 all potential harmful future events or misguided decisions of the parent  
17 company, but ring-fencing is the most common regulatory approach to  
18 providing protection from the risks associated with mergers and acquisitions,  
19 and are reasonably effective when properly and carefully designed.<sup>28</sup> The  
20 primary purposes of ring-fencing are:

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<sup>27</sup> See Order No. 05-114.

<sup>28</sup> For example, in UM 814, approval of the Enron-PGE merger was contingent upon Commission-adopted ring-fencing provisions that mandated PGE be held by Enron in a bankruptcy-remote structure. The Commission ring-fencing conditions successfully protected PGE from the

- 1 1. To maintain separation of the utility from the Parent in order to isolate the  
2 utility from negative legal and financial impacts of the Parent's  
3 investment activity;
- 4 2. To make the utility bankruptcy remote (i.e., protect the utility from being  
5 involuntarily brought into bankruptcy for the benefit of the Parent);
- 6 3. To ensure that the utility can operate on a stand-alone basis; and
- 7 4. To protect utility customers from abuse by affiliates, such as cross-  
8 subsidization.<sup>29</sup>

9 **Q. How does Standard and Poor's view ring-fencing?**

10 A. With regard to the purchase of PacifiCorp by MEHC (a division of Berkshire  
11 Hathaway), Standard and Poor's stated: "Any action that state regulators  
12 take that provides support (whether legal, regulatory, financial or operational)  
13 to the utility and/or isolates the utility (most importantly financial obligations)  
14 from its parent company will be positive for credit." Parent risk can be  
15 mitigated through the follow categories of ring-fencing:

- 16 1. Restricting Parent access to utility dividends;
- 17 2. Restricting degradation of the utility's credit ratings;
- 18 3. Restricting utility loans to affiliates;
- 19 4. Setting standards for pricing of transactions with affiliates; and
- 20 5. Ensuring utility management is focused on its utility operations.

21 **Q. What are some reasons to deny an application despite ring-fencing**  
22 **proposals?**

23 A. One example is when Oregon Electric Utility Company (TPG) tried to acquire  
24 Portland General Electric (PGE) in 2004. The Commission denied TPG's

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bankruptcy proceedings of its parent, Enron, and allowed PGE to able to maintain investment grade ratings during and after Enron's bankruptcy.

<sup>29</sup> Steven Schwartz, "Ring-Fencing" Southern California Law Review available at [http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=5531&context=faculty\\_scholarship](http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=5531&context=faculty_scholarship).

1 application based on concerns related to harm to customers that could result  
2 from TPG's excessive consolidated long-term debt and business risks  
3 associated with TPG's short-term ownership plan. Hydro One similarly risks  
4 over reliance on debt financing in a growth strategy based on mergers and  
5 acquisitions (M&A). Provincial ownership and restrictions of Hydro One stalk  
6 can favor high interest rate convertible debentures or unsecured debt in lieu  
7 of a balanced mix of common equity and low-cost debt. The debt  
8 concentration absent strong ring fencing controls can be expected to impair  
9 not only Hydro One's credit ratings and cost of borrowing, but also that of the  
10 subordinate Avista. Higher borrowing costs for Avista translate to higher  
11 rates for Avista ratepayers.

### 12 III. ANALYSIS

#### 13 A. Hydro One's Proposal

14 **Q. Who is Hydro One? Please provide some background on the Canadian**  
15 **utility.**

16 A. Hydro One, operating through its principal subsidiary, Hydro One Inc., is an  
17 investor-owned electric transmission and distribution utility headquartered in  
18 Toronto, Ontario, Canada.<sup>30</sup> Hydro One provides electric distribution service  
19 to more than 1.3 million retail end-use customers, as well as electric  
20 transmission service to many local distribution companies and large industrial  
21 customers.<sup>31</sup>

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<sup>30</sup> Application at 3.

<sup>31</sup> *Id.*



1 For more than 100 years—and until less than three years ago—Hydro  
2 One, and its predecessor Ontario Hydro, were owned solely by the Province  
3 of Ontario. In 2015, Hydro One became a commercially operated investor  
4 owned utility.<sup>32</sup> However, the Province of Ontario remains a dominant  
5 shareholder and as of July 31, 2017, owned 49.9 percent of Hydro One's  
6 shares, with the remainder of shares held by private investors.<sup>33</sup> It is worth  
7 noting that Canadian law<sup>34</sup> restricts the Province from selling voting securities  
8 (including common shares of Hydro One) if it would own less than 40 percent  
9 of the outstanding number of voting securities of that class or series after the  
10 sale.<sup>35</sup> In order to help ensure that the Province meets its ownership  
11 obligations pursuant to The Ontario Electricity Act, Hydro One's governance  
12 agreement with the Province expressly grants the Province a preemptive right  
13 to subscribe for and purchase up to 45% of any proposed issuance by Hydro  
14 One of voting securities or securities that are convertible or exchangeable into  
15 voting securities (other than certain specified excluded issuances).<sup>36</sup>

16 Today, Hydro One is a pure play electric transmission and distribution  
17 utility located solely within Ontario.<sup>37</sup> However, the Applicant seeks  
18 diversification, both in terms of service areas and jurisdictions.<sup>38</sup>

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<sup>32</sup> Application at 15.

<sup>33</sup> Application at 18.

<sup>34</sup> The Ontario Electricity Act, 1998.

<sup>35</sup> Application at 18.

<sup>36</sup> Application at 18.

<sup>37</sup> Application at 15.

<sup>38</sup> Application at 15.

1 **Q. Does Hydro One own, operate, or manage any U.S. local gas companies,**  
2 **or any gas companies for that matter?**

3 A. No. Hydro One is purely an electric utility, and a transmission and distribution  
4 utility only.

5 **Q. What does Hydro One propose in its Application and opening**  
6 **testimony?**

7 A. Hydro One asks the Commission to approve the “Proposed Transaction”  
8 whereby Olympus Equity LLC would acquire all of the outstanding common  
9 stock of Avista, and Avista would thereafter become a direct, wholly-owned  
10 subsidiary of Olympus Equity LLC and an indirect, wholly-owned subsidiary of  
11 Hydro One.<sup>39</sup> At the close, Avista’s common stock will be delisted from the  
12 New York Stock Exchange (NYSE), and Avista will have one shareholder  
13 (Hydro One).<sup>40</sup> The Application explains that Avista is to maintain its existing  
14 corporate headquarters in Spokane, Washington, and will continue to operate  
15 as a standalone utility in Washington, Oregon, Idaho, and Montana.<sup>41</sup>

16 On July 19, 2017, Hydro One, US Parent and Merger Sub entered into  
17 the Merger Agreement with Avista which provides for, among other things, the  
18 acquisition of Avista by Hydro One through the merger of Merger Sub with  
19 and into Avista, with Avista as the surviving corporation in the merger. The

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<sup>39</sup> Application at 3.

<sup>40</sup> Application at 9.

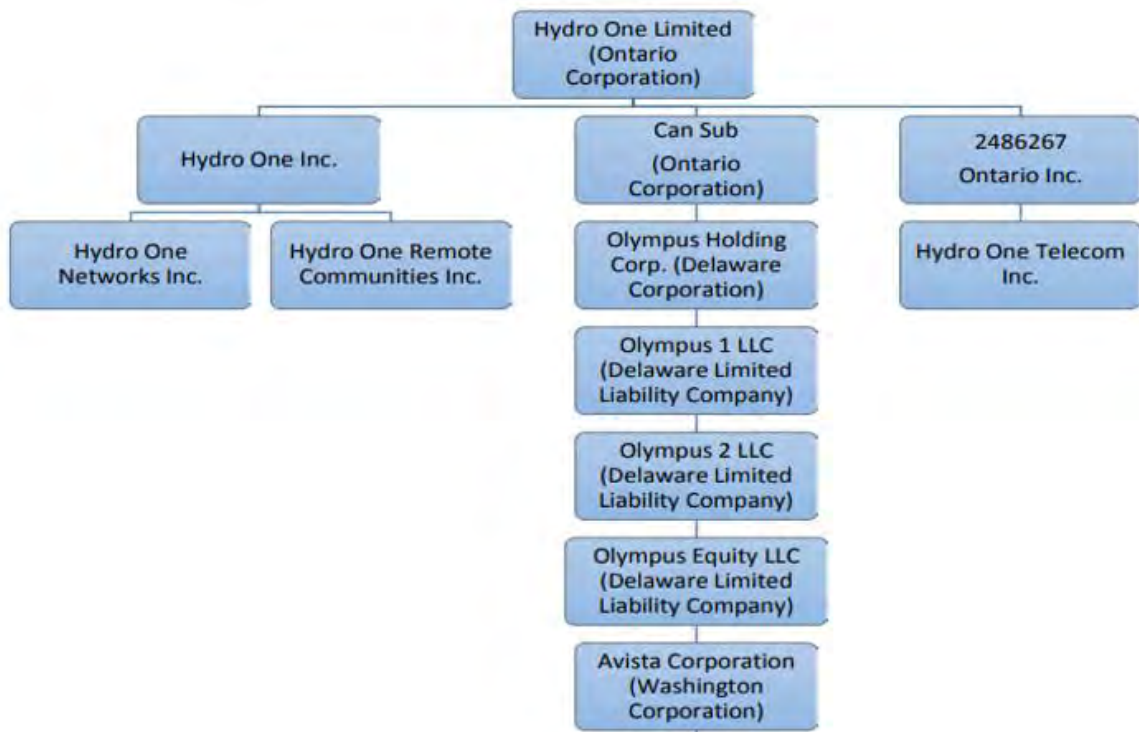
<sup>41</sup> Application at 9.

1 Proposed Transaction was unanimously approved by the Boards of Directors  
2 of both companies.<sup>42</sup>

3 Hydro One requests approval of the Proposed Transaction on or before  
4 August 14, 2018, stating that the same request has been made in other state  
5 jurisdictions, for the purpose of completing the Proposed Transaction by  
6 September 30, 2018.<sup>43</sup>

7 **Q. Do you have a diagram of Hydro One holdings that might help us**  
8 **visualize Avista’s future corporate family?**

9 A. Yes. The truncated illustration below is found in the Application at 28.



Truncated at Avista by Staff

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<sup>42</sup> Application at 8.

<sup>43</sup> Application at 5.

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**B. Attendant Risks of Hydro One Merger**

**Q. Has Staff identified new risks to Avista that would not be present but for the proposed merger with Hydro One?**

A. Yes. Staff has identified numerous and substantial risks that could harm Avista and its customers that would not exist but for the merger, and currently are not mitigated by Hydro One’s proposed Commitments. Staff has grouped the risks into several categories below and summarizes them at a high level. For analysis and further detail, please see the accompanying Exhibits Staff/200 through Staff/500.

**1. Financial Risks**

**Q. What types of financial risks have you identified?**

A. In my review of Hydro One’s Application, I have identified several financial risk areas that are markedly increased as a result of the proposed merger. They include: credit ratings and liquidity; capital structure; cost of long-term debt and ability for Avista to issue fair market bonds; access to capital markets; corporate structure concerns; and bankruptcy risk.

**Q. Please explain your conclusions in these above-noted areas.**

A. First, Avista’s credit ratings and liquidity are imperiled by weak ring fencing conditions, rating agency concerns about potential for flow through of increasing debt to the riskiness of Avista, and increased uncertainty in governance. Hydro One’s proposed commitments (conditions) are not designed to preserve or improve Avista credit ratings. Moreover, future reliance on a single inadequate credit rating agency is proposed by Hydro

1 One, such as the use of Morningstar, Inc.'s sell-side ratings or other weak  
2 alternatives in lieu of Avista's current use of both Moody's and Standard and  
3 Poor's. Additionally, Staff would expect conditions be offered that serve as  
4 early warning methods for any deteriorating financial performance at Avista  
5 and prevent roll down that directly affects Avista. Finally, conditions are not  
6 layered for the purpose of building strong ring-fencing support with other  
7 related conditions, leaving Avista vulnerable to myriad new risks and  
8 ratepayers exposed to increased costs.

9 Second, Avista's target of 50 percent debt / 50 percent equity Capital  
10 Structure is similarly at risk. As filed, Hydro One's conditions would allow  
11 substantial wealth to be extracted from Avista in excess of current modestly  
12 growing quarterly dividends sufficient to satisfy Avista's investors today.  
13 Moreover, Hydro One shareholders expect a higher dividend payout ratio  
14 than Avista pays today, placing increased pressure on Avista to funnel equity  
15 up to its Canadian parent.

16 Third, the cost of long-term debt for Avista could rise should Avista's first  
17 mortgage bond program not be maintained, credit ratings fall, or presumed  
18 financial support for Avista by Hydro One not materialize, leaving Avista more  
19 dependent on debt issuance than equity support which would come in the  
20 future from Hydro One rather than from independent stock flotation by Avista.  
21 Absent interlocking conditions, post-merger Avista may be unable to issue  
22 First Mortgage Bonds (FMB), which is a current low cost financing option for  
23 Oregon ratepayers. Instead, Avista may have to issue more expensive

1 debt—like Hydro One does—in the form of unsecured debt or convertible  
2 debentures, which raises financing costs for Oregon ratepayers.

3 Fourth, access to capital markets for Avista would be severely  
4 diminished by refocusing equity to only the Toronto stock market given that  
5 Hydro One proposes to delist Avista from the New York Stock Exchange,  
6 alienating the steady investors that Avista has relied on for years. This  
7 strategy is entirely inconsistent with practices of successful companies  
8 operating utilities in both the United States and Canada.<sup>44</sup>

9 Fifth, Avista's Corporate Structure would no longer target a 50 percent  
10 equity component with resulting negative impact on Avista and new costs  
11 flowing through to ratepayers.

12 Sixth, regarding efforts to make Avista bankruptcy remote, Hydro One's  
13 proposed controls are simply ineffective and do not offer solidly interlocking  
14 conditions, such as truly independent directors and a golden share.  
15 Moreover, the corporate chain includes several companies with uncertain-  
16 purposes directly above the bankruptcy remote special purpose entity (SPE)  
17 above Avista. In other words, Avista could be harmed, possibly critically, in a  
18 bankruptcy proceeding originating outside Avista, by a voluntary bankruptcy  
19 or other material event. Please see Staff/200 and Staff/202 for further  
20 discussion of these risks.

21

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<sup>44</sup> For example, Fortis, Inc. stock is listed on both the Toronto and the New York stock exchanges.

**2. Regulatory Risks**

1  
2 **Q. Did Staff consider regulatory risks of a foreign government being both**  
3 **the largest permanent shareholder as well as the regulator of Hydro**  
4 **One?**

5 A. Yes, this poses material new incremental regulatory risk that is not currently  
6 reflective of Avista as it is situated today. Two examples of the many new  
7 regulatory risks are: A) Avista dependence on ongoing equity support from  
8 Hydro One, which will be least 40-percent owned by the Province of Ontario—  
9 This means that Ontario citizens must continue to elect politicians who see a  
10 value in long-term investment in Hydro One; and B) A track record of  
11 continuing regulatory change in Ontario such as functional separation of  
12 Hydro One's precursor utility, municipalization diminishing Hydro One,  
13 reabsorption of small municipal utilities, and replacement of the NEB with new  
14 agencies with new governance. Rather than a long history of stability, Hydro  
15 One and its owner/regulator are changing. Nothing in the Application as filed  
16 currently mitigate these risks as explored further in Exhibits Staff/200 and  
17 Staff202.

**3. Political Risks**

18  
19 **Q. Did Staff consider, in Exhibits Staff/200 and Staff/202, the many political**  
20 **risks associated with volatile energy-centric politics in Ontario?**

21 A. Yes. Political risk would undoubtedly be increased by this merger. Hydro  
22 One is by law at least 40 percent owned by the Province of Ontario. A  
23 change of government in Ontario from election cycle to election cycle, or even

1 a simple change in policy due to political pressures, could make Avista a  
2 much more turbulent company than it is today. Nothing in the Application as  
3 filed currently mitigates these risks, or ensures that the Commission's ability  
4 to insulate Avista from effects of Canadian political decisions is not  
5 diminished post-merger. Hydro One's current primary business is owning and  
6 operating electric transmission and distribution in Ontario. After functional  
7 separation, Hydro One does not now enjoy cash flows from diversified and  
8 risk-offsetting businesses. Rather, its business is concentrated in  
9 transmission.

10 And as discussed earlier, if Prime Minister Trudeau's current initiative  
11 becomes law, when Hydro One wants to build new transmission, it will no  
12 longer go before the Canadian NEB that it is familiar with. Rather Hydro One  
13 would go before two new reviewing agencies headquartered in Calgary,  
14 Alberta. These agencies would have new board constituency requirements  
15 and would base decisions on both "*robust science and indigenous traditional*  
16 *knowledge*."<sup>45</sup> This is not a criticism of what may be a fine improvement in  
17 comparison to current government regulatory processes in Canada. Rather,  
18 it indicates that there is a changing regulatory landscape in Ontario, wherein  
19 with its concentration in one utility business segment, (transmission), Hydro  
20 One may be more impacted by certain legislative changes, good or bad, than

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<sup>45</sup> See "Canada Moves to Scrap National Energy Board – Replaces It with 2 Regulators" by Gene Laverty of Regulatory Research Associates (RRA), an affiliate of S&P Global Market Intelligence, published February 8, 2018.



1           were Hydro One still a vertically integrated diversified utility. Thus Hydro One  
2           may lean heavily on Avista.

3           **Q. Can the Province of Ontario nominate and vote regarding Hydro One**  
4           **directors, even in contested elections, and even seek to replace the**  
5           **Hydro One Board by withholding votes or voting for removal?<sup>46</sup>**

6           A. Yes. When Ontario intends to act as an investor, it does not mean as a  
7           passive investor. Ontario's minimal separation between regulator, investor  
8           and boards of both regulatory and corporate nature leave Hydro One more  
9           vulnerable to political change than is typical for investor owned utilities.

10          **Q. Why does that pose any difficulty?**

11          A. OPUC Staff's starting point for any cost comparison when looking at costs  
12          allocated from Hydro One to Avista is Hydro One and Avista each operating  
13          as standalone IOUs. Operating as an IOU entails certain costs that are  
14          unavoidable. The costs for Hydro One to operate as an IOU are distinct from  
15          the costs to acquire Avista. Yet Ontario Energy Board (OEB) staff in Ontario  
16          see the comparator for cost prudence review as the Province-owned Crown  
17          Corporation before Hydro One became an IOU.

18                 This can leave stranded costs, which the Province may see as the  
19          responsibility of extra-provincial entities, for example Avista. As the only  
20          remote cash flows would be dividends and like payments to Hydro One from  
21          Avista, this is quite concerning. Today, Avista pays a very steady, very

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<sup>46</sup> See Appendix 6 to Application 45 48 variously Page 398-401 of 415 Hydro One 2016 Annual Report.

1 predictable, gradually growing, quarterly dividend that satisfies current  
2 investors.

3 **4. Currency Exchange Risks**

4 **Q. In Exhibits Staff/200 and Staff202, does Staff consider the incremental**  
5 **costs of currency exchange, volatility of foreign exchange rates and**  
6 **spreads, and further incremental cost of hedging to smooth cash flows,**  
7 **with the possible desire for entities in Ontario to seek a gross up or**  
8 **higher dividends from Avista to address transactional costs?**

9 A. Yes, Staff looked at these and related factors that could increase outflows of  
10 cash from Avista at additional ratepayer expense. Once again, nothing in the  
11 Application as filed currently mitigates these incremental risks. Today, Avista  
12 is currently able to satisfy its U.S. equity investors with steady modestly  
13 growing quarterly dividends.

14 It is entirely uncertain that the Province of Ontario, with at least 40%  
15 ownership of Avista, can think like a long-term investor such as an insurance  
16 company or pension fund, rather than spending revenues from Avista to  
17 accomplish things that people are passionate about in Ontario. Further, one  
18 can presume that 4X hedging would further increase transaction costs to  
19 smooth cash flows to Ontario from Avista. Because Hydro One was long a  
20 Crown Corporation, and because the Province is still the dominant investor  
21 holding Hydro One stock, the Province may see costs such as 4X smoothing  
22 and gross up the responsibility of extra provincial cash sources, namely  
23 Avista.

**6. Access to Information and Accounting Risks**

1  
2 **Q. Did Staff review and have concerns about the impact of the proposed**  
3 **transaction on the Commission's access to information, accounting**  
4 **records at Avista?**

5 A. Yes, as further described in Exhibit Staff/ 300, Staff has concerns that the  
6 language in the Applicant's Commitment No. 22<sup>47</sup> may attempt to  
7 circumscribe the Commission's access to information necessary to review  
8 records of Hydro One and its affiliates. Staff also notes that Commitment No.  
9 21<sup>48</sup> is entirely too vague and does not explain if Avista will keep and maintain  
10 a separate accounting system and the location(s) where Staff may access  
11 records post-merger.

**7. Corporate Overheads, Cost Allocation, Affiliate Interest Risks**

12 **Q. Did Staff review and have concerns about the impact of the proposed**  
13 **transaction on corporate overheads and cost allocation between Hydro**  
14 **One and Avista, and affiliated interest concerns?**

15 A. Yes. The Applicant did not include corporate overheads in any of its  
16 commitments. This is very concerning as the Companies have clearly not yet  
17 decided allocation of corporate overhead costs. More importantly, the  
18 Companies are also unable to articulate overhead synergies that the  
19 Companies plan to realize post-merger, which is one critical component in  
20

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<sup>47</sup> Application of Hydro One (hereinafter Hydro One Application)/Appendix 8/5-6 at No. 22. (filed Sept. 9, 2018).

<sup>48</sup> Ibid, 5 at No.21.

1 demonstrating that the benefits of the merger will outweigh the harms to  
2 Oregon ratepayers.

3 Cost allocations were minimally addressed in Hydro One's proposed  
4 commitments, and the Applicant's testimony and data responses added no  
5 information of substance that Staff would expect based on standard practices.  
6 Understanding cost allocations and affiliated interests is essential because  
7 Staff has a duty to ensure that Oregon ratepayers are not burdened with  
8 costs that are unrelated to the services provided to them.

#### 9 **8. Tax Burden Risks**

10 **Q. Did Staff review and have concerns about the tax implications of the**  
11 **proposed transaction?**

12 A. Taxes were not commented on in the Applicant's conditions. While the  
13 Merger Agreement does discuss taxes and liabilities that exist at the time of  
14 the merger, it did not provide assurance that the appropriate amount of taxes  
15 would be included (benefits), or excluded (burdens), in rates post-merger.  
16 Moreover, the Application, opening testimony, and data responses do not  
17 establish the basis by which the taxes in rates will be calculated, or speak to  
18 customer protections from subsidizing Hydro One's, or its affiliates', tax  
19 expense post-merger.

#### 20 **9. Corporate Citizenship, Customer Service, and Safety Risks**

21 **Q. Did Staff review and have concerns about the impact of the proposed**  
22 **transaction on Avista's corporate citizenship, customer service and**  
23 **safety performance or reliability and resilience?**

1 A. Yes, Staff's review of Hydro One has raised concerns principally with respect  
2 to Hydro One's customer service, general corporate culture, environmental  
3 remediation obligations, and tribal land obligations. Recently in Ontario, how  
4 best to balance targets of both low past due bill collections and high customer  
5 satisfaction have proved difficult for Hydro One as discussed in Exhibit  
6 Staff/400.

### 7 **10. Environmental Risks**

8 **Q. Did Staff detect incremental environmental risks as a result of the**  
9 **proposed merger?**

10 A. As further discussed in Exhibit Staff/400, Hydro One has extensive  
11 environmental contamination and remediation liabilities in the foreseeable  
12 future with regard to PCBs and other hazards. For example, "The  
13 Company's best estimate of the total estimated future expenditures to  
14 comply with current PCB regulations is \$158 million (2015 - \$168 million).  
15 These expenditures are expected to be incurred over the period from 2017-  
16 2025."<sup>49</sup> Similarly, the "Company's best estimate of the total estimated  
17 future expenditures to complete its land assessment and remediation  
18 program is \$66 million . . . ."<sup>50</sup> These are just a few of many liabilities  
19 identified in Appendix 6.<sup>51</sup>

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<sup>49</sup> Appendix 6 to Application at 337.

<sup>50</sup> Appendix 6 to Application at 337.

<sup>51</sup> See Appendix 6 at 345, "28. Contingencies – Legal Proceedings" where Hydro One Inc. and other entities are defendants in active litigation where the plaintiff is seeking up to \$125 million in damages related to allegations of improper billing.

1           **11. Corporate Governance Risks**

2           **Q. Does Staff have concerns about corporate governance post-merger?**

3           A. Staff/500 explains that Staff is concerned that Hydro One would be able to  
4           appoint the majority of Avista's board members. This is especially concerning  
5           given that Hydro One is currently about 50 percent owned by the Province of  
6           Ontario.<sup>52</sup> Avista would have a very large shareholder with divergent political  
7           goals.

8                           **C. Benefits of Hydro One Merger for Avista Customers**

9           **Q. What benefits does Hydro One claim the transaction will provide for**  
10           **Avista customers?**

11           A. Hydro One claims that the benefits to Avista will include: (1) Retail rate credit  
12           to customers; (2) Short term administrative savings; (3) Economies of scale;  
13           (4) Sharing of best practices; (5) Technological platform sharing; (5) Improved  
14           purchasing power; (6) Cultural fit; and (7) Continuation of Avista's community  
15           presence.

16           **Q. Are all of the above tangible benefits?**

17           A. No. Only one of the seven Hydro One claimed benefits is tangible, as  
18           described below and in more detail in Exhibit Staff/500.

19           **Q. Please discuss the one benefit you have identified.**

20           A. The one benefit identified in Staff/500 is the retail rate credit proposed by  
21           Hydro One. However, on average, the total rate credit will provide Oregon

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<sup>52</sup> Hydro One Reports Third Quarter Results. Q3 2017. Page 22. Accessed on January 24, 2018 at <https://www.hydroone.com/investor-relations/financial-reporting>.

1 residential customers a mere \$0.17 per month for ten years. This “benefit” is  
2 extremely small considering the risks and costs to Avista customers  
3 associated with the merger, as further discussed in Exhibit Staff/200-500.  
4 Further, when broken down on a percent of operating revenue basis, the rate  
5 credit currently offered by Hydro One is one of the smallest this Commission  
6 has seen. Please see Staff/500 for a detailed analysis of the proposed rate  
7 credit and effect of offsets.

8 **Q. Why did you conclude that none of the other proposed benefits are**  
9 **tangible?**

10 A. The other proposed benefits, such as economies of scale, sharing of best  
11 practices, and technological platform sharing are highly uncertain and have  
12 yet to be calculated, or even estimated, by the Companies. For example,  
13 Hydro One stated that, “Avista and Hydro One will establish joint working  
14 groups early in 2018 in the areas of supply chain, operations, information  
15 systems, and innovation to share information and to identify potential  
16 efficiencies.”<sup>53</sup>

17 Both Companies have indicated in discovery responses that they  
18 intend to wait until *after the merger* is approved to determine the potential for,  
19 and the amount of, potential cost-savings from information technology  
20 synergies and efficiencies: “After all approvals are received and the  
21 companies merge, both companies will work together to identify, evaluate and

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<sup>53</sup> Staff/504, Anderson/3.

1 execute on opportunities to collaborate on information technology  
2 assets/information technology systems.”<sup>54</sup> Staff cannot evaluate whether any  
3 benefits in these areas will actually result, or are even likely to result, in  
4 reduced costs for Avista customers based on the information provided and  
5 clear lack of attention by Hydro One and Avista.

6 **D. Staff’s Review of Proposed Conditions**

7 **Q. Do Avista and Hydro One offer a full comprehensive set of conditions**  
8 **binding on both the Applicant and Company, intermediate subsidiary**  
9 **companies, and all affiliates consistent with those in prior Commission**  
10 **M&A proceeding orders?**

11 A. No. Many of the Applicant’s proposed conditions use language open for  
12 future interpretation. Further, key elements, such as the utility’s credit rating  
13 by well-accepted rating agencies, are permitted to drastically deteriorate at  
14 the Applicant’s discretion. Rather than interlock and reinforce other  
15 conditions to form stronger aggregate protection for Avista and its ratepayers,  
16 many of the proposed conditions undermine other conditions. Just a few of  
17 the many examples are: Condition 22 offers to provide “reasonable” access  
18 to books and records; Condition 24, mentions Avista, but not Hydro One or  
19 affiliates; Condition 32 clarifies that if each condition does not say it is  
20 specifically binding on Hydro One and affiliates, it isn’t; Condition 35 permits  
21 credit ratings agencies used by Avista to go from Moody’s and Standard and

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<sup>54</sup> Staff/504, Anderson/3-5.



1 Poor's to just one rating agency that is not predictive of future financial  
2 performance; and more. Even if a condition at first reading sounds like it  
3 offers protections, that condition may not apply to Hydro One. And if  
4 conditions are not met, then the Commission need only be notified of the  
5 failure.

6 As currently stated in the 2, very few conditions are broadly binding as is  
7 usual and customary. In aggregate, the fifty-five conditions proposed by the  
8 Applicant offer inadequate protection for Avista ratepayers in Oregon, while  
9 failing to produce a net benefit. Please see Staff/200-500 for evaluation of  
10 the individual conditions.

11 **Q. Why would a bankruptcy or litigation attorney suing Hydro One or**  
12 **another part of the corporate family also likely attach Avista?**

13 A. The regulated utility operations and assets are where the money is.  
14 Therefore, an attorney attacking another part of Hydro One looks at the  
15 defenses of the regulated utilities, and if those defenses are weak, will try to  
16 attach the regulated utility assets to a legal action, including bankruptcy,  
17 originating outside of Avista. In this case, as described further in each of the  
18 individual Staff testimonies, fragmented conditions undermine rather than  
19 reinforce each other, offer broad discretion in whether the condition even  
20 applies, suggests best efforts would do, and allows Hydro One to choose  
21 inferior benchmarks such as sell-side credit ratings.

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**IV. CONCLUSION**1  
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**Q. Is Oregon’s legal standard met for approval of Hydro One’s Application?**

A. No. In the Application as filed, there is no net benefit for Avista’s Oregon ratepayers, Oregonians would be harmed, and Avista post-merger would not compare favorably to the prudently managed current Avista. Setting aside the fact that new risks resulting from the proposed merger have not been mitigated, the benefits proposed by Hydro One are also highly speculative. Looking at the proposed rate credit and ignoring the diminishing effect of the time value of money, an Avista Oregon LDC ratepayer would only save about 17 cents on their average bill, were the Commission to approve the Application as filed. Staff sees no net benefit for Oregon ratepayers as currently filed.

**Q. Can Hydro One remedy its Application in future testimony?**

A. Relying only on the Application as filed, one might be pessimistic. However, given Avista’s positive track record, should Hydro One heed Avista’s advice, and should the Applicant devote the necessary effort to rectifying ineffective controls, Staff would consider a more comprehensive and functional set of interlocking, reinforcing conditions designed to help ensure that Avista customers are not harmed by the proposed merger, accompanied by a proposal with incremental benefits to customers.

**Q. Can Staff recommend that the Commission approve Hydro One’s Application to acquire Avista at this time?**

A. No.

1 **Q. Does this conclude your testimony?**

2 A. Yes. Please see individual Staff testimonies, Staff/200-Staff/500, for findings  
3 supporting Staff's conclusion.

CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 200**

**Reply Testimony**

**February 12, 2018**

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**I. QUALIFICATIONS & KEY CONCERNS**

**A. Qualifications**

**Q. Please state your name, occupation, and business address.**

A. My name is Matt Muldoon. I am a Senior Economist for the Public Utility Commission of Oregon (Commission or OPUC). My business address is 201 High Street SE, Salem, OR 97301.

**Q. Please describe your educational background and employment experience.**

A. My educational background and employment experience are set forth in my Witness Qualification Statement, which is provided as Exhibit Staff/201.

**Q. What is the purpose of your testimony?**

A. I review and evaluate financial matters and due diligence, in addition to regulatory and political risks, related to the proposed acquisition of Avista Corporation (Avista, AVA, or Company) by Hydro One Limited (Hydro One, H1, or Applicant).

**Q. Did you prepare exhibits in support of your reply testimony?**

A. Yes. I prepared the following exhibits:  
Exhibit Staff/201 – Witness Qualification Statement  
Exhibit Staff/202 – Highly Confidential Discussion  
Exhibit Staff/203 – Highly Confidential Data Responses  
Exhibit Staff/204 – Cited Reports and Investor Presentations  
Exhibit Staff/205 – News and Other Cited Materials

**B. Key Concerns**

**Q. Please provide a summary of your Key Concerns in this testimony.**

1 A. The proposed acquisition of Avista by Hydro One presents several serious  
2 concerns for Oregon ratepayers. Over the course of my initial review of  
3 Hydro One's Application to acquire Avista, including the due diligence  
4 performed, financial benefits and risks, and regulatory and political risks, I  
5 identified new merger risks not mitigated by the Commitments (conditions)  
6 and a lack of any incremental benefit to Avista's Oregon customers from  
7 Hydro One ownership. Below is a high-level summary of my findings.

8 With regard to the price of the proposed transaction, I do find that it is fair  
9 to both Avista and Hydro One shareholders. Strong due diligence was  
10 appropriately performed by each company, directly retaining its own  
11 consultants as Staff would expect. Customary price discovery and valuation  
12 methods were properly performed and supportive of the US\$53 cash per  
13 Avista common share. Please see Exhibit Staff/202 for more detail. In the  
14 context of past mergers, the 24 percent premium over spot (point in time)  
15 market closing price is just a little higher (two percent) than the premium  
16 Scottish Power paid for PacifiCorp. The aggregate per share purchase price  
17 equates to about US\$53 billion, inclusive of the assumption of about US\$1.9  
18 billion of Avista debt.

19 By contrast, with regard to the financial risk to Avista—several financial  
20 risks are markedly increased pursuant to the merger Application as filed.  
21 First, Credit Ratings and Liquidity are imperiled, and Hydro One's controls do  
22 not preserve or improve Avista credit ratings. Moreover, future reliance on  
23 inadequate credit rating agencies are proposed. No early warning methods

1 are offered for any deteriorating financial performance at Avista or that may  
2 have rolled down to directly affect Avista. Finally, conditions are not layered  
3 for the purpose of building strong ring-fencing support with other related  
4 conditions, leaving Avista vulnerable to myriad new risks and ratepayers  
5 exposed to increased costs.

6 Second, Avista's target of 50 percent debt / 50 percent equity Capital  
7 Structure is similarly imperiled. As filed, conditions would allow substantial  
8 wealth to be extracted from Avista in excess of current modestly growing  
9 quarterly dividends sufficient to satisfy Avista's investors today.

10 Third, the cost of long-term debt for Avista would rise. Absent  
11 interlocking conditions, post-merger Avista may be unable to issue First  
12 Mortgage Bonds (FMB) which is a current low cost financing option for  
13 Oregon ratepayers, and instead may have to issue more expensive debt, like  
14 Hydro One does, such as unsecured debt or convertible debentures.

15 Fourth, access to capital markets would be severely diminished by  
16 refocusing equity to only the Toronto market given that Hydro One proposes  
17 to delist Avista from the New York Stock Exchange, alienating the steady  
18 investors that Avista has relied on for years. This strategy is entirely  
19 inconsistent with practices of successful companies operating utilities in both  
20 the United States and Canada.<sup>1</sup>

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<sup>1</sup> For example, Fortis, Inc. stock is listed on both Toronto and New York stock exchanges.



1 Fifth, Avista's Corporate Structure would no longer target a 50 percent  
2 equity component with resulting negative impact on Avista and new costs  
3 flowing through to ratepayers.

4 Sixth, regarding efforts to make Avista bankruptcy remote, Hydro  
5 One's proposed controls are simply ineffective and do not offer solidly  
6 interlocking conditions, such as truly independent directors and a golden  
7 share. Moreover, the corporate chain includes several companies with  
8 uncertain-purposes directly above the bankruptcy remote special purpose  
9 entity above Avista. In other words, Avista could be harmed, possibly  
10 critically, in a bankruptcy proceeding originating outside Avista, by a voluntary  
11 bankruptcy or other material event.

12 Concerning the evaluation of new Regulatory Risks for Avista and its  
13 Oregon ratepayers, Staff again sees markedly increased risks with no  
14 offsetting benefits. For example, Staff has general concerns with a foreign  
15 parent company whose shares are, at a minimum, 40-percent-owned by a  
16 foreign government that is known for volatile energy politics.

17 Second, different regulatory requirements in Ontario raise questions of  
18 venue when perspectives differ between the Commission, the Ontario Energy  
19 Board (OEB), and the Province. Absent targeted controls, the merger poses  
20 incremental risks that a dominant shareholder of Avista's potential new  
21 parent, the Province, may not chose to take the long perspective of  
22 investment as current Avista stock holders do, who are largely institutions like  
23 pension funds and insurance companies.

1 Third, access to information could be reduced for the Commission and  
2 Staff, especially with Hydro One's commitments that appear to decide what  
3 the Commission shall have access to. This caution also applies to affiliates  
4 and intermediate companies between Avista and Hydro One. Without clear  
5 visibility and transparency all of the way up the seven-company holding chain,  
6 creative financial and tax management approaches at intermediate  
7 companies could diminish the effectiveness of ring fencing controls.<sup>2</sup>

8 Fourth, currency exchange (4X) and related hedging costs increase  
9 when dividends flow abroad. Government, shareholders and citizens of the  
10 Province of Ontario might expect dividends to be grossed up to receive a  
11 smooth expected value in Toronto, despite fluctuations in 4X rates. Generally  
12 hedging to smooth cash flows would also have an incremental cost over  
13 satisfying existing Avista dividend recipients.

14 Next, political risk would undoubtedly be increased by this merger.  
15 First, as noted earlier, Hydro One is by law at least 40 percent owned by the  
16 Province of Ontario. A change of government in Ontario from election cycle  
17 to election cycle, or even a simple change in policy due to political pressures,  
18 could make Avista a much more turbulent company than as it is managed  
19 today. For example, the Premier's energy policies are regularly attacked by

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<sup>2</sup> To date, Hydro One has not identified who would be members or directors of its several intermediate subsidiaries, who would manage the subsidiaries, or what the articles of organization/incorporation and bylaws indicate as the detailed purpose for these entities. Similarly, Staff has no certain insight into precisely what financial and tax management would occur in each subsidiary, presenting incremental risk for Avista and its ratepayers under both normal operations and in extraordinary events such as a bankruptcy proceeding.

1 opposition party officeholders in Ontario, and attacks sometimes appear  
2 designed to stimulate an emotional response rather than to inform. Hydro  
3 One may, as it collects utility bills, be strongly associated with the Crown  
4 Corporation's generating assets and "hydro" rates, even though those are a  
5 pass through for Hydro One. By contrast, it would seem strange in Oregon to  
6 attack the Governor or her policies by means of attacking Avista's corporate  
7 planning. These changes would pose an incremental risk for Avista finance.

8 In sum, the Application touches on many of the standard controls  
9 necessary for Staff to recommend approval of the proposed merger, but  
10 Hydro One's commitments are light. Moreover, there are many gaps where  
11 essential protections are not discussed. Rather than reinforcing each other,  
12 the controls are weakly written. Thus, the controls offer limited protection for  
13 Avista and its Oregon ratepayers. Given that the risks of the transaction are  
14 not appropriately mitigated, Staff cannot go further to reach the necessary  
15 conclusion that a net benefit exists for Oregon ratepayers.

16 Staff recommends that the Commission expect substantial  
17 reinforcement to meet customary expectations as well as the legal standard  
18 for approval – a net benefit to Avista's Oregon ratepayers and no harm to  
19 Oregonians as a whole. Staff emphasizes that Avista currently does not face  
20 the unmitigated risks as described in this, and other Staff, testimony. The  
21 legal comparator is the current well-managed Avista as it exists today.

22

1 **II. ANALYSIS**

2 **A. Transaction Fairness**

3 **Q. Please describe the due diligence performed by Avista.**

4 A. Avista provided highly confidential information in response to Staff data  
5 requests pertaining to this question. Please see highly confidential Exhibit  
6 Staff/202 for an overview of Staff's findings.

7 **Q. Please describe the due diligence performed by Hydro One.**

8 A. Hydro One provided highly confidential information in response to Staff data  
9 requests pertaining to this question. Please see highly confidential Exhibit  
10 Staff/202 for an overview of Staff's findings.

11 **Q. Please discuss your conclusions as to the valuation of Avista.**

12 A. Hydro One provided highly confidential information in response to Staff data  
13 requests on this question. Please see highly confidential Exhibit Staff/202 for  
14 an overview of Staff's findings, including analysis of the profitability of this  
15 merger for Hydro One and Avista respectively, and in particular the impact on  
16 Avista ratepayers.<sup>3</sup>

17 In general, Avista shareholders will receive \$53 cash per common share,  
18 representing approximately a twenty-four percent (24%) premium to Avista's  
19 last sale price on July 18, 2017 of \$42.74 per share.<sup>4</sup> The aggregate  
20 purchase price is approximately \$5.3 billion, comprised of an equity purchase

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<sup>3</sup> See Avista/100 Morris/6 for a summary of transactions.

<sup>4</sup> In Hydro One's response to Staff DR 112, the Applicant emphasized that this is an all cash deal. Staff believes that Hydro One minimizes the difficulty of investors taking cash received and from the U.S. investing in Hydro One while avoiding transactional difficulties, delays and costs.

1 price of \$3.4 billion and the indirect assumption of approximately \$1.9 billion  
2 of debt.

3 Hydro One is financing this acquisition with long-term debt and C\$1.54  
4 billion of convertible unsecured subordinated debentures, which convert to  
5 stock at close of the proposed transaction.<sup>5</sup> Hydro One's common shares are  
6 listed on the Toronto Stock Exchange (TSX: H), but are not directly listed in  
7 the U.S. now.<sup>6</sup> At close, Avista stock would be delisted from the New York  
8 Stock Exchange (NYSE).

9 **Q. Are you concerned about acquisition costs and market premium?**

10 A. Yes. In prior acquisitions before the Commission, any market premium and  
11 goodwill has been the sole responsibility of the acquiring Company and not of  
12 Commission jurisdictional ratepayers. Staff expects that the Applicant will  
13 offer in future testimony a clear condition binding upon Avista and Hydro One  
14 to this effect. However, this question does raise a concern regarding access  
15 to financial markets and securities flotation costs.

16 **Q. Is there a trend of Canadian companies investing in U.S. utilities?**

17 A. Bloomberg finds that limited opportunities for growth through M&A in Canada  
18 has inspired a trend of Canadian investment in the U.S.<sup>7</sup>

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<sup>5</sup> See: "Hydro One Unit Completes Sale of Debentures to Fund Avista Acquisition" by Saad A. Sulehri – SNL Financial LC – Aug. 10, 2017, provided at Exhibit Staff/205 Muldoon/24

<sup>6</sup> Hydro One currently has 16,720,000 Series 1 preferred shares outstanding according to the Applicants response to Staff DR 114. But without additional detail this testimony uses "shares" to refer to shares of common stock.

<sup>7</sup> See Exhibit Staff/205 Muldoon/7 for Bloomberg's perspective on Canadian acquisitions of U.S. utilities, followed by the Motley Fool's take on why Hydro One might look for entry into the U.S. utility market.

1 **Q. Are the Commitments (conditions) offered by Hydro One and Avista**  
2 **adequate to address usual concerns that might be raised regarding**  
3 **Canadian companies buying state commission jurisdictional IOU's?**

4 A. Looking at the Applicant's and Avista's direct testimony, and reviewing the  
5 proceedings for the following recent three similar M&A Proceedings in the  
6 U.S.:

- 7 1. Fortis, Inc. acquisition of ITC Holdings Corp.;
- 8 2. Emera, Inc. acquisition of TECO Energy, Inc.; and
- 9 3. AltaGas Ltd acquisition of WGL Holdings, Inc.

10 Staff does not believe that the initial conditions and guarantees offered in the  
11 Application are adequate to protect Avista customers from harm, let alone  
12 produce a net benefit. However, Staff sees no barrier to the Applicant and  
13 Avista augmenting and reinforcing the conditions proposed to date.

14 **Q. Why would breadth of financial markets and ease of investing in Hydro**  
15 **One for U.S. investors be important?**

16 A. The Application explains that upon execution of the Merger Agreement, the  
17 transaction will result in the de-listing of Avista common stock shares on the  
18 New York Stock Exchange (NYSE). Staff is amazed that Hydro One would  
19 be comfortable excluding Avista's current equity investors that have been  
20 cultivated for decades by Avista investor relations, as well as other U.S.  
21 investors. Given ready alternatives to investing in Hydro One, removing

1 difficulties for investors who have no transaction fees and need no broker  
2 assistance to invest in U.S. equities makes fundamental financial sense.<sup>8</sup>

3 **Q. What is the concern about access to financial markets and securities**  
4 **flotation costs?**

5 A. When a Canadian company like Fortis, Inc. (Fortis) seeks to buy a U.S. utility  
6 like ITC Holdings, the fact that Fortis is traded on the New York Stock  
7 Exchange can improve financing proceeds.<sup>9</sup> As it is easier to retain the  
8 interest of investors rather than acquire new investors, a U.S. listing helps  
9 preserve the value from decades of investor relations work at the acquired  
10 company. Ease of investment for US investors can support common equity  
11 oversubscription without expensive interest bearing convertible debentures.

12 **Q. Are other approaches commonly used to maintain easy investment**  
13 **opportunities for long-time US investors who want to transition to**  
14 **investment in the acquiring company?**

15 A. Yes, American Depositary Receipts (ADR) are negotiable securities that  
16 represent securities of a non-U.S. company that trades in the U.S. financial  
17 markets. Direct listings in U.S. stock exchanges or ADRs also take  
18 advantage of high current passive investor demand for U.S. listed securities.

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<sup>8</sup> See Exhibit Staff/205 Muldoon/10, 11 for the Motley Fool's take on Avista "Shareholders sent packing," and uncertainties whether certain brokers, not just investors have ready access to the Toronto Stock Exchange without hassles and costs.

<sup>9</sup> See Exhibit Staff/205 Muldoon/12 for Accesswire's look at Fortis.

1 **Q. Doesn't the prompt sale of Hydro One convertible debentures indicate**  
2 **that Ontario and the Toronto Stock Exchange are adequate to serve as**  
3 **markets for Hydro One securities?**

4 A. First, convertible debentures are high-interest debt that can convert to  
5 common shares of Hydro One stock. This financing method is discussed in  
6 greater detail in Exhibit Staff/202, including Staff's concern about the lack of  
7 transparency and the effect of the financing choices made. Regarding  
8 whether the Ontario markets alone are adequate for forward-looking finance  
9 for Hydro One, the answer depends on how one identifies Hydro One. If  
10 Hydro One does what it has always done—operates as an Ontario-centric  
11 utility largely focused on a mission with a geographic scope contained within  
12 Ontario—then yes, local market may suffice. However, if Hydro One wants to  
13 become a dominant North American utility holding company, pursuing growth  
14 through strategic acquisitions in the U.S. and Canada—then no, Ontario and  
15 the Toronto Stock Exchange are entirely inadequate to serve as the sole  
16 market for Hydro One securities.

17 **Q. Can you paraphrase that in more approachable terms?**

18 A. Yes, if Hydro One's role is to become that of Fortis<sup>10</sup> or Berkshire Energy,  
19 current North American utility holding company giants, then Hydro One's  
20 financial framework must transcend Ontario so that Hydro One is a

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<sup>10</sup> One might view Fortis as the Canadian equivalent of Berkshire Hathaway Energy.



1 convincing contender to other companies operating in that competitive  
2 financial and geographic territory.

3 **Q. Why is this important to Oregon ratepayers?**

4 A. The easier it is for Hydro One to float common equity, the less debt will  
5 accumulate in companies above Avista in the proposed post-acquisition Hydro  
6 One corporate structure. Less debt or leverage there, helps preserve Hydro  
7 One corporate credit ratings while reducing risk that credit rating agencies  
8 detect leak through risk to Avista. If Moody's and S&P take increasing  
9 parental leverage risk into account in rating Avista's long-term debt and credit  
10 facilities, that raises financing costs to Avista and therefore the rates of  
11 Avista's Oregon ratepayers.

12 For example, Hydro One's "strong 'A-' rated balance sheet is cited as a  
13 key reason for investors to invest in Hydro One.<sup>11</sup> A second reason listed is  
14 the 70 to 80 percent target payout of Hydro One, which is a higher payout to  
15 dividends than Avista needs to satisfy current investors. Were Hydro One to  
16 take on more debt to finance ongoing M&A, such leverage could put pressure  
17 on Hydro One's 2016 metrics. Said another way, in order for a stressed Hydro  
18 One to meet the high dividend demands of its investors, it could very likely  
19 consider draining the capital out of Avista to meet its Canadian obligations,  
20 leaving Oregon customers with higher rates.

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<sup>11</sup> Appendix 6 to Application at 262 of 415.

1 **Q. Is the taking on of more debt at the Hydro One parent-level, or the**  
2 **numerous Hydro One subsidiaries above Avista in the proposed capital**  
3 **structure, a material imminent risk for Oregon ratepayers? And has this**  
4 **happened before regarding Commission jurisdictional utilities?**

5 A. Yes. This prospect is as ongoing concerns for credit rating agencies and is a  
6 continued concern for Staff in this case without proper ring-fencing of Avista.

7 **Q. Are you confident that Hydro One was the best suitor for Avista?**

8 A. Uncertain. Clearing Up published an article implying that Avista had talked to,  
9 and possibly received bids from, four other entities in the past two years  
10 besides Hydro One. However Avista indicates that Clearing Up may have  
11 overstated this activity. In response to Staff DR 44, Avista offered:

12 The **Clearing Up** article dated December 1, 2017 **incorrectly states that Avista**  
13 **received four other merger and acquisition offers in addition to the**  
14 **offer received from Hydro One.** As stated in the Proxy for the Special  
15 Shareholders Meeting, **Avista had discussions with four other parties**  
16 but does not refer to any other offers that Avista received from the other  
17 parties. Therefore, there are no material details or copies of any other  
18 merger and acquisition offers to provide. See "Background of the Merger"  
19 Section of the Proxy pages 28-39."

20 Avista also provides in response to Staff DR 74:

21 **Other than Hydro One, Avista had detailed merger or acquisition**  
22 **discussions within the last three years with only one entity.** Those  
23 discussions, including the name of the entity, are **protected** under a **non-**  
24 **disclosure agreement** established on February 10, 2017 **with the entity**  
25 referred to in our proxy statement as "**Party A**".

26 Avista further represents in response to Staff DR 75:

27 **Avista did not receive a merger or acquisition offer from any entity**  
28 **other than Hydro One in the last three years.**

29 And in response to Staff DR 76, Avista notes:

1 An explanation of favorability requires complete offers for comparison.  
2 Because only Hydro One provided a complete offer, such a **comparison** is  
3 speculative and has **not** been **developed**.

4 The **board presentation by BofA Merrill Lynch in February 2017** (see  
5 Staff\_DR\_006HC (AVA) Highly Confidential Attachment A (slides 20-  
6 24)) contains a **comparison of the potential universe of buyers on the**  
7 **basis of those buyers' ability to buy and to close**. However, this  
8 **presentation does not impute any relationship to parties A, B, C, or D,**  
9 as discussed in the proxy previously provided as Staff\_DR\_007(AVA)  
10 Attachment A.

11 Staff finds that this discussion hereafter becomes highly confidential and is  
12 therefore addressed in highly confidential Exhibit Staff/202.

13 **Q. Are there any other ways that Hydro One could provide cash flows to**  
14 **Avista, providing a benefit to Oregon ratepayers?**

15 A. No, while Hydro One and Avista indicate that they will look for synergies in  
16 the future, Staff did not see indication of current initiatives to deploy this  
17 expertise in Avista's and surrounding operating territories. Therefore Staff  
18 makes no adjustments regarding the capability described in part below:<sup>12</sup>

19 **OPGW:** With the development of fiber optic technologies, particularly the  
20 advancement of **Optical Ground Wire (OPGW)** in the mid-eighties,  
21 Hydro One started to deploy the OPGW along its high voltage transmission  
22 lines enabling the use of digital technologies and enhancing the  
23 telecommunications capacities. Since that time, Hydro One has expanded  
24 its **fiber optic network** and this technology has become the backbone of its  
25 protection and control network. Approximately 50% of the fiber optic  
26 lines are provided through OPGW that are sitting atop of high voltage  
27 (above 200kV) support structures (pylons). OPGW is deployed on high  
28 voltage transmission lines across the province, including those areas with  
29 higher exposure to lightning. The remaining 50% is provided through  
30 overhead cables attached to wooden pole structures of low voltage  
31 distribution systems. These advancements have allowed Hydro One to  
32 build in-house expertise with these technologies, including:

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<sup>12</sup> This information is drawn from Hydro One's response to Staff DR 44.

- 1 a) Engineering, design, construction and maintenance of the fiber optic  
2 cables along the high voltage transmissions lines; and  
3 b) Engineering, designing, building and operations of the Synchronous  
4 Optical Networks infrastructure using the OPGW fibers.

5 In the late nineties, excess fiber capacity within the OPGW and fiber optic  
6 infrastructures was commercialized through the establishment of **Hydro**  
7 **One Telecom Inc. (HOT)**, then a wholly owned subsidiary of Hydro One  
8 Inc. HOT implemented (i.e., designed, procured, constructed, and  
9 managed) a **commercial carrier grade telecommunications network** to  
10 **offer** a variety of **telecommunications and data networking services** to  
11 **large enterprises, public sector clients, and telecommunications service**  
12 **providers.**

13 **Q. How does the above information inform this proceeding?**

14 A. This is an example of how Hydro One can make Avista a more valuable asset  
15 under its possession. If Hydro One invests post-merger in unregulated  
16 transfer of the above skill to Northwest transmission, Avista will become a  
17 more valuable corporation. But the associated cash would not flow into  
18 regulated Oregon LDC operations and would not benefit Avista ratepayers in  
19 Oregon. This is an illustration of Hydro One's having alternatives ways to  
20 make money than through improved regulated utility operations.

21 **B. Financial Risk Areas**

22 **1. Credit Ratings and Liquidity**

23 **Q. With regard to declining credit rating risk, the Applicant indicates that**  
24 **the merger will not materially affect the credit quality of Avista and**  
25 **that Hydro One will provide equity support for Avista's capital**  
26 **structure to allow Avista access to debt financing under reasonable**  
27 **terms on a sustainable basis.<sup>13</sup> Do you agree?**

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<sup>13</sup> See Avista application at 15 and 28.

1 A. No. In stark contrast to Hydro One, in past merger and acquisitions (M&A)  
2 before the Commission, proponents have made specific financial  
3 commitments and guarantees which they argued constituted a benefit for  
4 ratepayers. For example, Mid-American Energy Holdings created a \$1 billion  
5 guarantee of PacifiCorp's credit ratings and access to low cost debt.<sup>14</sup> That  
6 guarantee created a durable boost to PacifiCorp credit ratings. Hydro One  
7 has not made any specific guarantees for Avista's access to low cost  
8 borrowing, nor provided any concrete support for improved Avista credit  
9 ratings within a target time frame.

10 **Q. Are Avista's credit ratings currently the highest among Commission**  
11 **jurisdictional energy utilities?**

12 A. No. Avista's credit ratings shown below are lower than, for example, those of  
13 Northwest Natural Gas Company.

14 **Avista's Current Credit Ratings<sup>15</sup>**

	<b>S&amp;P</b>	<b>Moody's</b>
<b>Corporate Credit Rating</b>	BBB	Baa1
<b>Senior Secured Debt</b>	A-	A2
<b>Outlook</b>	Positive	Stable

16 **NW Natural's Current Credit Ratings**

<b>Northwest Natural Gas</b>	<b>S&amp;P</b>	<b>Moody's</b>
<b>Corporate Credit Rating</b>	A+	A3
<b>Senior Secured Debt</b>	AA-	A1
<b>Outlook</b>	Stable	Negative

<sup>14</sup> See further detail in Docket No. UM 1209 and Commission Order No. 06-121 therein.

<sup>15</sup> Reproduced from Avista/100 Morris 16 Table No. 1.

1 Staff raises this distinction for two reasons. First, Hydro One had the  
2 opportunity to propose commitments that could provide some confidence that  
3 its ownership of Avista might provide a benefit to Avista ratepayers through  
4 higher credit ratings and better access to low-cost capital. But, Hydro One  
5 declined to do so. Second, as shown above, Avista's credit ratings are  
6 already lower than other Oregon gas utilities, meaning that any damage from  
7 Hydro One ownership raises the risk of producing declining credit ratings at  
8 Avista. Moreover, because Avista's credit ratings are currently lower than  
9 other gas distribution companies, there is less headroom between current  
10 ratings and dropping below investment grade, which raises a concern for staff  
11 that robust ring-fencing is necessary to preserve Avista credit ratings under  
12 proposed ownership by Hydro One.

13 **Q. What is Standard and Poor's outlook on Hydro One's credit ratings?**

14 A. Negative, primarily because of incremental debt issuance at the parent  
15 company. Concerning to Staff, is the fact that Hydro One may very well look  
16 for other resting places for its debt at intermediate subsidiaries where there is  
17 less visibility to the Province and to investors. Mr. Lopez attempts to address  
18 Standard and Poor's negative outlook by clarifying that the Province has a  
19 preemptive right to subscribe up to 45 percent of any new equity, with an  
20 obligation to maintain 40 percent or greater ownership of Hydro One.<sup>16</sup> No  
21 other shareholder may own more than 10 percent of Hydro One.

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<sup>16</sup> Hydro One/400, Lopez/9.

1 Mr. Lopez's testimony notes that Hydro One's long term corporate credit  
2 rating from Moody's is still 'A,' while its senior unsecured bond rating from  
3 Moody's is still 'A3'. This is because, at this point in time, Hydro One has yet  
4 to load the parent company with debt to support future M&A; in other words,  
5 Hydro One has not bought any large utilities yet, but when it does, that is  
6 when credit rating agencies' and Staff's concerns become material.  
7 Particularly, the uncertainty around Hydro Ones' liquidity and any possible  
8 negatives for Avista center on two areas.

9 **Q. What are these areas of concern?**

10 A. The first is that provincial support for Hydro One can suffer from fatigue and  
11 changing political tides. Hydro One repeatedly notes that "the Province of  
12 Ontario shall engage in the business and affairs of Hydro One as an investor  
13 and not a manager."<sup>17</sup> However, this does not mitigate Staff concerns.  
14 Amidst political opposition and criticism, it will be hard for Ontario to act as an  
15 investor with the long run view and Avista's Oregon customers' interests in  
16 mind; rather, there will be pressure on Hydro One to act as an owner who  
17 would like to spend, rather than reinvest cash flows.

18 **Q. Why is this important?**

19 A. If Hydro One acquires Avista, Avista no longer lists and sells its stock on the  
20 New York Stock Exchange, in a large market, to investors who have been  
21 carefully cultivated over decades. Rather, Avista would look to Hydro One to

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<sup>17</sup> See Exhibit Staff/203(Hydro One Response to Staff DR 007).

1 maintain investment in Avista through cash infusions that maintain Avista's  
2 balanced target capital structure and healthy equity component in its  
3 financing. This is essential for maintaining the current provision of safe and  
4 reliable service, at just and reasonable rates to Avista's Oregon customers.

5 Said another way, today Avista Finance is master of its own fate, and  
6 therefore, master of its customers' fates. Post-merger, Avista will be  
7 dependent on Hydro One for equity support.<sup>18</sup> And Hydro One is to a rather  
8 large degree, dependent on Ontario's leadership, regulators, and in large part  
9 citizens understanding that investing and spending are divergent activities.  
10 Recall that pursuant to Canadian law, the Province must own no less than 40  
11 percent of the outstanding number of voting securities of any class or series,  
12 and the Province may exercise its right to vote its securities in its *sole*  
13 *interest*, with some exceptions in the Governance Agreement between Hydro  
14 One and Her Majesty the Queen in Right of Ontario.<sup>19</sup>

15 **Q. Elsewhere you mention Berkshire Hathaway and its support of**  
16 **PacifiCorp. Can you provide a different example of how merger with a**  
17 **strong parent could lower the cost of capital for Avista?**

18 A. Certainly. One timely example is that a strong acquiring utility within a large  
19 financial market could offer green bonds in tranches from it and its North

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<sup>18</sup> In response to Staff DR 19, Avista notes that, "Following the transaction, Avista will no longer have common stock that is publicly traded. Its common stock will be delisted from, and will no longer be traded on, the New York Stock Exchange or any other securities exchange, and will be deregistered under the Securities Exchange Act." *Staff paraphrasing Avista*, the Company notes that Avista's ceasing certain equity related activities could result in cost savings for Avista's customers.

<sup>19</sup> Exhibit Staff/203,204 (Hydro One Response to Staff DR 34 at 2-3) and supporting documents.



1 American utility subsidiaries, bringing the necessary scale and financial  
2 expertise to bear, which would directly save Avista ratepayers money. A  
3 green bond is designed to accomplish environmentally-friendly  
4 projects. Issuing green bonds requires overcoming two barriers: A) scale of  
5 offering, and B) certification of green purpose.

6 Any Commission jurisdictional utility can solidly certify environmentally  
7 positive purposes through Northwest commissions. The challenge is scale.<sup>20</sup>  
8 Scale is critical because the fixed charges for arranging green bonds need to  
9 be spread over as many securities as possible. This would be a substantial  
10 drop in the cost of financing for Avista ratepayers. Further, as one can  
11 imagine, Avista with actual renewable projects can offer a stronger set of  
12 green outcomes than a company like Apple, Inc. Said another way, Hydro  
13 One, a well-situated larger market capitalization parent, can bring  
14 opportunities to Avista, but Hydro One has not indicated an intent to do so.  
15 Hydro One specifically mentions scale as one of the key reasons for the  
16 merger. Avista also sees scale as worth pursuing. Green bonds are just one  
17 of many examples of how something that current-day Avista could not  
18 achieve by itself, becomes possible with greater scale in large financial  
19 markets.

20 **Q. Can you reiterate how coordinated scale helps our ratepayers?**

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<sup>20</sup> See: "Apple Floats a Second Green Bond, This Time for \$1 Billion" by Charles W. Thurston – Clearing Up – Jun. 23, 2017, Energy NewsData Corporation, and "Investors Warm to 'Green Bonds'" by Gerrard Cowan published in the WSJ of April 9, 2017 for more background on green bonds.

1 A: Yes. The demand for green bonds that make an environmental difference  
2 exceeds supply. In security issues, a “Greenshoe Option” is an over-  
3 allotment option provision in underwriting of securities that gives the  
4 underwriter the ability to sell investors more financial instruments than  
5 originally planned by the issuer to meet high demand.<sup>21</sup> When markets  
6 clamor for an issue, the required yield is driven downward by the additional  
7 demand and oversubscription. Were the arrangement largely structured by  
8 the parent on a scale that afforded subsidiaries to make smaller component  
9 tranche “me too” offerings, Avista would have some additional work to  
10 characterize the purposes of bond offerings, but greatly benefit from lower all-  
11 in cost of issuance. This lower cost is driven by higher demand for a limited  
12 quantity of this type of financial instrument.

13 **Q. Has Hydro One articulated any creative ways it can bring scale to**  
14 **Avista bond offerings in large markets, lowering cost for ratepayers?**

15 A: No. At this time Avista is operating in U.S. finance markets and Hydro One is  
16 working with disparate Ontario financial markets with limited, if any, clear  
17 opportunities for cooperative enhancement of Avista’s financing opportunities.

18 **Q. What is your second concern regarding credit ratings?**

19 A. A common Staff concern in mergers and acquisitions is that the parent or  
20 acquirer will drive ongoing acquisitions with additional debt. With lax ring

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<sup>21</sup> In 1911 Green Shoe Manufacturing Company had an oversubscription that allowed its underwriter to increase supply and smooth out price fluctuations while meeting strong demand. This type of over subscription is permitted by the U.S. Securities and Exchange Commission (SEC). Heightened demand satisfied on a larger scale can lower issuance costs.

1 fencing, as seen in this proposal, excessive debt at the parent can trigger  
2 concerns by rating agencies, which can carry through to the acquired wholly-  
3 owned subsidiary, in this case, Avista.

4 **Q Is that the driver for the Hydro One negative outlook from S&P?**

5 A. Yes. This is further addressed in Exhibit Staff/202, with pertinent  
6 communications with credit rating agencies provided in Exhibit Staff/203.

7 **Q. The Dominion Bond Rating (DBRS) agency, highly rates Hydro One's**  
8 **debt, giving it a High A. Does that relieve Staff concerns about**  
9 **ratings and liquidity?**

10 A. No. The Applicant notes that on July 19, 2017, S&P affirmed ratings of Hydro  
11 One's senior unsecured regular bonds at A3, and also Hydro One's senior  
12 unsecured medium-note program at A3.<sup>22</sup> But, Hydro One does not clearly  
13 indicate that it will maintain Moody's and S&P ratings for Avista equal to or  
14 superior to those prior to the proposed merger. For Staff, S&P and Moody's  
15 rating agencies provide apples-to-apples comparisons across Commission  
16 jurisdictional energy utilities and their peers, whereas DBRS is a smaller  
17 Canadian rating agency that employs different rating methodologies than are  
18 utilized by Moody's and S&P.

19 **Q. Has Mr. Lopez addressed markets and listings on the Toronto Stock**  
20 **Exchange (TSX) versus a possible additional future listing for Hydro**  
21 **One on the NYSE?**

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<sup>22</sup> Page 24 of the Application at part 54,

1 A. Yes. Mr. Lopez notes that Hydro One could determine that listing its common  
2 shares on a second exchange would increase its access to equity, but leaves  
3 such determinations to the future.<sup>23</sup>

4 **Q. Why are Hydro One's credit ratings minimally impacted by the**  
5 **Province of Ontario's Fair Hydro Plan?**

6 A. First, the Fair Hydro Plan is a recent, massive rate roll-back in Ontario. The  
7 Plan is indirectly financed in part by increasing borrowing at the Province- and  
8 Crown Corporation-level. The Province's balance sheets are improved by  
9 having debt reside elsewhere. This concerns Staff greatly.

10 Here is a summary of the Plan as described by the Applicant:

11 **Ontario's Fair Hydro Plan** will reduce electricity bills by 25 percent, on  
12 average, for residential customers across the province. Many small  
13 businesses and farms will also benefit from the initiative, with additional  
14 relief for people with low incomes and those living in eligible rural  
15 communities.

16  
17 The Fair Hydro Plan is a multifaceted government policy that affects each  
18 line item on the customer's electricity bill. The majority of Ontario's Fair  
19 Hydro Plan is a **pass-through of costs**, and therefore has minimal  
20 operational or financial impact to Hydro One, as described below.

21 **Electricity Charges** – The electricity line item represents the market cost of  
22 generation and the Global Adjustment (the difference between the contract  
23 and market price). These charges are a pass through to Hydro One. The  
24 Government of Ontario is refinancing a portion of the Global Adjustment  
25 to provide significant and immediate rate relief by spreading the cost of  
26 electricity investments over the expected lifecycle of the infrastructure that  
27 has been built. As such, there are no operational or financial impacts to  
28 Hydro One.

29 **Delivery Charges** – Local distribution companies that service rural areas have  
30 higher cost systems, and thus delivery rates are higher than those who serve  
31 more densely populated areas. Under the Fair Hydro Plan, the government  
32 introduced Distribution Rate Protection, which places a cap on the amount

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<sup>23</sup> Hydro One/400 Lopez/10,

1 of distribution charges a rural customer can pay. Distribution charges that  
2 exceed the cap amount are tracked and collected from the government and  
3 not the customer. As such, there is no change to Hydro One's revenue  
4 requirement; the only change is that a portion is now funded by the  
5 government. Operationally, Hydro One has had to modify its billing  
6 system to display the delivery charges payable by customers and to track  
7 the charges payable by the government. There is no ongoing financial  
8 impact to Hydro One.

9 **Regulatory Charges** – The Ontario Electricity Support Program (OESP) is a  
10 monthly bill credit for low-income customers. Until the Fair Hydro Plan,  
11 the OESP was funded through the Regulatory Charge line item on a  
12 customer's bill. Since the Fair Hydro Plan, this program is now funded  
13 directly by the government. As such, there are no operational or financial  
14 impacts to Hydro One.

15 **Tax** – The Harmonized Sales Tax (HST) is a line item on the bill, of which the  
16 provincial portion is 8% and the federal portion is 5%. The government of  
17 Ontario is no longer charging electricity consumers their portion (8%). As  
18 such, there are no operational or financial impacts to Hydro One.

19 **First Nations Delivery Credit** – As part of the Fair Hydro Plan, the Government  
20 announced that First Nation residential customers living on reserve lands  
21 would be eligible for the First Nations Delivery Credit. This credit is  
22 equivalent to the entire sum of the Delivery Charges, effectively zeroing  
23 out the delivery charge on the bill. The cost of the credit is funded by the  
24 government. As such, there is no financial impact to Hydro One.  
25 Operationally, Hydro One is required to obtain a Status Indian number to  
26 confirm eligibility for this credit.

27 **Affordability Fund** – The Fair Hydro Plan announced a government funded  
28 \$200 million Affordability Fund for customers who are struggling to afford  
29 their bills. The Affordability Fund is run by the Affordability Trust, and  
30 Hydro One was chosen to be the program administrator. Hydro One will  
31 be putting in place the operational processes required to administer this  
32 program, but the full cost of implementing and administering this program  
33 will be paid for by the Affordability Trust and therefore there is no  
34 financial impact to Hydro One.

35 In general, Staff finds that the pass through of generation charges (from  
36 Ontario's Crown Corporations, not Hydro One), which result in a reduction of  
37 costs for energy under the Plan, minimally affects Hydro One's finances.  
38 However, the concerns is that ratepayers and the public may have trouble  
39 differentiating unhappiness with generating costs by Ontario Crown

1 Corporations and Hydro One's transmission and distribution costs when  
2 Hydro One is now responsible for bill collection for both the generation and  
3 T&D charges. This makes Hydro One a lightning rod for energy politics in  
4 Ontario.

5 **Q. To accomplish the Fair Hydro Plan's large "hydro" rate roll-back, did**  
6 **the Province of Ontario need to borrow money directly or through its**  
7 **Crown Corporations, with any intergenerational cost shifting?**

8 A. Yes, but with limited pertinent impact according to Hydro One. In response to  
9 Staff DR 19, Hydro One responds, "The Fair Hydro Plan involves incremental  
10 borrowing by the Government of Ontario. This borrowing has no financial  
11 impact to Hydro One."

12 However, this Provincial borrowing is a component of Staff's concerns  
13 raised in this testimony regarding clarity of Commission visibility into pertinent  
14 financial matters with associated financial or political risk, and the discretion  
15 of the Commission to determine what is relevant and appropriate for the  
16 Commission or Staff to examine.

17 **Q. Has the Province asked Hydro One to carry debt for it regarding the**  
18 **Fair Hydro Plan?**

19 A. Hydro One indicated in its response to Staff DR 181 that Ontario had not.

20 **Q. Please summarize Staff's set of concerns regarding credit rating and**  
21 **liquidity.**

22 A. A large part of Staff's set of concerns is centered on clarity of intention and  
23 purpose of Hydro One, translated into a clear direction for Avista, and subject

1 to solid controls that bind Hydro One as well as Avista. The broader concern  
2 is that the Commission is asked simply to trust that Hydro One will take a  
3 reasonable direction when Hydro One selects in the future from a wide set of  
4 possible actions discussed now. Similarly in Hydro One/400 Lopez/21,  
5 Commitment 35 provides that each of Hydro One and Avista will continue to  
6 be rated by at least one nationally recognized statistical “Rating Agency.”

7 The Commission has explained that the utility comparator for the net  
8 benefits determination is a well-managed current Avista without the proposed  
9 transaction. Frankly, Staff has fairly high confidence in Avista’s current  
10 finance group as it interfaces with large U.S. markets, and no confidence that  
11 substituting its current rating agencies (Moody’s and S&P) with ratings by  
12 lesser alternatives (DBRS or sell-side efforts of Morningstar) would be an  
13 wise alternative.<sup>24</sup> Avista maintains high transparency with the Commission  
14 and has a track record of proven financial performance. The Company could  
15 benefit from being part of a larger organization that is focused on making  
16 each aspect of Avista’s financing stronger. But lowering standards,  
17 expectations and visibility as proposed here is not just a non-starter; it fails to  
18 meet the legal standard’s comparator as required for approval.

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<sup>24</sup> See the article, “The Morningstar Mirage” by Kirsten Grind, Tom McGinty and Sarah Krouse published in the WSJ of Oct 25, 2017, as a reason by the Commission should dislike replacement of Moody’s and S&P with Morningstar ratings. This article is provided starting at Staff/205 Muldoon/75.

1           Moreover, Hydro One has appointed Paul Dobson as Chief Financial  
2           Officer (CFO), effective March 1, 2018.<sup>25</sup> This might be interpreted as Hydro  
3           One reinforcing its finance group to address concerns raised and other issues  
4           looking beyond the Applicant's traditional historically-local Crown Corporation  
5           financing perspective.

6           **Q. Does Avista's Senior Vice President, Chief Financial Officer and**  
7           **Treasurer Mark Thies articulate what the comparator of a well-run**  
8           **current Avista looks like?**

9           A. Yes. In Avista/300 Thies/3-7, Mr. Thies explains Avista's current efficient  
10          financial operations. He explains that currently Avista has a sound financial  
11          profile. Staff cannot emphasize this strongly enough. Mr. Thies does not say  
12          that Avista's ratings could not benefit from new strong parental liquidity and  
13          other credit rating support. But as noted on Avista/300 Thies/12, Avista  
14          secured debt is currently well rated by both S&P and Moody's.

15          Staff is not opposed to the premise that the partnership of Avista and  
16          Hydro One could provide efficiencies derived from scale, but none have been  
17          supported by actual evidence to date. Staff also notes that S&P's move of  
18          Avista's long-term credit ratings to positive from stable. But Staff does not  
19          see ending Avista's need to access capital markets for equity as a certain  
20          positive. As the application is filed, the trade-off is solid current financial

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<sup>25</sup> See: "Hydro One Announces Appointment of Chief Financial Officer" in the Applicant's press release published by S&P Global Market Intelligence on January 28, 2019, and provided at Exhibit Staff/205 Muldoon/136.



1 performance with opportunities for improvement, for dependence on Hydro  
2 One inclusive of many new uncertainties.

3 Based on past Commission orders, Hydro One's proposed financial  
4 controls (Commitments) are not tight enough to meet usual Commission  
5 standards and expectations. However, Staff believes it is within the capability  
6 of Hydro One, with Avista finance group's assistance, to craft comprehensive  
7 controls affecting Hydro One, as well as Avista, such that the Commission  
8 could potentially see the merger as comparing favorably with the current well-  
9 run Avista. That is no guarantee of a certain path to approval.

## 10 **2. Capital Structure**

11 **Q. Does Hydro One offer strong dynamic controls and guarantees such**  
12 **that Avista has high certainty of being able to maintain a target 50**  
13 **percent equity/50 percent long-term debt capital structure as is the**  
14 **customary target for energy utilities?**

15 A. No. The current well-managed Avista pays a regular, predictable growing  
16 quarterly dividend and otherwise devotes itself primarily to delivering safe and  
17 reliable utility service to Northwest customers. This balanced target capital  
18 structure is a source of strength for the Company. Maintaining the equity  
19 component satisfies Moody's and S&P, while controlling the costs of bond  
20 issuances, credit facilities and related financial instruments like letters of  
21 credit, are to ratepayer benefit.

22 In contrast to current conditions, Avista is proposed to become wholly  
23 owned by Hydro One, whose primary shareholder has many diverse financial

1 needs. Oregonians don't vote in Ontario. Demand for higher than current  
2 U.S. trending dividend cash flows, or a desire to draw down on Avista equity  
3 to address pressing financial needs in Ontario, represent real threats to  
4 Avista's financial stability. Therefore controls on the equity component of  
5 Avista's capital structure as informed by Moody's and S&P credit ratings may  
6 incentivize higher Hydro One support from credit ratings than Avista now  
7 enjoys, but must not diminish Avista financially otherwise. And in no case  
8 should ratings fall into B levels for secured first mortgage bonds.

9 The threshold of investment grade credit ratings could potentially be  
10 adequate for guidance to the well-run Avista of today, because of a long track  
11 record of higher performance. Such a presumption under remote ownership  
12 is wholly inadequate, and consistent with prior Commission determination in  
13 M&A approvals. Therefore, this is another area where the controls must be  
14 strong enough to deflect unreasonable extraction of Avista financial resources  
15 and proactive enough to remedy any slide in ratings, capital structure or  
16 liquidity.

17 **Q. What annual dividend growth rate currently satisfies holders of Avista**  
18 **common stock, and why does this matter?**

19 A. Avista's current quarterly dividends are growing at an annual rate of 4 percent  
20 to five percent with no special or one-time additional payouts, according to  
21 Avista's latest investor presentation.<sup>26</sup>

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<sup>26</sup> See Avista's December 2017 investor presentation, "Positioned for Performance, An overview of Q3 2017 and Beyond" page 21 for annual dividend growth rates.

1           Meanwhile Hydro One may still be targeting a high 70 to 80 percent  
2           dividend payout ratio as discussed in Exhibit Staff/202 and illustrated in  
3           Staff/203. By way of background, Hydro One issued no dividends in 2015 as  
4           it transformed the company from a Crown Corporation into a quasi-IOU. In  
5           2016, dividends were 21 cents Canadian per *common* share per quarter with  
6           the first dividend prorated upward by 13 cents to account for the post-IPO  
7           period from November 5 to December 31, 2015. Likewise, Hydro One paid a  
8           little over 26 cents per share per quarter on *preferred* stock solely to the  
9           Province in 2016.<sup>27</sup> This stock (preferred stock) can carry higher interest  
10          rates than Staff prefers to see because it is higher than alternative cheaper  
11          financing for ratepayers. In sum, Hydro One targets a substantial increase in  
12          the quarterly dividends it would like to pay out, 40 percent or more of which  
13          flows through to the Province. Staff questions whether Hydro One will take a  
14          like approach for the payout of dividends it would like to receive from Avista.

15          **Q. Continuing on this thought, what were the annual dividend growth rate**  
16          **and payout ratios for U.S. utilities in 2017 as compared to 2016?**

17          A. Regulatory Research Associates (RRA) reports that for their 60 covered U.S.  
18          electric, water and gas utilities, full year 2017 average dividend growth rate  
19          was 6.6 percent up from 5.9 percent in 2016. Average utility dividend payout

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<sup>27</sup> See Appendix 6 to application 30-31 page 383, 384 of 415 Hydro One 2016 Annual Report.

1 ratio based on S&P Capital IQ for 2017 was 61.6 percent up from a 60  
2 percent average payout ratio in both 2015 and 2016 for U.S. utilities.<sup>28</sup>

3 **Q. How did that break out for electric vs. gas and water utilities?**

4 A. The rate of annual dividend growth by focus was: 5.8 percent for electric, 6.4  
5 percent for gas, and 8.6 percent for water utilities. Once the water utilities are  
6 factored out, it can be seen that U.S. dividends are not rising that quickly.  
7 This is important because these metrics are markedly lower than the dividend  
8 metrics that Hydro One targets in Ontario.

9 **Q. BlackRock, Inc. (BlackRock), and Vanguard Group (Vanguard)**  
10 **manage large index funds. If these funds hold large amounts of both**  
11 **Avista and Hydro One stock, should there be any concern about**  
12 **Avista's post-merger reliance on Hydro One for Avista equity needs?**

13 A. Yes. This is because, in 2017, there was a massive inflow of money from  
14 global passive investors, primarily into the index and mutual funds that hold  
15 U.S. securities. These cash flows are concentrated into funds that seek to  
16 match the performance of certain key U.S. stock indexes. For example,  
17 about US\$1 billion of new investor money flowed into BlackRock, a money  
18 manager, every day in 2017. Avista, as currently situated today, is a  
19 beneficiary of this massive flood of investment because it is listed on the  
20 NYSE.

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<sup>28</sup> See, "Utility Dividends Grow Over 6% in 2017" by Tom Serzan of RRA, published on January 29, 2019, and reproduced at Staff/205 Muldoon/138.

1           By contrast, de-listing Avista from the NYSE as Hydro One proposes,  
2           without making Hydro One also readily accessible to U.S., as well as  
3           Canadian investors, abruptly cuts off the fire hose of investment. US\$1 billion  
4           per day (in BlackRock alone), recently, is too much of an influx for Staff to be  
5           indifferent to a future Avista that relies solely on Hydro One to tap smaller  
6           Toronto financial markets after Avista is removed from the NYSE.<sup>29</sup>

7           **Q. Do BlackRock and Vanguard mix U.S. and Canadian stocks in most of**  
8           **their funds?**

9           A. No. Funds tend to differentiate between domestic U.S. equities and  
10           international funds because they are different funds with different purposes  
11           and different geographic foci, attracting different investors. As an example,  
12           BlackRock iShares, Bloomberg Ticker DJEPCSDT, CUSIP 464288448, is an  
13           approximately US\$5 billion fund investing in high dividend shares in Canada,  
14           Europe and Australia.<sup>30</sup>

15           **Q. Are you suggesting that U.S. investors also suffer from a home**  
16           **market bias in general even when picking passive investment funds?**

17           A. Yes. Where there are no substantial cost or other barriers, a company like  
18           Fortis, a diversified electric utility holding company operating in Canada and

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<sup>29</sup> See the WSJ articles by Sarah Krouse, "BlackRock CEO to Companies: Pay Attention to 'Social Impact'" on January 16, 2018, and "How Much New Investor Cash Did BlackRock Attract in 2018? \$1 Billion a Day." On January 13, 2018

<sup>30</sup> CUSIP is an American National Standard generally 9 character alphanumeric code that identifies a North American financial security. A CUSIP serves as the National Securities Identification Number (NSIN) for securities issued from both the U.S. and Canada. The American Bankers Association owns this system, but it is operated by S&P Global Market Intelligence.

1 the U.S., generally tries to make investment in their company no harder for  
2 interested U.S. investors than it would be for Canadians to invest in Fortis in  
3 Toronto. Therefore, Fortis lists on both the NYSE and Toronto stock  
4 exchanges.

5 **Q. As a related financial matter, did Staff also ask about impact on Avista**  
6 **Pensions and Post-retirement medical funds post-merger?**

7 A. Yes, in response to Staff DR 28, Avista responds:

8 **Avista Pension and Post-Retirement Medical Funds:**

9 After the merger, Hydro One could not access and draw upon pension and  
10 post-retirement medical funds. Under the current terms of the Plans and  
11 Trusts, benefits and coverage are provided only to Avista Corp. eligible  
12 employees and retirees, their dependents and beneficiaries.

13 Staff is not entirely satisfied with the above representation. However, Staff  
14 sees nothing preventing the Applicant and Avista from memorializing this  
15 intent in a condition well-targeted to address any concerns in this regard.

16 **3. Cost of Long-Term Debt and Ability to Issue FMB**

17 **Q. Is continuing Ontario support a source of new risks and uncertainties**  
18 **post-merger compared with current Avista finance?**

19 A. Yes. On the one hand, Avista today can issue first mortgage bonds (FMB) at  
20 ratings of A2 from Moody's and A- from S&P. This is important to Avista  
21 ratepayers because FMB are highly rated and a lower cost form in which a  
22 utility can issue bonds with a maturity over one-year. FMB's save ratepayers  
23 significant interest cost as compared to unsecured debt. Against that  
24 comparator, there is still room for improvement from a merger with a strong

1 new parent that brings new strengths but limited new risks and challenges  
2 with it—which is not the case here.

3 However, Staff cautions that a common response to Staff data  
4 requests about expected merger synergies and efficiencies was that Hydro  
5 One and Avista have “not performed any feasibility studies regarding Avista’s  
6 opportunities.” Staff cannot assume positive synergies will result from the  
7 merger when relevant discovery provided to Staff indicates that Hydro One  
8 and Avista’s assertions are subject to substantial revision.

9 **Q. Avista currently maintains both adequate cash flows to interest service  
10 and a sufficient pool of qualified assets to issue first mortgage bonds  
11 (FMBs). Does Hydro One have a long-tradition of issuing secured debt  
12 guaranteed by diligent management of cash flows and leveraging a lien  
13 on its Mortgage and Deed of Trust?**

14 A. No. Hydro One has been an IOU for only two years. Hydro One Inc. and  
15 Hydro One Limited cannot issue FMB<sup>31</sup>. It has been creative using  
16 convertible debt, but does not have a long history of carefully guarding its  
17 assets and avoiding multiple commitments against them. Hydro One has not  
18 obtained a credit rating in respect of any of its securities for 2016. The issuer  
19 rating from S&P is a forward looking opinion about overall creditworthiness:<sup>32</sup>

20 “A downgrade in the Applicant’s credit rating could restrict the Company’s  
21 ability to access debt capital markets and increase the Company’s cost of  
22 debt.”<sup>33</sup>

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<sup>31</sup> This information was provided by Hydro One in response to Staff DR 97.

<sup>32</sup> See Appendix 6 to Application 23, Hydro One 2016 Annual Report page 273 of 415.

<sup>33</sup> See Appendix 6 to Application 33, Hydro One 2016 Annual Report page 283 of 415.

1           This can become increasingly important if Hydro One pursues a number  
2           of mergers that are heavily financed by debt. The FMB format helps to keep  
3           issuance costs low even if unsecured or corporate ratings fall. Avista must be  
4           able to maintain its ability to issue FMBs, even should Hydro One ratings  
5           degrade due to extensive debt at the parent or intermediate SPE levels.  
6           However, FMB may seem less important to Hydro One as a parent because it  
7           does have a FMB program.

8           **Q. Do any of your concerns here flow over into other financing activities**  
9           **for Hydro One?**

10          A. Yes. Please see Exhibit Staff/202 for more complete detail of credit rating  
11          concerns regarding credit facilities than is provided in non-confidential  
12          responses to Staff DRs.<sup>34</sup> Such corrected provisions better support Moody's  
13          and S&P credit ratings, usual to Commission jurisdictional utility facilities and  
14          reflective of a sound financial team operating smoothly. This is an illustration  
15          of the current sound state for Avista, but by contrast, something that Hydro  
16          One is still working toward.

17           **4. Access to Capital Markets**

18          **Q. Will Avista have greater access to capital markets at affordable rates**  
19          **if owned by Hydro One?**

20          A. While there is the potential for credit rating improvements for Avista, such  
21          improvement is dependent on the nature of Hydro One's support for Avista.

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<sup>34</sup> As an example, Hydro One addressed geographic diversity and credit facility size in response to Staff DR 201.



1 Absent solid commitments by Hydro One (solid commitments do not exist in  
2 the Application), Avista would not see much, if any, credit rating benefit from  
3 ownership by Hydro One.

4 **Q. Can incremental debt from acquisitions (such as the proposed Avista**  
5 **merger) put downward pressure on Hydro One credit ratings that leak**  
6 **through to Avista?**

7 A. This topic is considered highly confidential by the Applicant. Please see  
8 highly confidential Exhibit Staff/202 for Staff's perspective on this topic.

9 **Q. In the U.S., utilities report financial data to the U.S. Securities and**  
10 **Exchange Commission (SEC). What is the comparable reporting**  
11 **process in Canada, and where does one go to obtain these annual**  
12 **and current reports filed by Hydro One?**

13 A. In response to Staff DR 265 on this topic, Hydro One provides:

14 **Canadian Federal Reporting:**

15 Hydro One is a reporting issuer in each province of Canada and, as such, it  
16 is subject to the continuous disclosure requirements of Canadian securities  
17 laws. Among other things, Hydro One is required to file an **Annual**  
18 **Information Form**, annual financial statements, and annual management's  
19 discussion and analysis ("MD&A") with the Canadian securities  
20 regulators, which documents correspond to the contents of an annual report  
21 on Form 10-K typically filed by U.S. domestic public companies in the  
22 United States with the U.S. Securities and Exchange Commission (the  
23 "SEC"). Hydro One also is required to file **interim quarterly financial**  
24 **statements** and MD&A, which correspond to the contents of a quarterly  
25 report on Form 10-Q typically filed by U.S. domestic public companies  
26 with the SEC.

27  
28 Canadian securities laws also require a reporting issuer such as Hydro One  
29 to file reports of **material changes** in their business, operations or capital,  
30 reports of significant acquisitions, and certain other reports which  
31 correspond to a large extent to the Form 8-K current reporting requirements  
32 applicable to U.S. domestic companies subject to SEC reporting

1 obligations.

2  
3 Finally, the rules of the Toronto Stock Exchange and corresponding  
4 policies of the Canadian securities regulators require Hydro One to make  
5 **timely disclosure of material information** by issuing and filing press  
6 releases to disseminate that information. All of the documents filed by  
7 Hydro One with the Canadian securities regulators pursuant to its Canadian  
8 reporting and disclosure obligations are filed on, and available to the public  
9 through, the **Canadian System for Electronic Document Analysis and**  
10 **Retrieval (SEDAR)**, which corresponds to the SEC's Electronic Data  
11 Gathering, Analysis and Retrieval (EDGAR) system, and may be accessed  
12 by the public free of charge at [www.sedar.com](http://www.sedar.com).

13 If the merger is approved, Staff will need to develop better resources for  
14 monitoring Hydro One financial activity. At this time, Staff financial reporting  
15 and utility monitoring resources are targeted to U.S. utilities rather than  
16 Canadian financial and utility news. There also may be a larger number of  
17 analysts and financial reporters covering U.S. utilities, making insights into  
18 Hydro One harder to reliably develop absent controls providing for good  
19 visibility and information flows directly to the Commission.

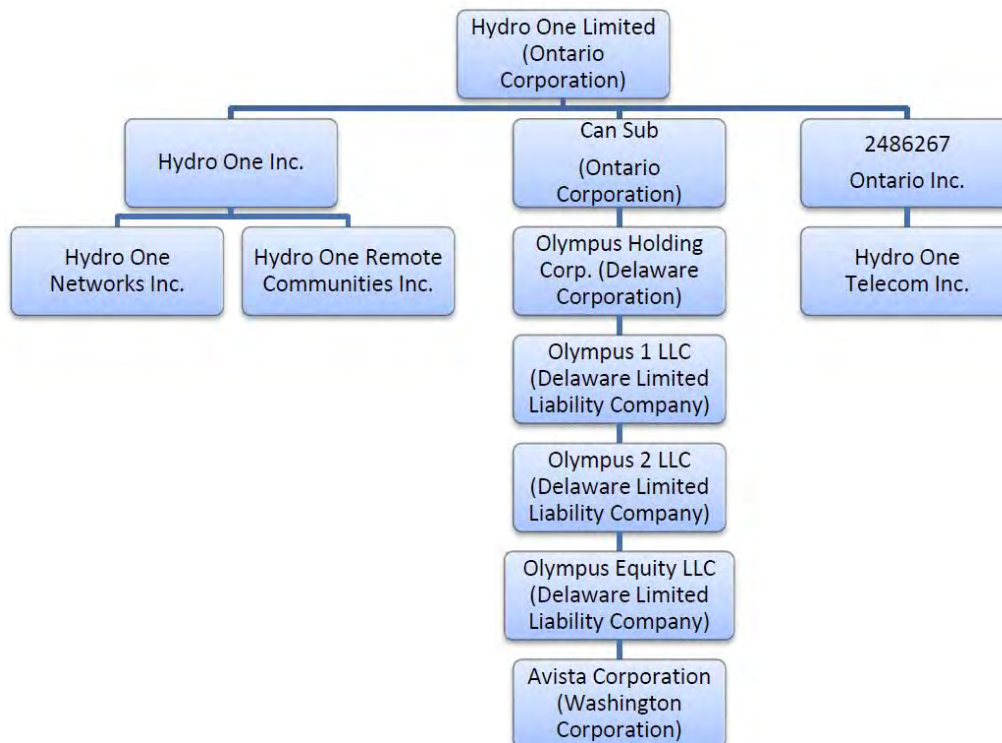
## 20 **5. Corporate Structure Concerns**

21 **Q. What type of capital structure is Hydro One proposing to use to hold**  
22 **Avista should the merger be approved by all necessary regulatory**  
23 **commissions?**

24 A. Hydro One will be the parent company at the top of a long string of entities  
25 that hold Avista. Although there will be a special purpose entity (SPE) directly  
26 above Avista, Staff flags that there are four additional subsidiary entities in the  
27 chain between Olympus Equity, LLC (SPE directly holding Avista) and Hydro  
28 One. However, some aspects of this topic are considered highly confidential  
29 by the Applicant. Please see highly confidential Exhibit Staff/202 for more

1 perspective on this topic. Hydro One explains that the additional intermediate  
2 subsidiaries are created for “Canadian tax planning purposes and to manage  
3 intercorporate fund flows.”<sup>35</sup> Staff is investigating the membership of the  
4 intermediate LLCs and the boards of the corporations and concerns regarding  
5 the proposed structure. For illustrative purposes, the proposed corporate  
6 structure at closing is reproduced below from Avista/100 Morris/17 Illustration  
7 No. 2.

8 **Conceptual Hydro One Corporate Structure at Closing**  
9



10

11

12

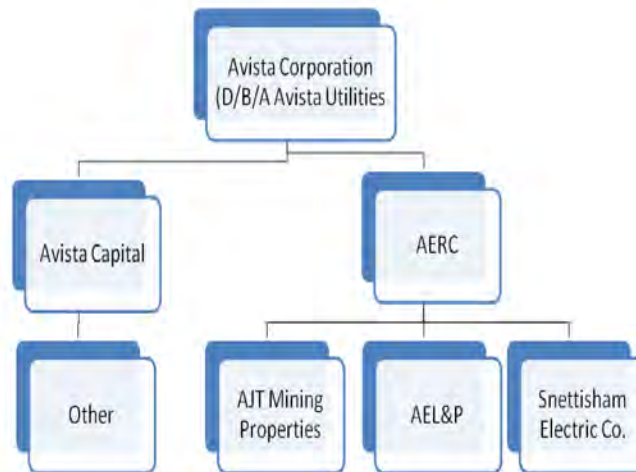
Note: Staff truncated Avista’s current subsidiaries (directly below Avista Corporation) partially represented in Mr. Morris’s testimony. Also, the

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<sup>35</sup> Hydro One/400, Lopez/6.

1 proposed Olympus series companies are conceptual. Staff cannot research  
2 them like existing companies, such as by pulling their bylaws or articles of  
3 incorporation from Washington State's Secretary of State – Corporate  
4 Division.

### 5 **Avista's Corporate Structure Today<sup>36</sup>**



6  
7 **Q. Can a single SPE placed directly above Avista, as is proposed in the**  
8 **post-acquisition corporate structure, improve segregation between**  
9 **the U.S. rate-regulated business and the Ontario rate-regulated**  
10 **business, which is held by Hydro One?**

11 A. Perhaps, if ring-fencing conditions are strongly fashioned, in conjunction with  
12 a Golden Share and independent director(s) conditions. A single SPE above  
13 Avista could be used solely to flow quarterly dividends upward toward Hydro  
14 One and cash infusions or share purchase amounts downward into Avista.  
15 Crisp, clean transaction records through this bankruptcy-remote SPE with no

<sup>36</sup> Reproduced from Avista/102 Morris/1

1 debt could help to isolate Avista and its customers from being drawn into a  
2 bankruptcy outside of Avista.

3 **Q. Does the Applicant propose a clean single SPE placed directly above**  
4 **Avista in the proposed post-acquisition capital structure with no**  
5 **other complexities?**

6 A. No. Hydro One proposes multiple intermediate subsidiaries between Avista  
7 and Hydro One. In addition to the bankruptcy remote SPE directly above  
8 Avista, two other entities are proposed for Canadian tax planning purposes  
9 and to manage intercorporate funds flows. Hydro One asserts that this more  
10 complex corporate structure will not result in any additional costs to be  
11 recovered from Avista customers.

12 **Q. Could these other SPE be used to borrow or loan money, and did**  
13 **Staff inquire regarding precedent in bankruptcy regarding Hydro**  
14 **One's corporate structure and instruments of certainty regarding tax**  
15 **matters?**

16 A. Yes. However, these topics are considered highly confidential by the  
17 Applicant. Please see highly confidential Exhibit Staff/202 for more detail  
18 regarding Staff's inquiries on this topic.

19 **Q. Is it as easy to see into the finances, including strategically placed**  
20 **debt, of a political subdivision in the U.S. or Canada?**

21 A. Historically, Staff has not needed to examine or accurately assess finances of  
22 cities, states or provinces to understand the merits of jurisdictional energy  
23 IOU rate case and financial applications. Analysts are reported by The

1 Oregonian newspaper to be critical of the transparency of cities like Portland's  
2 financing history.<sup>37</sup> Similarly the Government Auditor in Ontario is reported by  
3 SNL Financial LC (SNL) division of S&P Global Market Intelligence as being  
4 critical of hiding debt and interest costs outside the government at entities like  
5 Ontario Power Generation, Inc.<sup>38</sup>

6 Staff is concerned about Commission clarity into debt, loans or interest  
7 obligations which may reside in companies including and between Hydro One  
8 and Avista in the post-merger corporate structure. Given, Oregon's  
9 experiences with Enron Corporation's off book accounting and financial  
10 creativity, this is a non-trivial concern.<sup>39</sup> Absent conditions that provide the  
11 Commission with adequate visibility, Staff cannot tell the Commission there is  
12 nothing to worry about in this regard.

### 13 **6. Bankruptcy**

14 **Q. With regard to bankruptcy risk, Hydro One's Senior Vice President of**  
15 **Finance, Christopher Lopez presents the concept of having Avista**  
16 **held as a wholly-owned subsidiary of a Special Purpose Entity (SPE)**  
17 **called "Olympus Equity, LLC."<sup>40</sup> Is this a positive proposal that helps**  
18 **to reduce risk in the proposed merger?**

---

<sup>37</sup> See: "Portland Finances Get an 'F' Grade for Hidden Debt" by Jessica Floum – The Oregonian – Jan 24, 2018, provided in Exhibit Staff/205 Muldoon/116,

<sup>38</sup> See: "Ontario Budget Watchdog Says Power Rate-Cut Impacts Obscured" by Gene Laverty – SNL Financial LC – Oct. 17, 2017, provided at Exhibit Staff/205 Muldoon/105.

<sup>39</sup> See "The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron" Nov 26, 2013, a book by Bethany McLean and Peter Elkind currently available on Amazon.com.

<sup>40</sup> Hydro One/400, Lopez/5.

1 A. Yes. Mr. Lopez describes this SPE as one carrying no debt and providing a  
2 bankruptcy remote corridor leading from Avista toward Hydro One. Staff  
3 agrees that this could be one of the bankruptcy pillars in protecting Avista and  
4 its ratepayers from having their utility assets attached to an external  
5 bankruptcy proceeding.

6 **Q. What are other pillars that help keep a utility bankruptcy remote from**  
7 **its parent?**

8 A. The second is typically an independent director or independent directors who  
9 must vote to approve a voluntary bankruptcy of the utility, wherein those  
10 directors' votes cannot be diluted or circumvented. The third is typically a  
11 golden share, a sole (\$1 Par) share of Preferred Stock authorized by the  
12 pertinent regulatory commissions. This share of Preferred Stock must be in  
13 the custody of an independent third-party. In matters of voluntary bankruptcy,  
14 this golden share will override all other outstanding shares of all types or  
15 classes of stock. With these three pillars in place, and with no other  
16 complexities in the corporate structure, Avista ratepayers would typically be  
17 well-protected from Avista being voluntarily drawn into an external bankruptcy  
18 proceeding.

19 **Q. Is Mr. Lopez offering a tight, non-recourse set of controls on these**  
20 **matters with no complexities to impair the protection?**

21 A. No, not at this time. However, Staff looks forward to Hydro One and Avista's  
22 refinements and clarifications in subsequent testimony.

23

**C. Regulatory Risk****1. General Concerns with Foreign Parent**

**Q. Does Staff have concerns regarding a foreign parent company for Avista?**

A. Yes. A foreign parent requires persistent confirmation that parties using common words are reaching common meanings and durable agreements. Staff must work to ensure that understandings are mutual, solid and not subject to clarification of definitions or other surprises. Further, Hydro One is subject to a completely different regulatory scheme and ownership structure than Avista, increasing the difficulty in understanding Hydro One operation and compliance, as well as concern with proper management of Avista's operations and compliance in the U.S. Finally, as noted earlier, the Province's significant ownership of Hydro One brings its own set of unpredictable political and regulatory concerns.

**Q. Can you give an example of how like words could be assigned different values?**

A. Yes. Consider a simple statement like, "we commit to making the utility work toward a low-carbon future and reductions in emissions." In Ontario, this likely means pursuing *nuclear* and large hydro plants. In Oregon, this likely means greater reliance on wind, solar and distributed generation bolstered by energy efficiency; certainly not nuclear and large hydro.

**Q. Who regulates Hydro One in Ontario?**



1 A. The Ontario Energy Board (OEB) has a role like that of the Commission.<sup>41</sup>  
2 The Independent Electric System Operation (IESO) has a role like the  
3 California Independent System Operator (CAISO), for Ontario.<sup>42</sup> The National  
4 Energy Board (NEB) has a Federal Energy Regulatory Commission (FERC)-  
5 like certificating and permitting function, as well as a reliability standards and  
6 reporting requirements role. The NEB is responsible for coordinating with its  
7 U.S. counterparts regarding 11 international power lines connecting Ontario's  
8 transmission with transmission in Michigan, Minnesota and New York states.

9 **Q. Can the Province of Ontario nominate and vote regarding Hydro One**  
10 **directors, even in contested elections, and even seek to replace the**  
11 **Hydro One Board by withholding votes or voting for removal?**<sup>43</sup>

12 A. Yes. When Ontario intends to act as an investor, it does not mean as a  
13 passive investor. In principle, the Province intends to limit itself regarding  
14 initiation of fundamental changes to Hydro One, however, if such an initiative  
15 happens, Ontario will vote its shares.

16 **Q. Does the Province also appoint the board members of the OEB?**

17 A. Yes. Recall that OEB serves the same regulator role to Hydro One as the  
18 Commission serves for Avista. Said another way, the government (Ontario)  
19 that owns at least 40 percent of the voting shares of the regulated utility, can  
20 appoint and remove OEB board members that regulate that very utility. This

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<sup>41</sup> See Appendix 6 to Application 7 or variously page 360 of 415 2016 Hydro One Annual Report.

<sup>42</sup> See Appendix 6 to Application 8 or variously page 361 of 415 2016 Hydro One Annual Report.

<sup>43</sup> See Appendix 6 to Application 45 48 variously Page 398-401 of 415 Hydro One 2016 Annual Report.

1 is analogous to a 40 percent shareholder of Avista appointing the Oregon  
2 Commissioners that regulate Avista.

3 **Q. Would foreign ownership of Avista impair Avista's ability to apply for**  
4 **public infrastructure grants in the U.S. should U.S. federal legislation**  
5 **advance supporting direct or public-private partnership infrastructure**  
6 **development?**

7 A. That is unclear. "Hydro One does not receive any Canadian Provincial or  
8 federal support for any of its capital projects"<sup>44</sup> and so may not have grant  
9 writing or other corporate resources that could aid Avista. Past federal  
10 stimulus legislation did contain language that favored American companies.  
11 But treatment of U.S. subsidiaries of foreign corporations in any future federal  
12 legislation cannot be reliably estimated at this time.

13 **Q. What is the Trillium Trust and does that impact Hydro One's**  
14 **governance?**

15 A. In response to Staff DR 32, Hydro One describes the Trillium Trust and  
16 represents that it has no impact on Hydro One governance.

17 The **Ontario Trillium Trust** was established by the Province of Ontario to  
18 support its efforts to invest in transit and transportation infrastructure. Net  
19 proceeds from the sale of qualifying provincial assets will be allocated to  
20 the Ontario Trillium Trust which, in turn, will be used to fund  
21 infrastructure projects. The shares of Hydro One Limited held by the  
22 Province of Ontario are considered qualifying provincial assets. The  
23 Ontario Trillium Trust, however, is not otherwise associated with Hydro  
24 One and has no impact on its governance.

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<sup>44</sup> This quote is drawn from Hydro One's response to Staff DR 22.

1 Staff provides this Trillium Trust example to show how the sale of Hydro  
2 One assets and resources has not flowed directly back to the utility and its  
3 ratepayers; instead, such money has flowed into a fund to improve  
4 infrastructure, such as transportation projects, in Ontario. Staff's concern is  
5 that politicians and Canadian citizens will advocate that cash flows from  
6 Avista be used for improving the quality of life in Ontario, rather than Avista  
7 ratepayers, over 2,300 miles away in Spokane, WA, let alone in rural Oregon.

8 **Q. How is Hydro One rated in terms of efforts to maintain financial**  
9 **viability and to achieve savings from operational effectiveness?**

10 A. As provided in Hydro One's response to Staff DR 25 Attachment A simplified  
11 by Staff below, Ontario tracks Hydro One financial metrics relevant to credit  
12 ratings through the use of performance scorecards. Please observe in the  
13 scorecard below, the trend towards higher debt in Hydro One's capital  
14 structure as it moves toward strategic M&A as a growth strategy.

	2012	2013	2014	2015	2016
Current Ratio	0.99	1.00	0.99	0.97	0.80
Total Debt / Equity	1.30	1.35	1.31	1.19	1.46
Authorized ROE	9.66%	9.66%	9.66%	9.30%	9.19%
Achieved ROE	8.72%	8.00%	6.26%	8.77%	8.41%

15  
16 Staff advises that the above is abbreviated and may not capture all detail  
17 and nuances. For example, like Washington, and unlike Oregon, Ontario  
18 uses *total debt* rather than *long-term debt with maturity over a year* (Oregon

1 Commission) to look at leverage. To look at liquidity, based on the scorecard  
2 above, Ontario considers the Current Ratio. The Current Ratio is Current  
3 Assets divided by Current Liabilities. Staff's conclusions are: A) Hydro One  
4 may have increased costs, debt and one-time charges associated with  
5 strategic growth through M&A, and B) performance based ratemaking (Hydro  
6 One's regulatory paradigm) does not in all jurisdictions translate to higher or  
7 incentive Returns on Equity (ROE).

## 8 2. Different Regulatory Systems

### 9 **Q. Why are disparate regulatory histories an important consideration?**

10 A. Hydro One was a Crown Corporation until just a few years ago. This would  
11 be like Oregon or Washington fully owning Avista as the single stockholder.  
12 That historical experience causes staff of the Ontario Energy Board (OEB) to  
13 retain a particular expectation of Hydro One before it became an investor-  
14 owned utility (IOU). Such an expectation is naturally formed from policies and  
15 practices the Crown adopted in its dealings with Hydro One.

### 16 **Q. Why does that pose any difficulty?**

17 A. OPUC Staff's starting point for any cost comparison when looking at costs  
18 allocated from Hydro One to Avista is Hydro One and Avista each operating  
19 as standalone IOUs. Operating as an IOU entails certain costs that are  
20 unavoidable. The costs for Hydro One to operate as an IOU are distinct from  
21 the costs to acquire Avista.<sup>45</sup>

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<sup>45</sup> See: The Ontario Energy Board Releases Its Decision on Hydro One's 2017-2018 Transmission Revenue Requirement Application" Co. Press Release – SNL Financial LC – Sep. 29, 2017, provided at Exhibit Staff/205 Muldoon/102.

1           In contrast, OEB staff may view various costs as exceeding the expense  
2 necessary for Hydro One's transmission division to provide safe and reliable  
3 utility service to Ontario customers at just and reasonable rates. This gap can  
4 leave stranded costs for Hydro One. And absent strong separation  
5 mechanisms, the OEB could attribute costs of Hydro One Networks, Inc. to be  
6 the responsibility of extra-provincial elements, which might largely consist in  
7 the near future of Avista. Staff is concerned that Hydro One stranded costs  
8 may become Avista's new problem.

9       **Q. What is a second concern associated with Hydro One's history?**

10      A. The political question before us is will Avista become the Province of  
11 Ontario's new piggy bank? In its former role as a Crown Corporation, Hydro  
12 One was a financial resource for Ontario. Just as the Province may find it  
13 reasonable to assign debt or financial obligations to fully-owned Crown  
14 Corporations like Ontario Power Generation (OPG), Ontario may continue to  
15 see Hydro One as the Province's resource, to draw upon as necessary. This  
16 is a likely perspective because Ontario will remain the largest shareholder of  
17 Hydro One, and no other entity may acquire more than 10 percent of  
18 outstanding shares.<sup>46,47</sup>

19      **Q. Has Hydro One had a long standing strategy to manage taxes as an**  
20      **IOU?**

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<sup>46</sup> Exhibit Staff/203 (Hydro One Response to Staff DR 34 at 1-2).

<sup>47</sup> See "Hydro One Sell-Off Legal Fees Hit \$6.2 Million" by Antonella Artuso – Toronto Sun – March 16, 2016 provided at Exhibit Staff/205 Muldoon/67

1 A. No. Hydro One and its subsidiaries were exempt from regular Canadian  
2 federal and Ontario income tax while a Crown Corporation, so it is just since  
3 2015 that Hydro One has been formulating its strategic tax management  
4 thinking. That creates no history to point to regarding how conservative or  
5 risky Hydro One's financial and tax strategy might be going forward.<sup>48</sup>

6 **Q. How does Hydro One tax management impact future dividends and cash  
7 flows from Avista to Hydro One?**

8 A. Staff would expect Avista dividends post-merger to largely parallel current  
9 quarterly dividends to Avista's current investors. Therefore, controls would  
10 need to be robust enough to deflect demand for higher dividends or greater  
11 cash flows or gross ups of financing fees to meet the diverse provincial needs  
12 or expectations of Hydro One in Ontario.

13 **3. Access to Information**

14 **Q. Does the Applicant offer conditions binding on Hydro One and Avista  
15 that preserve access to information, executives and experts based on  
16 the Commission's determination that information is pertinent to its  
17 proceedings.**

18 A. No. The Applicant seeks at this time to determine for itself whether  
19 information is relevant to any Commission inquiry.

---

<sup>48</sup> See Appendix 6 to Application 16 or Page 266 of 415 of Hydro One's 2016 annual report section under "Income Taxes".

1     **Q. Is it as easy for Staff and stakeholders to see financial information**  
2     **about Hydro One as it is to see like financial information about Avista**  
3     **today?**

4     A. Absolutely not. Fewer analysts and financial reporters cover Canadian  
5     companies and their securities. Staff experienced a marked drop in  
6     information flow when looking at information feeds and research on Canadian  
7     companies. Almost all the financial news about Hydro One is derived from  
8     press releases from Hydro One. In contrast, most of the financial news about  
9     Avista that Staff reviews comes from analysts and financial reporters covering  
10    Avista. This drop in coverage and difference in reporting requirements than  
11    those for U.S. publicly traded companies, makes it extremely important that  
12    conditions maintain information flows to the Commission about Avista and  
13    Hydro One activities and operations after the proposed merger so that there  
14    is no loss of transparency for the Commission.

15    **Q. What is a source for Staff's insight into Provincial strategy regarding**  
16    **Hydro One?**

17    A. In response to Staff DR 46, Hydro one responded with the following narrative  
18    and link.

19           *Premier's Advisory Council on Government Assets*

20           In April 2014, the **Province of Ontario** ("Province") formed the  
21           **Premier's Advisory Council on Government Assets** (the "Council").  
22           The mandate of the Council was to **review** certain provincially-owned  
23           **assets**, including Ontario Power Generation Inc. and Hydro One Inc., and  
24           to recommend ways to **maximize their value to the people of Ontario**. In  
25           its final electricity sector report released in April 2015, the Council  
26           recommended, among other things, that the Province should proceed with a  
27           partial sale of its interest in Hydro One Inc. to create a growth-oriented

1 company centered in Ontario. The Council recommended that the partial  
2 sale occur by way of a public offering, with approximately 15% of the  
3 shares of Hydro One Inc. to be offered to the market initially. The Council  
4 recommended that the Province indicate its intention to retain its remaining  
5 shares after selling down to 40% ownership, and that the balance should be  
6 widely held with no other individual shareholder having more than a 10%  
7 holding.

8 In response to the Council's recommendations, the Province proceeded  
9 with this offering to broaden the ownership of Hydro One Inc. indirectly  
10 through its sale of shares in Hydro One Limited.

11 The Council's April **2015 Report**, titled **Striking the Right Balance:**  
12 **Improving Performance and Unlocking Value** in the Electricity Sector in  
13 Ontario, is available at [http://energizingtomorrow.ca/wp-](http://energizingtomorrow.ca/wp-content/uploads/improving-performance-and-unlocking-value-in-the.pdf)  
14 [content/uploads/improving-performance-and-unlocking-value-in-the.pdf](http://energizingtomorrow.ca/wp-content/uploads/improving-performance-and-unlocking-value-in-the.pdf).

15 Staff provides this report in Staff Exhibit Staff/204. along with a look at  
16 Hydro One by Research Driven Investment (RDI), a presentation by Hydro  
17 One to the Applicant's investor, and a presentation by Avista to the  
18 Company's investors. Staff does not fault the logic in "Striking the Right  
19 Balance," but does question whether this strategic financial thinking was  
20 explained and periodically reinforced to ratepayers in Ontario such that  
21 Ontario ratepayers and citizens are thinking like other institutional investors in  
22 publicly traded IOUs with a long-run perspective.

23 **Q. Given this strategic thinking on the part of the Province, why does**  
24 **Hydro One offer so little synergies in the proposed merger?**

25 A. That is unclear. In response to Staff DR 66, Hydro One explains:

26 "Avista and Hydro One have just started to engage in high-level  
27 discussions to begin to identify possible future opportunities for savings related  
28 to economies of scale. Initial discussions have focused on sharing general



1 supply chain information, metrics and practices; a more detailed analysis will  
2 occur post-closing.”

3 Staff takes this representation at face value and notes that synergies and  
4 economies of scale should be identified pre-closing of the merger.

5 **4. 4X Risk – Currency Exchange and Hedging**

6 **Q. Regarding hedging, can you give an example of how creative thinking**  
7 **on a larger scale could benefit both Hydro One and Avista?**

8 A. Yes. If Avista were to acquire and/or hedge Canadian natural gas, certain  
9 exchange fees could be avoided by finding offsetting cash flows, working with  
10 Hydro One. Further the need to make certain hedges could be reduced due  
11 to a larger pool of diverse operations such that some risks offset each other  
12 as natural hedges.

13 **Q. Is that the state of planning and coordination at Hydro One that has**  
14 **been shared with Staff to date?**

15 A. No. Hydro One and Avista have variously retained consultants who have  
16 looked at opportunities the merger affords and how greater aggregate  
17 success can be achieved, but do not cover this topic.

18 **Q. Does Hydro One, in advance of the proposed merger have a lot of**  
19 **exposure and therefore a trading desk in foreign exchange (4X)?**

20 A. In response to Staff DR 102, Hydro One represents that it does not currently  
21 have significant exposure to foreign exchange rates. Staff notes that this can

1 change with acquisition of U.S. utilities with associated dividends in U.S.  
2 dollars.<sup>49</sup>

3 **Q. Do different currencies largely maintain the same exchange rates**  
4 **over time?**

5 A. No. While some currencies are pegged to others, such as to the U.S. Dollar  
6 (USD) or Great Britain Pound sterling (GBP), and so move together, many  
7 currencies fluctuate in how much one currency can buy of another at a given  
8 time. There is a cost to exchange one currency to another—these currency  
9 exchanges have fees or spreads on top of the quoted exchange rates. As  
10 expectations change about the relative strength of economies and likely  
11 government policies change, along with interest rates, inflation and  
12 confidence in governments, these exchange rates and associated spreads  
13 fluctuate, sometime significantly. See as an example how much the USD  
14 fluctuated in value against Asian currencies since 2013 in Table 1 below.  
15

---

<sup>49</sup> Staff's expectation of Hydro One future 4X activity and possible related hedging are consistent with Hydro One's response to Staff DR 103.

1  
2

**TABLE1**  
Example of How Currency Exchange Rate Changes Over Time.



3

4

**Q. Can you give an example of when Canadian dollars became more expensive than U.S. dollars in proportion to the prior week?**

5

6

A. The exchange rate between U.S. and Canadian dollars fluctuates. For example, the WSJ posted the Canadian dollar becoming 2.1 percent more valuable against the U.S. dollar on January 29, 2018. Cash heading from the U.S. to Canada would have arrived as fewer Canadian dollars that Monday than expected the prior week were there no mechanism to lock in exchange rates.

7

8

**Q. Do exchange rates have consistent trends that are easy to forecast accurately?**

9

10

A. No, exchange rates fluctuate. As a mental exercise, imagine the Province of Ontario gets less in dividends from Avista than it expected due to currency exchange fluctuations. In real terms, Avista would be sending its currently quarterly dividend at USD 0.358 cents per common share up to Hydro One

11

12

13

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17

1 where 40 percent or more flows through to the Province. A weak U.S. dollar  
2 policy would reduce the amount of money arriving in Ontario. This results in  
3 fewer Canadian dollars to do good things in Ontario, even though there was  
4 no change in the growth rate for Avista quarterly dividends as paid in U.S.  
5 dollars. This could very well be problematic for Ontario leaders who are  
6 responsible to satisfy the needs of schools, public infrastructure projects and  
7 public programs. Would the Province ask what could be done to increase  
8 and smooth cash flows from Avista to make sure Canadian dollars received in  
9 Ontario have more of a buffer against fluctuation in exchange rates?<sup>50</sup> It  
10 certainly seems very likely and would create pressure for higher dividends  
11 from Avista.

12 In general, one can presume that 4X hedging would further increase  
13 transaction costs to smooth cash flows to Ontario from Avista. It is  
14 reasonable that persons responsible for cash outflows from Ontario might  
15 consider any costs to smooth cash inflows from Hydro One dividends to be  
16 extra-Ontario cost responsibilities. In comparison, current investors are  
17 satisfied with conservatively growing but very certain dividends from Avista  
18 paid in U.S. dollars with no 4X gross up for the end destination of cash flows  
19 from Avista dividends.

---

<sup>50</sup> Note, on January 24, 2018, U.S. Treasury Secretary Steven Mnuchin's comments favoring a weak dollar sent the US dollar dropping. A day later Secretary Steven Mnuchin clarified his remarks and 4X markets reversed direction. But the above scenario remains plausible.

1 **Q. Has Hydro One offered conditions regarding currency exchange to**  
2 **alleviate fears around conversion of dividends into Canadian dollars**  
3 **or cash infusions into U.S. dollars?**

4 A. No.

5 **Q. More broadly, do Hydro One and Avista say they have incorporated**  
6 **these recommendations by various consultants they have retained**  
7 **for due diligence, risk assessment and optimization planning?**

8 A. No. Staff has asked what these consultants had to offer and has reviewed  
9 those responses, but Hydro One and Avista indicate that these  
10 recommendations to them were preliminary in nature.

11 **Q. What did these consultants have to say?**

12 A. Hydro One provided this highly confidential information in response to Staff  
13 data requests. Please see highly confidential Exhibit Staff/202 for an  
14 overview of these findings.

15 **D. Political Risk**

16 **1. Hydro One 40 percent owned by Ontario**<sup>51</sup>

17 **Q. Are there political risks in the proposed merger that are difficult to pre-**  
18 **characterize and quantify?**

19 A. Yes. From Staff's perspective, proceedings are more complex, with more  
20 parties, and the potential for coalition governments in Canadian provincial  
21 politics. Energy policy is a core component of intra-provincial politics in

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<sup>51</sup> See Appendix 6 to Application 9 page 362 of 415 Hydro One 2016 Annual Report.

1 Canada. This offers a significant risk that an election can completely flip  
2 energy policies and pressure the continuity of purpose. As an example,  
3 British Columbia considered changes in its approach to new dams after its  
4 last provincial elections. This observation is not about the merits of any given  
5 policy, just the awareness that opposition parties in Ontario may favor  
6 dismantling Hydro One's current initiatives, or even advocate for full provincial  
7 ownership of Hydro One.

8 **Q. Has Hydro One offered to restrict the venue for disputes regarding**  
9 **Avista to Washington and Oregon so as to preclude Hydro One**  
10 **favoritism in Ontario?**

11 A. No, the Applicant has not offered such a condition binding on Hydro One such  
12 that continuity is assured for Avista in our area, based on what is just and  
13 reasonable here.

14 **2. Restrictions on Acquisition of Hydro One Stock**

15 **Q. Does Ontario's right of first refusal to buy stock to maintain its 40**  
16 **percent ownership and the associated restriction on acquisition of 10**  
17 **percent of outstanding shares pose any concerns for Staff?**

18 A. Yes. Staff's concern is not with usual and customary reporting of beneficial  
19 ownership. Rather, it is with the idea that when investors can anticipate some  
20 entity might acquire a company, those investors build in some expectation of  
21 a chance for the payment of a premium over share prices based on the sum  
22 of future cash flows from dividends and an appreciated price in terms of an  
23 earnings multiple at a future point of sale. Absent such higher proceeds from

1 stock flotation, due to restrictions against acquisition, a company would need  
2 to borrow more money to make up the difference.

3 These factors in aggregate may increase Hydro One's cost of capital in  
4 comparison with an IOU with no such restrictions. If so, that can reduce the  
5 parent's available cash to support subsidiary infusions of liquidity in support of  
6 subsidiary operations and credit ratings. It could also make it harder for  
7 Hydro One to rely as heavily on common equity to fund future M&A, putting  
8 more pressure on Hydro One to issue debt, which weighs on Hydro One's  
9 and Avista's credit ratings if not adequately ring-fenced.

10 **E. Review of Hydro One's Proposed Conditions**<sup>52</sup>

11 **Q. Which Hydro One Commitments (conditions) did you review?**

12 A. Staff reviewed commitments on the following topics: finance, credit ratings,  
13 preservation of Avista's capital, including equity portion of capital structure  
14 and cash outflows from Avista such as quarterly dividends and other  
15 payments up to Hydro One. Staff looked for solid commitments that Avista  
16 would be no worse off financially than it would be absent the proposed  
17 merger, and that ratepayers would see no higher rates due to financial  
18 metrics and cost of capital component changes than were the merger not to  
19 occur. Staff was also watchful of specific indicators that Avista ratepayers  
20 would be better off due to certain support for the above focus areas.

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<sup>52</sup> See Appendix 8, Master List of Commitments.

1 **Q. Is Condition 17 structured to granularly capture executive time and**  
2 **other costs associated with planning and executing the proposed**  
3 **merger?**

4 A. No. Conditions are expansively stated such that the necessary issue is  
5 raised, but the identification and capture mechanisms are insufficiently  
6 specific and detailed as to protect Avista ratepayers from costs they should  
7 not bear. As an example, an executive from Avista could just write “8  
8 percent” at the end of a quarter on a piece of paper as time capture for M&A  
9 efforts and that would fully comply with the proposed language for this  
10 condition.

11 The Oregon Commission has not found generalities adequate in ring-  
12 fencing conditions. Staff invites Hydro One to compare its initial proposed  
13 language with that found in past Commission M&A and holding company  
14 proceedings informed by controls in other recent Canadian company  
15 acquisitions of U.S. utilities, to better craft conditions that can be relied on by  
16 the Commission to represent fundamental guidance in the way Hydro One,  
17 not just Avista, conducts itself.<sup>53</sup>

18 **Q. Why is it important to ratepayers that this condition be constructed in**  
19 **an effective, binding, granular way?**

20 A. Without granular capture binding on all pertinent parties, not just Avista, this  
21 condition cannot effectively form the basis for identification of specific costs

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<sup>53</sup> See Master List of Agreements, Appendix 8 to Application at page 3 for proposed Condition 17. In comparison see Order No. 17-526, Appendix A in Docket No. UM 1804 for generic controls prior to general international, Ontario, Avista, and Hydro One specific considerations.



1 that should be excluded from future rate cases. In its current state, this  
2 condition's flexible data capture, flexible reporting and vagueness of  
3 application hinders its efficacy.

4 **Q. Does Condition 19 address venue for resolution of disputes?**

5 A. No. Also, Condition 30 is not clearly binding on Hydro One regarding matters  
6 pertaining to both it and Avista around Avista operations and corporate  
7 governance.

8 **Q. Does Condition 22 provide access to Hydro One information,**  
9 **executives, and subject matter experts, creating a transparent and**  
10 **reliable resource for the Commission's access to information and**  
11 **accounts?**

12 A. No. It is usual and customary for the Commission to be able to ask both  
13 executives and subject matter experts from anywhere in the corporate  
14 structure between Avista and top parent corporation, as well as at affiliates to  
15 appear before the Commission and explain matters, at the Commission's  
16 discretion, as to what is pertinent to the Commission. The current  
17 commitments present a large gap in the information resources offered the  
18 Commission.

19 **Q. Does Condition 24 maintain S&P and Moody's ratings as a solid**  
20 **foundation for its guarantees, provide a credit rating floor to ensure**  
21 **Hydro One leverage does not drive down Avista's credit ratings, or**  
22 **commit to raising Avista's credit ratings?**

1 A. No; rather, the condition allows for a drop from S&P or Moody's or both and  
2 substitutes a lesser rating agency from an Oregon perspective. Again Staff  
3 uses S&P and Moody's ratings to compare apples-to-apples everything from  
4 indicative peer utility debt issuances, revolving credit facilities, and just about  
5 every other financial metric in, but not limited to, financing applications and  
6 general rate cases. On its face, this condition offers to markedly diminish  
7 transparency from that enjoyed by the Commission and Staff today.

8 **Q. Why would that be important to Oregon ratepayers?**

9 A. Oregon ratepayers could expect higher rates from sell-side optimistic  
10 securities assessment, less precise choices of peer utilities, among other  
11 impediments. Further, there would be no meaningful early warning if post-  
12 merger Avista, or the Applicant, or associated companies were to start to  
13 slide financially. Therefore, in addition to actual harm, there would be the  
14 incremental risks to ratepayers through the absence of timely remedies to  
15 drop in financial performance.

16 **Q. Does Condition 25 have tighter control over the equity portion of capital**  
17 **structure, relax to a lower percentage of equity when ratings are equal**  
18 **or improved to today, and contain early warning mechanisms to alert**  
19 **the Commission of any impending material activity or drop in ratings?**

20 A. No. For example, today Avista has no expensive preferred stock. This  
21 condition is the start to a useful ring-fencing control, but is sufficiently vague  
22 and requires clarification. It lacks the usual depth and detail of a condition  
23 that would allow Avista to maintain or improve its first mortgage bond (FMB)

1 program. And it makes no representation that Avista and the Parent looks to  
2 use existing market tools like secured debt in private placement with delayed  
3 starts at little or no incremental cost to control debt issuance costs to keep  
4 Avista financing costs well-controlled and rates to Oregonians low.

5 **Q. Does this condition effectively incent Avista and the Parent to higher**  
6 **equity toward a balanced capital structure of 50 percent equity tied to**  
7 **superior credit rating performance?**

8 A. No. This condition lacks depth and does not incent higher financial  
9 performance than today. Rather, it sets expectations for worse financial  
10 performance than the current, well-managed Avista. It ignores credit ratings,  
11 and provides for no early correction action. As written, this condition does not  
12 in any way mitigate the potential harm to Avista ratepayers of Hydro One  
13 drawing down on the equity component of Avista's capital structure.

14 **Q. What exactly does that mean?**

15 A. As written, it would allow money to be taken out of Avista in increments  
16 harmful to Avista's Oregon ratepayers. This concern must be addressed by  
17 the Applicant.

18 **Q. Does Condition 31 allow Avista, Hydro One, and affiliates to fail to meet**  
19 **conditions provided they have good reasons for doing so?**

20 A. Yes. This condition as written undermines all other conditions, imperils ring  
21 fencing conditions aimed to protect Avista's utility assets from being attached,  
22 and ensures that the Application cannot meet the legal standard for approval  
23 in Oregon.

1 **Q. Why would a bankruptcy or litigation attorney suing Hydro One or**  
2 **another part of the corporate family also attach Avista?**

3 A. The regulated utility operations and assets are where the money is.  
4 Therefore an attorney attacking another part of Hydro One looks at the  
5 defenses of the regulated utilities, and if those defenses are weak, will try to  
6 attach the regulated utility assets to a legal action, including bankruptcy,  
7 originating outside of Avista.

8 **Q. Will the proposed conditions in aggregate provide a formidable defense**  
9 **against the above described bankruptcy litigation?**

10 A. No. Rather, the weakness presented in the application as filed presents  
11 Avista and Oregon ratepayers as an excellent target for litigation. Such  
12 weakness not only invites legal attachment impacting Oregon rates, but also  
13 offers the likelihood of settlements at further expense. When an attacking  
14 attorney sees no prospect of being paid for years of effort, lawsuits are  
15 diminished and ratepayers avoid new legal costs.

16 **Q. Is Condition 32 also in need of revision to become a clear binding**  
17 **Commitment on Hydro One, Avista and all affiliates?**

18 A. Yes. This condition is not a blanket binding on all pertinent parties to the  
19 conditions; rather, a party is not bound unless the condition repeats that it is  
20 fully binding on Avista, Hydro One, all other companies in the connected  
21 chain of the corporate structure, as well as affiliates. Therefore, this condition  
22 is contrary to a normal standard in ring fencing before the Commission.

1 **Q. Is Condition 33 unclear, but able to be rewritten so as to provide a**  
2 **tangible commitment?**

3 A. Yes. Currently, what is “reasonable and sustainable” is totally up for  
4 argument and interpretation now and into the future. Presumably as written  
5 now, this condition could be interpreted to mean that the Applicant will decide  
6 in the future based on Hydro One’s needs and situation in the future.

7 **Q. What would happen in the future if this condition remained as written?**

8 A. Anything Hydro One wants without restriction.

9 **Q. Is Commitment 35 entirely unacceptable in its current form?**

10 A. Yes. Again one would have to ask Hydro One just what “reasonable best  
11 efforts” could mean. These last few conditions sound great but carry no force  
12 to mitigate harms to Avista ratepayers.

13 **Q. Is Commitment 36 not currently reasonable, but this topic could be**  
14 **better addressed with further attention by Avista and Hydro One?**

15 A. Yes. As written, if Hydro One can find anyone willing to say that markets are  
16 looking good and ignore what S&P and Moody’s say, then Hydro One can  
17 share that fabulous forecast and bypass concerns about this condition being  
18 binding. But even if sell-side entities get pessimistic, Hydro One could again  
19 apply that “reasonable best effort,” allowing Hydro One and Avista to fail.

20 **Q. Why again is Commitment 36 important to Avista ratepayers in Oregon?**

21 A. It allows Hydro One to extract higher cash flows than currently trending for  
22 quarterly dividends from Avista, draw down on its equity portion of its capital  
23 structure, issue large special dividends, and damage Avista’s credit ratings; in

1 other words, it fails to shield Avista from the harms it is meant to protect  
2 against.

3 **Q. Does Commitment 37 offer, in a way binding on Avista and Hydro One,**  
4 **that Avista pensions would be managed as today following existing**  
5 **patterns and Commission expectations?**

6 A. No; rather, if a plausible explanation could be constructed with a carefully  
7 selected actuary, then any resulting advice followed by Avista would be fine.  
8 Further, Hydro One is not bound by this condition, so Avista would just need  
9 to point to communication from an actuary as justification for whatever Avista  
10 did with Avista pensions and post retirement investments and cash flows as  
11 well as associated reporting, provided the latter was within broad legal limits.

12 **Q. How does condition 43 fare in terms of making a commitment as a**  
13 **binding condition preserving secured borrowing at conditions equal or**  
14 **better than today for Avista?**

15 A. Once again, there are enough missing pieces or compromised usual and  
16 customary components that this condition cannot be considered as delivering  
17 the assurance required to protect Avista. There is no obligation to maintain a  
18 pool of qualified assets – prescreened and certified – in conjunction with  
19 adequate interest coverage from cash flows so as to satisfy those managing  
20 Avista's mortgage deed and trust as to the certainty of ability for Avista to  
21 issue first mortgage bonds FMB in an ongoing FMB program, both in public  
22 markets and in private placement. Rather, the intent of the current language  
23 is too ambiguous to provide assurance to Staff.

1       **Q. Does Condition 44 need to proactively address commitments in greater**  
2       **detail now, as opposed to allow for measures to be established in the**  
3       **future?**

4       A. Yes, it would also need to be interwoven with supporting, rather than  
5       diminishing, other conditions so as to create strong interlocking ring fencing  
6       conditions, as opposed to an optional choice for Hydro One and Avista.

7       **Q. Do Avista and Hydro One offer a most favored nation condition that**  
8       **allows Oregon to include any provision or conditions established in**  
9       **another state or jurisdiction?**

10      A. No. That condition is not clearly offered.

11      **Q. Do Avista and Hydro One offer a full comprehensive set of conditions**  
12      **binding on both of companies, intermediate companies and all affiliates**  
13      **consistent with those in prior Commission M&A proceeding orders?**

14      A. No. Currently conditions provide myriad controls open for interpretation that  
15      other conditions depend on, and an opportunity for Hydro One and Avista to  
16      select in the future between a wide range of options. Very few are broadly  
17      binding as is usual and customary. And any that at first appear to provide  
18      firm and binding commitments can rely on a supporting condition to make it  
19      not binding on Hydro One. As written, the conditions provide open flexibility  
20      while appearing to offer substance. In aggregate, the fifty-five conditions offer  
21      clearly inadequate protection for Avista ratepayers in Oregon and for  
22      Oregonians in general, let alone produce a benefit.

1 **Q. Do the conditions as written in the application as filed reinforce each**  
2 **other exceptionally well?**

3 A. No. Rather, supporting conditions undermine overlapping conditions. It is  
4 impressive in that at first the commitments can appear to say much, but on  
5 greater reflection, offer nothing of substance without myriad opportunities for  
6 interpretation, sidestepping, updating of definitions, and choice between  
7 everything from accounting standards to future financial strategies harmful to  
8 Avista.

### 9 **CONCLUSION**

10 **Q. Is Hydro One a long-existing IOU with a solid track record of M&A**  
11 **success?**

12 A. No. Hydro One is just starting out on what it hopes to be a successful set of  
13 mergers and acquisitions designed to diversify and grow the Applicant.

14 **Q. Does Staff have concerns about future risks with Avista as the**  
15 **indirect subsidiary of an international energy holding company, 40**  
16 **percent owned by a foreign government?**

17 A. Yes. Staff also considers risks of possible future events and conditions that  
18 could harm Avista's Oregon customers. The Commission has explained that  
19 "using evidence in the record, [the Commission is] permitted to draw rational  
20 inference of possible or actual harms that could affect [the utility] and its  
21 customers."<sup>54</sup> Absent sturdy ring-fencing controls, were a high impact event

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<sup>54</sup> Order No. 05-114 at 21.



1           like a Hydro One bankruptcy to occur, it could be catastrophic for Oregon  
2           ratepayers. In adverse times, ring-fencing conditions preserve the  
3           Commission jurisdictional utility's finances and ability to operate, even while  
4           other corporate divisions or the parent may be extremely stressed or fail.

5           **Q. In Avista/100 Morris/2, Avista represents that though Avista would**  
6           **become a wholly-owned indirect subsidiary of Hydro One, Avista will,**  
7           **through proposed conditions in the application, preserve Avista's**  
8           **culture and way of doing business for the long-term? Does Staff**  
9           **agree?**

10          A. No. Staff finds the Conditions in the application as filed too vague and too  
11          weak to effectively protect Avista and its ratepayers post-merger.

12          **Q. In Hydro One/200 Schmidt/22, Hydro One represents that "both Hydro**  
13          **One and Avista have similar cultures and values." Does Staff agree?**

14          A. No. Hydro One is forming its culture and values now. Were controls adopted  
15          by the Commission in an order approving this merger, such guidance may  
16          become part of how Hydro One does business in the U.S.

17          **Q. Is Staff satisfied that each of Avista and Hydro One has satisfied its own**  
18          **due diligence in regard to the proposed merger?**

19          A. Yes, as discussed further in Exhibit Staff/202. However, there are  
20          opportunities for Hydro One to profit by acquiring Avista without improving  
21          Avista Oregon LDC operations, and without creating incremental benefits for  
22          Oregon ratepayers.

1 **Q. Where the Applicant or Company has not met expectations of Staff**  
2 **regarding conditions, has Staff identified costs or substantial barriers**  
3 **that preclude conditions offered from being expanded to meet**  
4 **expectations?**

5 A. No. For example, in response to Staff DR 121, the Applicant replied:

6 “Hydro One is not aware of any unusual costs or difficulties involved for  
7 Avista to maintain separate Moody’s and S&P credit ratings.”

8 Based on this response, Staff believes that there may not be insurmountable  
9 costs in remedying conditions in the Application as filed.

10 **Q. How do you recommend the Commission view the application as filed?**

11 A. I recommend the Commission see the Application as a work-in-progress as  
12 filed, but failing to meet the legal standard in Oregon. The Application may  
13 potentially be able to be improved such that subsequent testimony from the  
14 Applicant and Avista may merit Commission consideration for approval.

15 **Q. What are three key concerns regarding the application as filed?**

16 A. First, the conditions in the Application are not comprehensive or complete as  
17 those adopted in prior Commission orders approving M&A applications.

18 Second, the conditions are not binding on Avista, Hydro One and  
19 companies between them in the proposed post-merger corporate structure,  
20 as well as on affiliates.

21 And third, conditions do not address parent- and Ontario-specific risks  
22 incremental to the operations of a current well-managed Avista. The  
23 proposed controls need to better address moving from Avista’s  
24 straightforward corporate structure now to Avista as part of a growing

1 international corporation with more complex governance.<sup>55</sup> Further, as  
2 discussed in Staff/500, the transaction does not provide a net benefit to  
3 Oregon's Avista customers.

4 **Q. Does that conclude this portion of your testimony?**

5 A. Yes.

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<sup>55</sup> "Risks associated with the Provinces share ownership of Hydro One and other relationships with the Province" are key risks for Hydro One as listed in Appendix 6 to Application 45 or page 294 of 415 regarding Hydro One's 2016 annual report.

CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 201**

**Witness Qualification Statement**

**February 12, 2018**

## WITNESS QUALIFICATION STATEMENT

**NAME:** Matthew J. Muldoon

**EMPLOYER:** PUBLIC UTILITY COMMISSION OF OREGON

**TITLE:** Senior Economist  
Energy – Rates Finance and Audit Division

**ADDRESS:** 201 High Street SE, Suite 100  
Salem, OR 97301

**EDUCATION:** In 1981, I received a Bachelor of Arts Degree in Political Science from the University of Chicago. In 2007, I received a Masters of Business Administration from Portland State University with a certificate in Finance.

**EXPERIENCE:** From April of 2008 to the present, I have been employed by the OPUC. My current responsibilities include financial and rate analysis with an emphasis on Cost of Capital. I have worked on Cost of Capital in the following general rate case dockets: AVA UG 186; UG 201, UG 246, UG 284, UG 288, and UG 325; NWN UG 221; PAC UE 246, and UE 263; PGE UE 262, UE 283, UE 294 and UE 319; and CNG UG 287 and UG 305..

From 2002 to 2008 I was Executive Director of the Acceleration Transportation Rate Bureau, Inc. where I developed new rate structures for surface transportation and created metrics to ensure program success within regulated processes.

I was the Vice President of Operations for Willamette Traffic Bureau, Inc. from 1993 to 2002. There I managed tariff rate compilation and analysis. I also developed new information systems and did sensitivity analysis for rate modeling.

**OTHER:** I have prepared, and defended formal testimony in contested hearings before the OPUC, ICC, STB, WUTC and ODOT. I have also prepared OPUC Staff testimony in BPA rate cases, and in mergers and acquisitions.

CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 202**

**Exhibits in Support  
of Reply Testimony**

**February 12, 2018**

**STAFF EXHIBIT 202**

**IS HIGHLY-CONFIDENTIAL AND SUBJECT TO  
MODIFIED PROTECTIVE ORDER NO. 17-362**

CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 203**

**Exhibits in Support  
of Reply Testimony**

**February 12, 2018**



**STAFF EXHIBIT 203**

**IS HIGHLY-CONFIDENTIAL AND SUBJECT TO  
MODIFIED PROTECTIVE ORDER NO. 17-362**

CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 204**

**Non-Confidential  
Investor Presentations and Reports**

**Exhibits in Support  
of Reply Testimony**

**February 12, 2018**

# Striking the Right Balance:

## Improving Performance and Unlocking Value in the Electricity Sector in Ontario

### Premier's Advisory Council on Government Assets

Ed Clark, Chair

David Denison

Janet Ecker

Ellis Jacob

Frances Lankin

*April 16, 2015*



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## EXECUTIVE SUMMARY

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In November 2014, the Advisory Council on Government Assets presented our Initial Report to government entitled “Retain and Gain: Making Ontario’s Assets Work Better for Taxpayers and Consumers”. The Report contained our overall assessment of the entities we examined, and our thinking on the future direction for these entities. In the Report, the Council indicated that we were open to looking at additional options on how best to proceed.

Following submission of that Report, the government expanded the Council’s mandate and authorized us to move into the second phase of our review.

In Phase 2 of our review, we conducted detailed valuation and due diligence including regulatory and policy considerations as well as careful consideration of input and reactions from stakeholders, policy and financial experts, labour leaders, and others.

Throughout Phase 2 of our work, we maintained our commitment to a collaborative and confidential process in order to further our goal of reaching agreement among key stakeholders on specific proposals for the future divestiture of Hydro One and Hydro One Brampton.

This report represents our final report to government on the future direction for Hydro One Networks and Hydro One Brampton.

## Conclusion

We are satisfied that the recommendations in our Initial Report were soundly based. In that Report, the Council also committed to exploring all viable options and to listening to market and stakeholders’ input. We did listen, and we have evolved our thinking significantly as a result.

First of all, we have done that with respect to Hydro One Brampton. In our continuing consultations and diligence, we were impressed by alternative arguments that stressed the potential for accelerated local distribution company (LDC) consolidation from

merging Hydro One Brampton with three local distribution companies. The Council envisages Hydro One Brampton becoming part of a large-scale merged Greater Toronto and Hamilton Area (GTHA) distribution company, comparable in scale to Toronto Hydro and Hydro One Networks, which would improve industry competition for regional consolidation by increasing the number of LDCs with the capacity to drive further consolidation and thereby act as a catalyst for further consolidation. We have concluded, as did the 2012 report from the Ontario Distribution Sector Review Panel, that economies of scale enabled by further consolidation would lead to a favourable impact on rates.

Our consultations also led us to significantly revise our conclusion as to what to do with Hydro One. We concluded that the Province should sell, over time, a majority interest in Hydro One through share sales to the public. Selling a portion of Hydro One as a combined entity, compared to separating and selling the distribution business, is faster and achieves higher value.

We looked again at the issues raised about selling public assets – tax leakage and lost net income to the Province. We found that the tax leakage issue was a theoretical loss but not a real one because of the effect on the tax base of the company of going public. A new publicly-held Hydro One is not likely to pay provincial or federal taxes for some time, and at least some of the value of this tax shield should be reflected in the valuation.

The issue of lost income to the Province hasn't changed from our Initial Report – there will indeed be some lost income. However, there is, of course, the broader question: if governments have a lower cost of borrowing than business enterprises earn, should they own many of them to earn revenue for the province? A conclusion to do so assumes that governments have no debt limits and unlimited capacity to effectively manage large and complex business operations. Whatever one's view is on the latter issue, it is clear that Ontario does have a limit on how much it can borrow; therefore, not selling assets has an opportunity cost: the investments that are not made.

So the critical issue is the return to the economy of the infrastructure investments made in transit and transportation. The government's view, and one which we accept, is that the return on well-conceived projects will be higher than the return that the government

would forego by selling Hydro One today, in the context of today's market and interest rates. Investors today are demanding a very small premium to the government's borrowing rate; never before have the returns that the market demands been as close to the Province's borrowing rate as they are now. However, there will be a loss to the provincial government's revenue even if the province is better off. Some of this may be offset by improved economic performance as a result of the infrastructure investments and therefore improved provincial government revenue performance. Another offset may well be improved company performance as a result of private sector discipline.

The loss can also be affected by how you sell down your interest. We considered carefully the lessons of previous unsuccessful divestiture efforts of Hydro One and other assets. Unlike those efforts, we are proposing that divestiture be staged over time with measures to protect the public interest as a responsible shareholder. This staged approach better matches the offerings to the capacity of the market to absorb them and reduces pricing risk. The mistake often made is to try to sell too much at one time. Value is destroyed in doing so. By staging a sale, it will also allow the Province to retain a substantial interest in Hydro One over an extended period of time, thereby continuing to enjoy the benefit of continued income from a growth company, rather than simply trading a one-time gain for a long-term income loss.

The heart of the issue remains the public policy issues involved in selling Hydro One. For the distribution business, our views on the importance of spurring consolidation in the electricity distribution sector have not changed. We said in our Initial Report that we would favour selling the distribution business of Hydro One Networks whether or not the government needed the revenue to finance infrastructure investments. It just made good energy policy sense. Indeed these views have been strengthened by our consultation process, as almost all stakeholders urged us to find a way to spur further consolidation. The key is finding a catalyst. We believe our recommendations today will be that catalyst. We will have created a real urban consolidator through our proposal involving Hydro One Brampton. We will have a competing strong consolidator by giving the distribution arm of Hydro One the backing of a strong company whose shares are valued at a high multiple. And by addressing some of the cost issues coming out of the labour contracts in Hydro One, we will have reduced another barrier to consolidation.



There remains however the policy issues surrounding the transmission business. We put the question squarely back to government – can the public policy objectives of providing electricity transmission services to the province only be met by having the government own 100% of them? In re-examining this issue, in looking at jurisdictions where transmission lines are not owned by the government and in examining the options of expanding the powers and capabilities of the regulatory agencies, the government came to the view that the public policy needs could be met without 100% ownership. That view allowed us to conclude that we should recommend the proposal that would maximize the value to taxpayers: keep Hydro One together and sell down the government's interest in a staged approach. We would therefore not break the company up into separate transmission and distribution companies.

We also believe that taking Hydro One public creates an opportunity: to create a new, growing company that can in turn create jobs, something that realistically it could not do – and did not do – as a 100% government-owned company. We see the new Hydro One as a strongly growth-oriented company, centred in Ontario and widely-held with measures to protect the public interest. The entity will be primarily Canadian-owned, rank among the larger public companies in the country by market capitalization, and be positioned to drive revenue and to generate jobs across Ontario. By unfettering Hydro One and allowing it to expand its business opportunities, the company could also return an increasingly profitable dividend to all Ontarians.

We believe strongly that bringing in new capital in this way will benefit the government, ratepayers, and taxpayers. It will facilitate improvements in the efficiency of the electricity system in Ontario, which in turn would lead to a favourable impact on rates and support funding of much-needed public transit and transportation infrastructure that otherwise would not be possible.

## Final Recommendations

The Council has now completed its review of Hydro One and Hydro One Brampton, and we are pleased to present our final recommendations in support of the Province's 2015 Budget.



1. The Province should proceed immediately with a sale or merger of its interest in Hydro One Brampton Networks Inc. to or with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area and to strengthen competition in the electricity distribution sector by increasing the number of LDCs with the capacity to drive further consolidation.
2. The Province should amend the transfer tax rules and departure tax rules that apply when municipal electricity utilities leave the payment-in-lieu of taxes regime both on a time-limited basis and implement these changes as quickly as possible.
3. The Province should proceed with a partial sale of a portion of its interest in Hydro One as an integrated entity, including both the transmission and distribution businesses, to create a growth-oriented company centred in Ontario.
4. The partial sale of the Province's interest in Hydro One should be by way of an Initial Public Offering (IPO) so that the company will be widely held, predominantly by Canadians.
5. The government should indicate its intention to retain its remaining shares after selling down to 40%, and the balance should be widely held with no other individual shareholder having more than a 10% holding.
6. Hydro One should be required to maintain its head office and substantially all of its strategic management functions in Ontario.
7. The mandate and powers of the Ontario Energy Board should be strengthened to ensure that changes in industry structure do not put upward pressure on rates.
8. Governance of Hydro One should be adjusted to meet the requirements for a widely-held public company, and certain legislative and government regulatory and policy requirements that are applicable to government entities should be removed.

9. Governance of the company should be vested in its Board of Directors; all directors would be independent with the requisite skills and board experience for an operation of the company's size and owe a fiduciary duty to the company.
10. In order to ensure the Province has additional powers to protect both the public interest and its investment through the company in Ontario's transmission and distribution systems, Hydro One should not be allowed to do any of the following:
  - sell all or substantially all of the Ontario-based transmission assets of the company;
  - sell all or substantially all of the Ontario-based distribution assets of the company; or
  - change the jurisdiction of incorporation of the company.
11. The Province, Hydro One management, and unions should finalize agreements on pensions and labour costs in advance of the Hydro One IPO to address issues raised by the Leech Report and the Ontario Energy Board with respect to pensions and compensation.

# INTRODUCTION

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## Background

In November 2014, the Advisory Council on Government Assets presented to the government our Initial Report entitled “Retain and Gain: Making Ontario’s Assets Work Better for Taxpayers and Consumers”. The Initial Report included our overall assessment of the government-owned electricity sector companies in Ontario based on detailed reviews of Hydro One and Ontario Power Generation, input from stakeholder consultations, and our thinking on the future direction of the two companies.

The report provided suggestions as to how best to achieve the government’s objectives, and indicated that we were open to looking at additional options on how best to proceed.

In response to the Council’s Initial Report, the government issued a statement indicating its support for the direction of the proposals contained in the report and authorizing the Council to move to the second phase of its review.

The government expanded the Council’s mandate for Phase 2 of its review. The amended mandate authorized the Council to conduct further due diligence on the proposals presented in the Initial Report relative to Hydro One and Hydro One Brampton and to develop an implementation plan. The Council was also mandated to provide final recommendations to the government in support of its 2015 Budget process.

The amended mandate recognized that the Council is both an advisory body and a representative of the Crown. This has necessitated that the Council work very closely with the government at all times in Phase 2 of our review, and we have been guided by the government’s stated public policy objectives in framing our recommendations.

## Restructuring Secretariat

To support the expanded mandate of the Council relative to Hydro One, a Restructuring Secretariat was announced in December 2014. The Restructuring Secretariat provided the Council with a structure to engage various stakeholders from the electricity sector, the financial community, and labour groups. The Restructuring Secretariat's analytical and financial expertise allowed interested stakeholders to provide input into the second phase of the Council's work in a collaborative and confidential manner, ensuring that the Council could review all of the suggestions and input that it received in a meaningful way.

The Restructuring Secretariat received input and submissions from a large cross-section of stakeholders. These were invaluable in informing the Council's final recommendations. We would like to thank each of these groups for their contributions to the Council's deliberations and final recommendations.

## Approach

Our Initial Report provided the basis for the due diligence we conducted on Hydro One in Phase 2. It envisaged:

- Development of options and implementation planning for final recommendations on Hydro One Brampton Networks Inc. (Hydro One Brampton); and
- Development of options and implementation planning for a separation of the transmission and distribution businesses that are currently integrated in Hydro One Networks.

In Phase 2, the Council conducted detailed valuations and due diligence, including regulatory and policy considerations, assessment of synergies and dis-synergies, as well as analysis of various accounting, labour, company debt, pension, and tax issues.

Throughout Phase 2 of our work, the Council continued our commitment to a collaborative and confidential process in order to develop specific proposals for the future direction of Hydro One.

To this end, the Council carefully considered reaction from key stakeholders, policy and financial experts, as well as labour leaders and others. The input from these consultations, together with our detailed analysis, has enabled us to refine our thinking. In some cases, the evolution has been modest; in others it has been significant. In all cases, it has been developed, first and foremost, with a view to serving the public interest and securing the best outcomes for the people of Ontario.

As noted in our Initial Report, our bias has clearly been towards what is do-able and towards framing proposals and recommendations that are pragmatic and implementable.

## **Our report**

This report represents our final report to government on the future direction for Hydro One Networks and Hydro One Brampton. The report outlines the major issues that the Council considered in coming to a view on these issues in light of the detailed due diligence, market soundings, and analysis that we undertook in Phase 2 of our review, and it provides our final recommendations to government.

# THE COUNCIL'S PERSPECTIVE

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## Guiding principles

As the Council considered the future direction for Hydro One and Hydro One Brampton, we developed principles to guide our thinking on how best to approach unlocking value from the two companies and improving the efficiency of the distribution system in Ontario through consolidation. Our principles were:

- **Efficiency and Consolidation.** Divestiture should be designed to promote consolidation in the electricity distribution sector and improve the overall efficiency of the distribution system.
- **Public Ownership.** The Government of Ontario should remain the largest shareholder in any publicly-traded company created by divestiture.
- **Financial Benefit.** Divestiture should unlock value from the Province's interest in Hydro One and deliver substantial financial gains that can be applied to public transit and transportation infrastructure all across Ontario.
- **Ratepayer Protection.** Existing regulatory controls should be strengthened to ensure that Ontario ratepayers are not disadvantaged in terms of rates and service levels following any divestiture.
- **Service Quality.** Regulatory oversight should continue to ensure that service and reliability standards are maintained for customers in communities of every size.

Unlocking the value of Hydro One would be a key step towards the government's 2014 Budget goal of allowing Ontarians to share in the value of a core asset like Hydro One while providing funds for new public transit and transportation infrastructure, all while ensuring that a core government asset remains broadly held and creating a growth-oriented and Ontario-based company.

Finally, it is important to emphasize that the Council's mandate operated at all times in the context of the government's desire to build for the future in the context of the

government's limited borrowing capacity. Unlocking economic value and realizing financial benefit from major assets is directed by the government's commitment to make investments in equally vital and sustaining public transit and transportation infrastructure projects. In this way, the economic value built up over generations in existing assets can be utilized to help create new assets that will accrue to the benefit of the people of Ontario in the future. These investments pay a return to the citizens of Ontario either directly by improving transit and transportation services or indirectly by unlocking growth potential in the economy.

## Key considerations

Flowing from the principles section outlined above, the Council identified seven major issues requiring detailed consideration. Our work in Phase 2 was directed to undertaking the necessary due diligence and analysis to allow us to formulate carefully considered conclusions and recommendations on each issue. The issues were:

- How best to catalyze LDC consolidation including addressing current barriers and incentives, such as taxes, that impede consolidation.
- How to unlock maximum financial value from the Province's interest in Hydro One and Hydro One Brampton.
- The most effective ways to separate the distribution arm of Hydro One, the issues involved in splitting the company and whether splitting the company is the most effective way to realize value or whether there are other options that could better realize value and still meet public policy objectives.
- Ensuring that electricity rates are not adversely affected by any transaction.
- Ensuring that regulatory oversight is in place to maintain service and reliability standards for customers in Ontario communities of every size.
- How best to structure the governance of the new company to protect the interests of the government as a responsible shareholder and maximize value for Ontario taxpayers without discouraging potential investors.

- Addressing Hydro One's compensation and pension cost challenges.

This section provides the Council's perspective on each of these issues.

## **Hydro One Brampton as a catalyst for LDC consolidation**

In our Initial Report, the Council strongly endorsed the need for faster consolidation among LDCs in Ontario. We also noted that the system needs private sector capital and a level of competition that will encourage innovation among companies that can adjust nimbly to the changing energy world. We identified Hydro One Brampton as key to breaking the deadlock on this issue and as a potential catalyst for consolidation.

The Council's consultations with numerous market participants and our supporting due diligence have confirmed that there is a compelling case to support our initial proposal that Hydro One Brampton should be used as a catalyst for consolidation.

Hydro One Brampton occupies a strategic area between multiple large urban distribution companies and presents an attractive sale or merger opportunity in a region where the industry has been reluctant to pursue further mergers or cooperate on efficiencies to benefit ratepayers.

We examined potential options for such a transaction – an Initial Public Offering (IPO) or a sale to a strategic buyer or buyers. On an IPO, the Council received advice that although there may be some interest in the public capital market, the offering would likely be too small to be viable and sacrifice significant value to provincial taxpayers.

This indicated that a sale or merger with a strategic buyer would be the most effective route. Based on our due diligence, it is clear that Hydro One Brampton is an efficient, stand-alone urban electricity distribution business with strong growth potential. These qualities make it a rarity in Ontario that would likely attract a value premium for that scarcity. In considering what form of strategic sale or merger to pursue, the Council was influenced strongly by the importance of creating a strong, standalone industry consolidator. The Council remains of the view that Ontario would be best served by having at least three or four financially strong distribution players that are able to adapt



to changing circumstances and provide the OEB with true comparators to review relative performance in the sector.

In our Initial Report, we expressed the view that Hydro One Brampton could be used as a catalyst for LDC consolidation by merging it with one or more GTA distribution companies and then divesting some of the government's interest in Hydro One Brampton. We indicated our belief that Hydro One Brampton should be a natural merger partner for neighbouring utilities.

The resulting company would create a large urban entity that is well-positioned to pursue consolidation and modernization of Ontario's electricity distribution system – particularly in the Greater Toronto and Hamilton Area (GTHA) and surrounding environment where multiple local distribution companies present significant opportunities for savings from economies of scale. As well, such a merger would create a distribution utility of comparable scale to Hydro One Networks and to Toronto Hydro. By creating a utility of this size, municipalities will have a choice of business partners to encourage efficiency and local development. This choice should strengthen competition for mergers in the region and attract additional capital; it would no longer be a binary choice to merge with Hydro One or not.

The Council favours competition in cost efficiencies whenever possible as a natural impetus for innovation and cost reduction, both of which should have long-term benefits to ratepayers. Providing additional cost comparisons for benchmarks in large distribution companies other than just Hydro One and Toronto Hydro would also provide the Ontario Energy Board with additional information to better evaluate fair costs for ratepayers.

In the course of our Phase 2 consultations, the Restructuring Secretariat received a strong pre-emptive bid from a consortium of GTHA-area LDCs that envisages a merger of Hydro One Brampton with Enersource (Enersource Corporation), PowerStream (PowerStream Holdings Inc.), and Horizon (Horizon Holdings Inc.). Following intensive negotiations between these companies and the Province, the consortium would have the option under the terms of this bid of acquiring Hydro One's interest in Hydro One Brampton for either a 17% interest in the new consolidated entity or for an enterprise value of \$607 million in cash.

We wish to emphasize that the quantum of the cash option is clearly at the higher end of the indicative values identified in our market soundings, and the equity option appears to be equally attractive. This option results in a strong consolidator in the GTHA at a value that was as high as could otherwise be achieved. Accordingly it is the option that the Council believes the government should pursue.

The public interest benefits of such a merger are many, including the potential to improve efficiency, to strengthen service and reliability, to open the door to new capital investment from the private sector, to encourage modernization of the distribution system and to help to catalyze further consolidation in the sector by demonstrating the merits of such an approach. By proceeding with merger partners that are already in place and operating established distribution businesses, ratepayers in these areas should start to see the benefits of consolidation sooner, as opposed to introducing a strategic operator or trying to carve up Hydro One's service areas through complicated regulatory proceedings.

In light of this, the Council believes that the Province should not conduct an open auction or procurement process for Hydro One Brampton, but instead should immediately proceed to negotiate a sale or merger of Hydro One Brampton to Enersource, PowerStream, and Horizon on the basis noted above. This should be completed during the province's 2015-16 fiscal year.

These two tables illustrate the dramatic impact that such a merger would have on the LDC landscape in Ontario, particularly in the GTHA.

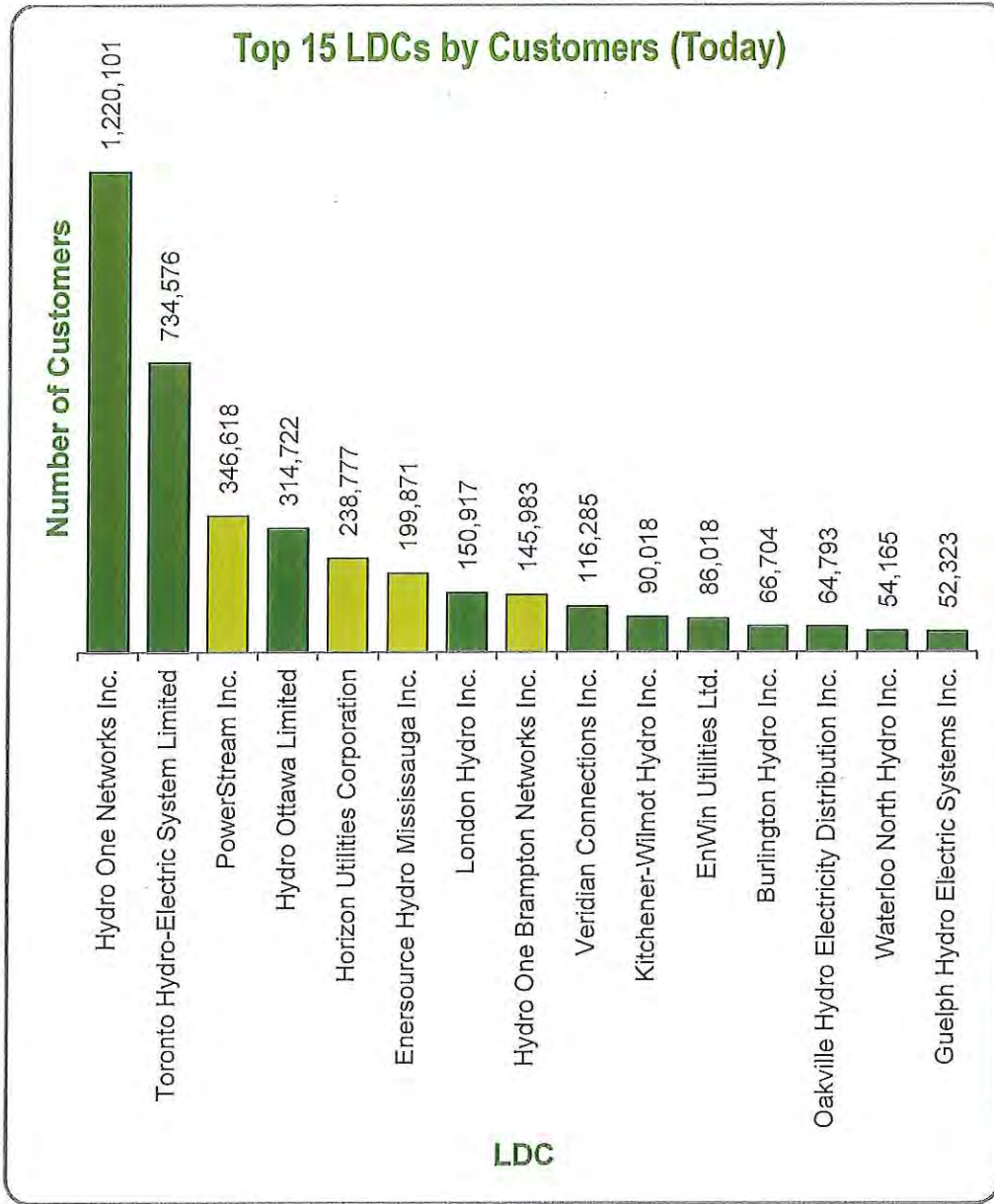


Chart 1 - Source Data from 2013 Yearbook of Electricity Distributors

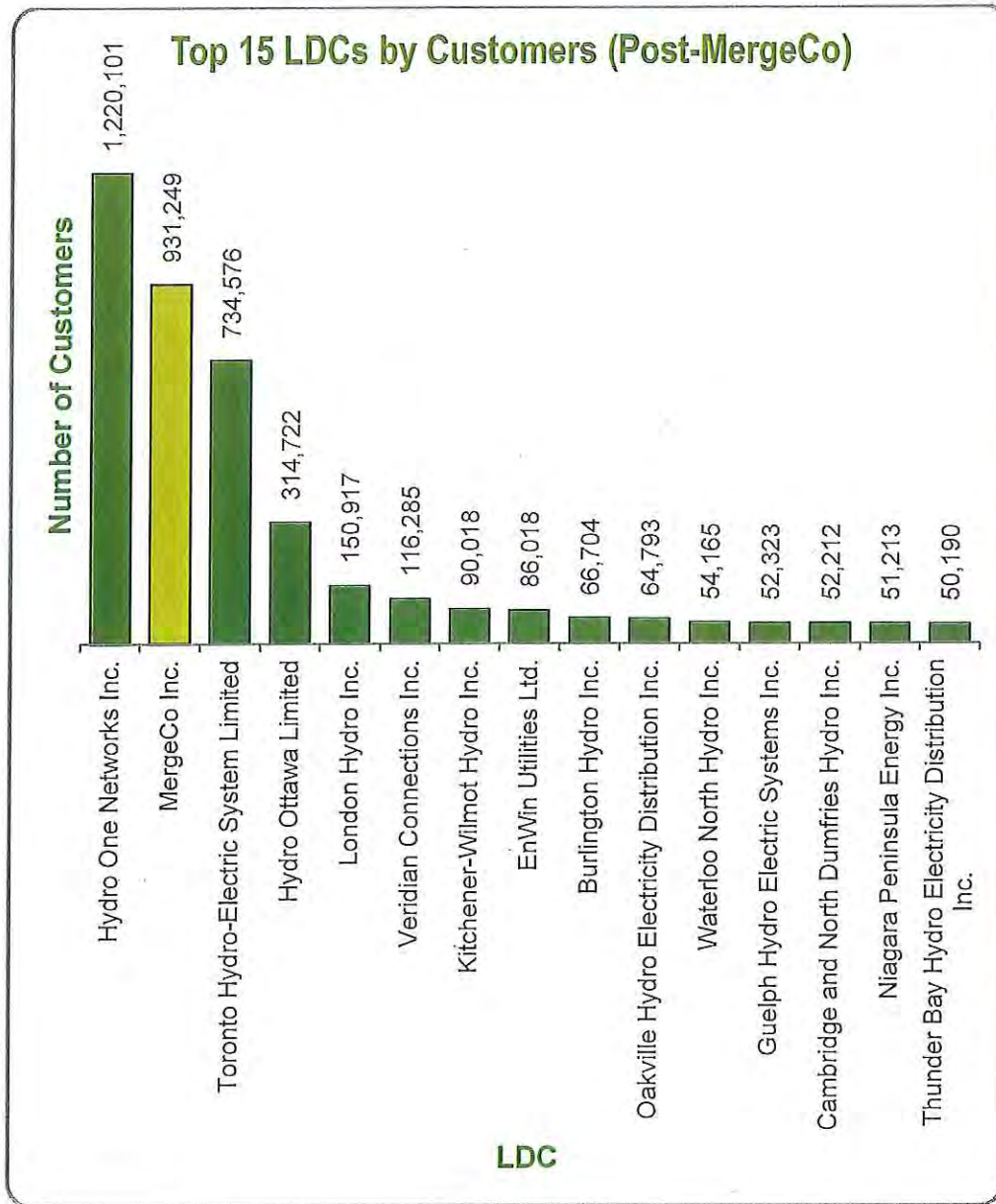


Chart 2 - Source Data from 2013 Yearbook of Electricity Distributors

Through this proposed transaction, not only would the Province protect its interest by either maintaining a foothold in a high growth, urban LDC in the case of a merger or receiving significant value in a sale, but would also protect the interests of electricity ratepayers by facilitating consolidation of local distribution companies as originally recommended in the 2012 report from the Ontario Distribution Sector Review Panel.

## Encouraging further LDC consolidation

The proposed Hydro One Brampton transaction represents a major step forward in catalyzing LDC consolidation in Ontario. However, it is only one step and the Council remains strongly supportive of using the momentum of that transaction to provide for further consolidation.

In the course of our consultations, a number of transition proposals have been presented to the Council that envisage consolidation of LDCs. Most of these are proposals for individual LDCs to negotiate the acquisition of contiguous parts of Hydro One's distribution business and merging it with their own operations. Arguments in favour of this approach versus the Council's approach include:

- maintaining electricity delivery under local control;
- providing a sound basis for overall restructuring of the distribution sector by voluntary consolidation; and
- offering value to the Province for any acquisition and supporting tax efficiency.

Although the Council is supportive of these kinds of transactions in principle, our assessment of the proposals indicated that they have had a number of shortcomings. Specifically:

- they generally seek to "cherry-pick" assets from Hydro One distribution that could leave Hydro One with stranded, rural assets that would increase its average per customer cost base;
- the proposals seem to significantly under-value the Province's interest in these regions, meaning that transactions at these proposed levels would transfer substantial value away from the Province to the owner municipalities; and
- the process is likely to be relatively slow-moving because of the regulatory process, and while it may indeed foster consolidation, it is unlikely to do so in the near term forgoing significant opportunities to benefit ratepayers. Further, it would not create another large distribution utility that could act as another strong, standalone industry consolidator.



For these reasons, we believe that the approach the Council is recommending for Hydro One Brampton and Hydro One itself offers significantly greater benefits. However, we do support continuing efforts by Ontario's LDCs to consolidate, and we believe that with the catalyst offered by the package of the Council's recommendations, including time-limited changes to transfer tax rules and departure tax rules, it may be possible to accelerate the consolidation process, thereby supporting the goal of greater efficiencies in the overall system, and therefore lower costs for ratepayers than would have occurred without these changes.

## **Mitigating the costs of departure from government ownership**

Under the Electricity Act, 1998, municipal electricity utilities (MEUs) are subject to a transfer tax of 33% on the fair market value of electricity assets sold to the private sector, less the total amount of payments-in-lieu (PILs) of taxes paid up to the time of the transfer. The Province's transfer tax is designed to ensure that the MEU contributes its fair share to the pay down of stranded debt since ownership of the MEU was provided at no cost and essentially debt-free to municipalities as part of the 1998 restructuring of the sector. The tax also compensates the Ontario Electricity Financial Corporation (OEFC) for the loss of the federal portion of PILs when an MEU is sold to the private sector. PILs are paid to OEFC to help service and pay down electricity sector stranded debt.

Stakeholders have long argued for proposed modifications to this tax regime, including elimination of the transfer tax, in order to encourage voluntary consolidation in the distribution sector. Stakeholders suggested to the Ontario Distribution Sector Review Panel in 2012 and to the Council during our consultations that the tax over-captures value to the Province and impedes rational business decisions by the municipal stakeholders of local distribution companies.

Providing relief on the transfer tax represents a trade-off between the fiscal risk of on-going revenue loss from MEU PILs needed to continue reducing electricity sector stranded debt and the incentives for MEUs to potentially consolidate for the benefit of municipalities and ratepayers.

The Council examined this issue carefully and considered the original purpose of the transfer tax, which was to help pay down stranded debt in the electricity sector. In light of this, we are not supportive of stakeholder calls for the tax to be permanently eliminated. We do, however, support a temporary three-year reduction starting in 2016 in the rate of transfer tax from the current 33%. This reduction would provide an incentive for consolidation, while not unduly impacting ratepayers and taxpayers.

We believe that the government should offer a time-limited exemption for small MEUs (where "small" is defined as an MEU with less than 30,000 customers), in order to provide them with an incentive to consolidate with larger entities without resulting in material loss of on-going revenue to the OEFC and the Province.

We would also support a time-limited exemption from the capital gains component under the departure tax rules described in the Electricity Act, 1998 (with the exception of goodwill). The Council recognizes that, although the MEUs were provided to municipalities at no cost, municipal ownership since that time has, in some cases, added value. Accordingly, the Council believes that the Province should realize value for what was transferred, but that it is unfair to capitalize on the results of stewardship by MEUs over the last 15 years.

A time-limited capital gains exemption would strike a reasonable balance among the interests of the government, municipal stakeholders, and policy objectives. These assets were gifted to the municipalities by the Province under the Electricity Act, 1998 for no consideration leaving the electricity sector stranded debt with the OEFC, a provincial agency. We believe it is therefore reasonable for the Province to recapture some value on sale of these assets.

Departure taxes have frequently been cited as a major barrier to consolidation, but our consultations revealed that in many situations, even were the tax to be removed, many municipalities, for a variety of reasons, would prefer to continue to own their local distribution companies. However, the Council's strong view remains that it is not in the long-term interests of ratepayers in these municipalities to have such a large number of small distribution companies.

Accordingly we propose that the MEU tax regime should be modified. We believe that these time-limited tax incentives to promote consolidation should be offered from January 1, 2016 for a period of three years, and that for any local distribution company appearing before the OEB prior to December 31, 2018, the tax on the transaction should be similarly reduced or eliminated when the transaction closes.

We do not believe that these tax measures should be put in place permanently. This would unfairly benefit municipalities at the cost of all provincial ratepayers and taxpayers. Our view is that tax policy measures intended to encourage consolidation should only provide incentives to consolidation, not fund them entirely.

## **Unlocking value from Hydro One**

The Council's main preoccupation relative to unlocking value from its interest in Hydro One is how best to obtain maximum financial value from a transaction while also maximizing protection for taxpayers and ratepayers.

In our Initial Report, the Council recommended that Hydro One's transmission and distribution businesses be separated. At that time, the Council recommended that the Province retain its ownership of the transmission business given our understanding of its current role in meeting public policy objectives. We indicated that retaining the transmission business of Hydro One in public ownership would be advantageous in several areas of electricity policy including ongoing energy-sharing discussions with Quebec. This view was based on the Province of Ontario and the former Ontario Power Authority (OPA) – now part of the Independent Electricity System Operator (IESO) – being engaged in negotiations with Hydro Quebec for possible purchases of hydroelectric power.

However, in the course of Phase 2 of our review, the Council has worked closely with the government (including various ministries), regulatory authorities, and industry stakeholders to better understand the Province's position in these discussions. The government is satisfied that retaining 100% ownership of Hydro One's transmission assets is not a pre-requisite in order to achieve equally good energy policy outcomes. And as we further examined the public policy rationale for retaining Hydro One's transmission assets in public ownership, we did not find the case compelling.



After examining the issues, there appeared to be no reason that a publicly-held Hydro One would not be able to carry out what would be required. Hydro One does not have an exclusivity on transmission projects in Ontario. Indeed, the last major competitive designation process for a transmission line in Ontario was won by a private sector company. Further, the OPA and IESO have now been combined to form a powerful agency whose mandate is to ensure that Ontarians are supplied with sufficient reliable energy at the lowest cost.

Furthermore, on the issue of maximizing value to the Province, it became clear in the course of our due diligence and market consultations that Hydro One as an integrated entity is worth more than the sum of its constituent parts as stand-alone businesses. The value premium in the market for a partial sale of a combined transmission and distribution company is likely to be significant. As a result, divesting a portion of the integrated entity would yield significantly greater economic value to the taxpayers of Ontario, while still allowing the government to protect ratepayers and the wider public interest.

In practical terms, a partial divestiture of the Province's share in the integrated business of Hydro One would be a much simpler and less challenging process since it would not require splitting the company into two separate businesses ahead of the transaction. It would also avoid potentially material dis-synergies and separation costs that would arise from splitting the company. Labour and pension arrangements at Hydro One could continue to be negotiated with a single employer, as opposed to splitting the company into two separate business units that would each require a split pension plan.

Moving more quickly would allow the Province to take advantage of the uniquely attractive market conditions that currently prevail. Never before have the returns that the market demands been as close to the Province's borrowing rate as they are today.

A sale of part of the Province's interest in the integrated business would allow for the introduction of private sector discipline in governance, operating efficiency and spending, while maintaining public ownership and regulatory oversight to protect ratepayers and taxpayers. Regardless of ownership, regulatory oversight of both the distribution and transmission infrastructure will be maintained through the Ontario

Energy Board (OEB), ensuring that Hydro One customers and Ontario ratepayers are not only protected but are efficiently served by an independent Hydro One.

The same OEB regulatory protection would also ensure that rates would not be affected and would certainly not increase as a consequence of the partial divestiture.

Concern has been expressed to the Council that the partial divestiture of Hydro One will result in front-end gains to the Province but a long-term income loss. It is argued that this will occur because the government would be selling assets that earn a 10% return on their book value and getting no material long-term income stream in return.

While it is true that there will be some loss of income as a result of the transaction, the government believes strongly that this will be mitigated by at least three factors. Firstly, it is the government's intention to apply the proceeds of the partial divestiture up to the book value of the proportionate share of Hydro One divested in order to pay down debt. This will have the effect of reducing interest payments on that debt that would otherwise have been payable. Secondly, the government takes the view that it is investing the net proceeds of the partial divestiture in economically productive public transit and transportation infrastructure – investments that would not have otherwise been possible. These investments are specifically directed to producing long-term economic benefit to Ontarians by stimulating economic growth in the province. Over time, the government expects the return to the economy on these investments to be strongly positive. Thirdly, we believe that this will create a large, publicly-held Ontario company that will be strongly growth-oriented, with an infusion of new capital and management that will enable it to deliver stronger performance, better returns to the Province for its interest, and be well-positioned to support economic growth in Ontario. The Council has accepted this position.

Based on all these factors, the Council has concluded that the interests of the government and taxpayers of Ontario are best served by a partial sale of the Province's interest in Hydro One as an integrated company, including both its transmission and distribution businesses.

## Structuring a Hydro One transaction

As noted above, our market soundings confirmed strong interest in Hydro One. This was evident for both strategic buyers as well as on the public market.

The Council considered the option of a partial sale to or partnership with strategic investors but rejected it as contrary to the public interest and inconsistent with the government's public policy objectives.

Unlike in the case of Hydro One Brampton, our analysis indicated that the return to the government of a sale to a strategic buyer could actually be lower than in an IPO. This is because the size of the transaction would severely limit the number of qualified bidders for Hydro One and would reduce the government's ability to negotiate price. Moreover, the Council believes that it would be contrary to the public interest to permit any single external bidder to own a sizeable part of the company. Finally, in the Council's view, a sale to an external strategic buyer would mean missing the opportunity to create a widely-held Ontario growth company.

The Council's analysis indicates that, in today's markets, the integrated Hydro One transmission and distribution business would likely command a fully distributed equity valuation of between \$13.5 billion and \$15 billion in a public offering, excluding Hydro One Brampton. We believe this valuation is a conservative range in the context of today's market: the actual value may well exceed this amount. Of course, the Council recognizes that markets are volatile and market value could deteriorate.

This offering would be highly-attractive to the market as a dividend paying investment in a low-yield economic environment and would generate a substantial return that would support the government's plans to invest in new public transit and transportation infrastructure all across Ontario.

An IPO offers the opportunity to provide ownership in a growing company to a wide spectrum of Ontarians and to maintain Canadian ownership of the company.

An IPO was proposed for Hydro One in 2002. However, the proposal at that time was to take 100% of the company public in one transaction. In considering the IPO option, the Council is proposing an alternative that would generate better returns to the

Province while providing for protection of the public interest. The Council reviewed a number of past divestments, both in Canada and internationally, focusing on what worked and what did not. A common theme emerged – often governments rush to sell too much at once or without measures to protect the public interest. Initial offerings usually require a discount value to what will be the long-run value of the asset. Clearly therefore, the best approach is to sell as little as possible in the first round, both to let the market establish value and to see the potentially improved performance of the business.

Our analysis also indicated that the Canadian market could not accommodate such a large offering and that proceeding with such a large IPO in a single stage could significantly compromise value to the Province.

Proceeding in stages would allow the Province to continue receiving on-going income from the company rather than trading that income for a one-time revenue gain as would have been the case had the 2002 IPO proceeded. Finally, this approach allows the government to carefully monitor each stage of the sale and exercise discretion to suit market conditions prevailing at the time of each share sale.

The Council believes strongly that a staged divestiture would be the most effective way to unlock value from a partial sale of Hydro One. There will be those who will argue that there could be lost value to shareholders because the market will be concerned that the government has excessive control during the staged sale. We believe that there is a balanced approach that can meet the market's concern, allow taxpayers to realize better economic value in a staged divestiture, while still meeting legitimate public policy concerns about the government's investment in Hydro One.

Our analysis suggests that the IPO market could accommodate at least \$3 billion of Hydro One shares at any one time. We propose that the initial tranche should offer approximately 15% of the company to the market. Future sales could be offered at opportune times in the market.

We believe that it is important for the Province to signal clearly to the market that it wants the new Hydro One to operate independently of the government. This can be achieved by the Province declaring its eventual intention to sell down its position to

40% of the shares outstanding on the IPO. While this will not occur for some time, the markets will want to know the government's intention with respect to what it wants to do when it sells down its position to 40%. The government has indicated to the Council that it is their intention to hold their remaining shares. Retaining a long-term interest in the new Hydro One makes good economic sense and maintains the Province's standing as a significant and responsible shareholder. It will also ensure that Ontarians as citizens, not just as investors, will have a continuing interest in this important company. The government could enshrine this intention in legislation. Obviously, future governments will still have the right to amend the legislation to permit future sales should they choose to do so.

The Council believes that this approach strikes the best possible balance. It offers the people of Ontario maximum financial return, providing funds for investment in strategic transit and transportation infrastructure all across Ontario. It preserves the Province as the largest shareholder, ensuring the long-term preservation of the public interest. It provides for a strong new governance structure, and it allows the government to share in the future of this large, growth-oriented company thereby retaining a growing income stream for the lasting benefit of the people of Ontario. By unfettering Hydro One and allowing it to expand its business opportunities, the company could also return an increasingly profitable dividend to all Ontarians.

Initiating a divestiture of the government's interest in the integrated company by way of an IPO could commence during the Province's 2015-16 fiscal year, subject to necessary legislative approvals.

We believe it would be in the public's best interest for Hydro One to be widely-held. Accordingly, we would propose that there be a share ownership restriction that would not allow any one shareholder or consortium of shareholders (other than the Province) to hold more than 10% of Hydro One. This restriction further mitigates the risks of any one investor becoming too influential and helps protect the long-term interests of all Ontarians.

In the Council's view, the IPO should be structured in such a way that it provides retail investor residents of Canada an allocation of 25-30% of the shares offered to the public under the IPO. This will allow Canadian investors to participate in the creation and

growth of a large, growth-oriented, Canadian company. The creation of such a new company free to grow and expand will generate returns, not only for the shareholders but for all Ontarians.

Service quality at Hydro One has long been a concern of ratepayers. The Council finds it disappointing that a major service company such as Hydro One should have difficulty meeting modern service standards. We know that the company has worked hard to rectify these service issues. We would urge the new Board, even before the launch of Hydro One as a publicly-held company, to make "customer first" one of its core principles and to ensure that it has an execution plan to deliver on that commitment. We are also proposing that, although the company, like other publicly-traded companies, will no longer fall under the scrutiny of the Ontario Ombudsman, the company should appoint an independent ombudsman reporting directly to the Board to ensure that customers have an independent oversight and that the Board is made aware of any service shortcomings.

Finally, the Council is of the view that under the terms of the IPO, the government should ensure that there are requirements for Hydro One to maintain its head office and substantially all of its strategic management functions in Ontario. Given the province's interest as a responsible shareholder, the government should ensure that the commitments are enshrined in legislation.

## **Controlling upward pressure on electricity rates**

The Council believes strongly that transforming Hydro One from a locked legacy asset into a new, widely-held growth business will offer significant benefits to ratepayers as well as shareholders. More efficient operations will reduce costs and improve competitiveness. This will reduce upward pressure on rates even in the absence of other actions. Changes being proposed set the stage for improved operational performance and benefits to ratepayers.

The Council recognizes that there is public concern over the upward trend of electricity rates in Ontario. This is understandable. However, we believe that a shift from a government-owned entity to a widely-held and publicly-regulated company would ultimately decrease costs and therefore reduce upward pressure on rates. The new

publicly-traded company will strive to improve its returns by finding efficiencies which, under Ontario's regulatory regime, accrue only initially to the shareholders, but ultimately go to reducing rates from what they otherwise would have been – all of which is a benefit to ratepayers.

The government has stated clearly that no proposal for the future of Hydro One should result in additional upward pressure on rates. Proceeding with an IPO does not conflict with this principle. Indeed, the Council's proposal would confirm the key role of the Ontario Energy Board (OEB) as a regulator and thereby ensure that rates would not be raised as a consequence of the partial divestiture. We are confident that the Council's recommendations will reduce the level of rate increases that would otherwise have occurred. This will be achieved partly through improved efficiency of the company and partly by way of, and under the supervision of, regulatory oversight.

All rate-regulated gas and electric utilities in Ontario are overseen by the Ontario Energy Board. This encompasses oversight of the distribution and transmission utilities in Ontario, including Hydro One. The new company would continue to be regulated by the OEB.

The OEB is a quasi-judicial administrative tribunal that monitors the performance of all regulated electricity and gas utilities, both public and private, through transparent reporting requirements. The OEB also directly enforces service quality standards and approves rates. In the case of Hydro One, current rate filings are in place for both transmission (which apply for the next two years) and distribution (applying for the next three years). Following these rate filings, the more efficient and publicly held Hydro One would again justify its costs and revenue requirements, passing on any savings to ratepayers – and the OEB would continue to ensure that consumers and industry pay fair and reasonable rates for the electricity they use.

The OEB's mandate is to protect consumers through the setting of fair prices and ensuring appropriate service quality and reliability. Additionally, the OEB has compliance and enforcement powers, including the ability to revoke an electricity distributor's or transmitter's (or marketer's) licence and to levy fines and penalties.



All rate-regulated utilities, including Hydro One and Hydro One Brampton, are required to submit comprehensive rate applications to the OEB for review. Rate applications undergo a review process and receive approval from the OEB, which ensures only fair and reasonable costs are recovered through rates. This regulatory oversight will ensure that a publicly-traded Hydro One will not be able to unreasonably increase rates.

Rate applications to the OEB are also public, so consumer and industrial groups have an opportunity to review costs and question rates being requested by regulated distribution and transmission companies.

The OEB has experience in regulating transmission companies that are in the private sector. There are currently five rate-regulated transmission companies, two of which are 100% investor-owned, as well as several distribution companies with private sector involvement. Rate filing requirements are the same for companies of the same type, regardless of a public or private owner – each is required to justify its costs and rates, which protects the public interest. Further, natural gas service is provided by private utilities in Ontario today, and there is no evidence that they underserve the public.

We are convinced that, because Hydro One will continue to be regulated with respect to the rates that it can charge, and because the Council also heard from the government that broader public policy objectives can continue to be met without 100% ownership, continued 100% public ownership of Hydro One adds no additional value.

The Council recognizes the OEB as an effective regulator, but we have recommended to the government that it consider further enhancements to strengthen the OEB's mandate and powers to ensure that all ratepayers continue to be effectively protected.

## **Putting in place appropriate governance for the new company**

As Hydro One transitions from being a government business enterprise to a widely-held Ontario public company, its governance structures and processes will need to be amended significantly.



In this regard, it will be necessary to strike a balance between protecting the interests of the Province as a responsible shareholder and by extension, Ontario taxpayers, while at the same time providing assurance to investors that the new company will have sufficient autonomy and flexibility to operate effectively in the private sector. This will be achieved primarily by establishing an independent relationship between the Province and the company as well as addressing the establishment and operation of the company's Board and removing some statutory restrictions on the company. It will also be necessary to eliminate some of Hydro One's current obligations under existing government directives and requirements.

The Council has examined this issue in detail, and we have developed a framework for the governance of the new company.

We believe the new governance framework should have the following attributes:

- The Province, in its capacity as a shareholder, should engage in the business and affairs of the company only as an investor and not as a manager.
- The Province should approve the initial governance standards of the company. These should be consistent with "best practices" in Canada for public companies having regard to the company's ownership structure.
- Governance of the company should be vested in its Board of Directors. The Board should have full authority to approve the strategy and the annual business plan and budget for the company and to hire, direct, and oversee the company's management.
- All members of the Board should be high-quality, reputable business leaders with the requisite skills, board experience, time, and motivation for an operation of the company's size and scope and having regard to the company's core operating principles.
- All directors would be independent and owe a fiduciary duty to the company.

- The Province should identify the initial members of the Board as at the date of the IPO. The initial members of the Board should be appointed by the Minister of Energy based on the recommendation of the Chair of the Board and, at the request of the government, the Chair of the Premier's Advisory Council on Government Assets. After that point, the Chair should be elected by the independent Board.
- The Province should be entitled to nominate a number of directors equal to its proportionate share of the outstanding votes, subject to a maximum of 40%, with the remaining directors independently nominated to bring a balance of expertise, skills, and experience.
- The government can vote to remove the entire Board but only if in doing so it removes the whole Board or all the Board except the Chair and replaces its nominees with new directors.
- The Chair and the CEO should be confirmed annually by two-thirds of the Board. This confirmation gives the government nominees and the independent directors effective veto rights over the Chair and CEO. This confirmation also ensures that both the Chair and the CEO, who are critical to the direction and management of the company, must be satisfactory to the Province's nominees.
- As noted earlier, the company's head office, CEO, and substantially all strategic decision-making management and functions must be maintained in Ontario. As well, the Grid Control Centre for Ontario operations must be maintained in Ontario.
- In order to ensure the Province has additional powers to protect both the public interest and its investment through the company in Ontario's transmission and distribution systems, the company should not be allowed to do any of the following:
  - sell all or substantially all of the Ontario-licensed transmission business of the company;
  - sell all or substantially all of the Ontario-based distribution assets of the company; or
  - change the jurisdiction of incorporation of the company.

## Addressing the challenge of labour and pension costs

In our Initial Report, we noted that both Hydro One's and Ontario Power Generation's various labour agreements have resulted in a very high burden of compensation costs. The Report on the Sustainability of Electricity Sector Pension Plans (the Leech Report) raised a number of issues with the pension plans in the electricity sector. The Council's view was that, while the compensation arrangements were won at the bargaining table, it is becoming increasingly unsustainable that this sector has pension arrangements that do not align with the public sector as a whole and overall compensation arrangements that place a burden on ratepayers.

This position has been reinforced by recent decisions of the OEB. The OEB has disallowed proposed compensation for both Hydro One and OPG because they deem such compensation to be excessive. As a result, these costs are not being recovered from ratepayers. Ultimately, the taxpayer is paying for what the OEB deems to be "excessive compensation".

The Council recognizes that the agreements in place were negotiated at the bargaining table and that any changes should also be reached through the collective bargaining process. We believe that it is clearly in the interests of both management and the unions to seek negotiated solutions. Both parties have an interest in arriving at a sufficiently robust solution to the issues raised by the Leech Report that will enable both sides to agree that the fundamental issues raised by Mr. Leech have been dealt with. It is also important to be able to show the OEB that real progress has been made on compensation costs.

In parallel with Phase 2 of our review, discussions have been underway with the Power Workers' Union and Hydro One and OPG with respect to their labour contracts. Tentative agreements have been announced. The Council has reviewed the proposed agreements, and we believe that, if endorsed, they offer a basis over time for meeting the concerns that Mr. Leech raised in his report and for closing the gap between the current situation and the more sustainable and affordable long-term answers required by the OEB. They also adhere to the government's insistence that all wage increases be at least offset by cost savings – the concept of net zero.

Agreements have yet to be ratified. Obviously, the terms will have to be such that the average worker believes they are fair. If the agreements are ratified, not only will they have significantly addressed long-term issues, but they will reduce electricity rates from what they would have otherwise been.

## CONCLUSION

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We are satisfied that the recommendations in our Initial Report were soundly based. In that Report, the Council also committed to exploring all viable options and to listening to market and stakeholders' input. We did listen, and we have evolved our thinking significantly as a result.

First of all, we have done that with respect to Hydro One Brampton. In our continuing consultations and diligence, we were impressed by alternative arguments that stressed the potential for accelerated LDC consolidation from merging Hydro One Brampton with three local distribution companies. The Council envisages Hydro One Brampton becoming part of a large-scale merged Greater Toronto and Hamilton Area (GTHA) distribution company, comparable in scale to Toronto Hydro and Hydro One Networks, which would improve industry competition for regional consolidation by increasing the number of LDCs with the capacity to drive further consolidation and thereby act as a catalyst for further consolidation. We have concluded, as did the 2012 report from the Ontario Distribution Sector Review Panel, that economies of scale enabled by further consolidation would lead to a favourable impact on rates.

Our consultations also led us to significantly revise our conclusion as to what to do with Hydro One. We concluded that the Province should sell, over time, a majority interest in Hydro One through share sales to the public. Selling a portion of Hydro One as a combined entity, compared to separating and selling the distribution business, is faster and achieves higher value.

We looked again at the issues raised about selling public assets – tax leakage and lost net income to the Province. We found that the tax leakage issue was a theoretical loss but not a real one because of the effect on the tax base of the company of going public. A new publicly-held Hydro One is not likely to pay provincial or federal taxes for some time, and at least some of the value of this tax shield should be reflected in the valuation.

The issue of lost income to the Province hasn't changed from our Initial Report – there will indeed be some lost income. However, there is, of course, the broader question: if

governments have a lower cost of borrowing than business enterprises earn, should they own many of them to earn revenue for the province? A conclusion to do so assumes that governments have no debt limits and unlimited capacity to effectively manage large and complex business operations. Whatever one's view is on the latter issue, it is clear that Ontario does have a limit on how much it can borrow; therefore, not selling assets has an opportunity cost: the investments that are not made.

So the critical issue is the return to the economy of the infrastructure investments made in transit and transportation. The government's view, and one which we accept, is that the return on well-conceived projects will be higher than the return that the government would forego by selling Hydro One today, in the context of today's market and interest rates. Investors today are demanding a very small premium to the government's borrowing rate; never before have the returns that the market demands been as close to the Province's borrowing rate as they are now. However, there will be a loss to the provincial government's revenue even if the province is better off. Some of this may be offset by improved economic performance as a result of the infrastructure investments and therefore improved provincial government revenue performance. Another offset may well be improved company performance as a result of private sector discipline.

The loss can also be affected by how you sell down your interest. We considered carefully the lessons of previous unsuccessful divestiture efforts of Hydro One and other assets. Unlike those efforts, we are proposing that divestiture be staged over time with measures to protect the public interest as a responsible shareholder. This staged approach better matches the offerings to the capacity of the market to absorb them and reduces pricing risk. The mistake often made is to try to sell too much at one time. Value is destroyed in doing so. By staging a sale, it will also allow the Province to retain a substantial interest in Hydro One over an extended period of time, thereby continuing to enjoy the benefit of continued income from a growth company, rather than simply trading a one-time gain for a long-term income loss.

The heart of the issue remains the public policy issues involved in selling Hydro One. For the distribution business, our views on the importance of spurring consolidation in the electricity distribution sector have not changed. We said in our Initial Report that we would favour selling the distribution business of Hydro One Networks whether or not the government needed the revenue to finance infrastructure investments. It just made

good energy policy sense. Indeed these views have been strengthened by our consultation process, as almost all stakeholders urged us to find a way to spur further consolidation. The key is finding a catalyst. We believe our recommendations today will be that catalyst. We will have created a real urban consolidator through our proposal involving Hydro One Brampton. We will have a competing strong consolidator by giving the distribution arm of Hydro One the backing of a strong company whose shares are valued at a high multiple. And by addressing some of the cost issues coming out of the labour contracts in Hydro One, we will have reduced another barrier to consolidation.

There remains however the policy issues surrounding the transmission business. We put the question squarely back to government – can the public policy objectives of providing electricity transmission services to the province only be met by having the government own 100% of them? In re-examining this issue, in looking at jurisdictions where transmission lines are not owned by the government and in examining the options of expanding the powers and capabilities of the regulatory agencies, the government came to the view that the public policy needs could be met without 100% ownership. That view allowed us to conclude that we should recommend the proposal that would maximize the value to taxpayers: keep Hydro One together and sell down the government's interest in a staged approach. We would therefore not break the company up into separate transmission and distribution companies.

We also believe that taking Hydro One public creates an opportunity: to create a new, growing company that can in turn create jobs, something that realistically it could not do – and did not do – as a 100% government-owned company. We see the new Hydro One as a strongly growth-oriented company, centred in Ontario and widely-held with measures to protect the public interest. The entity will be primarily Canadian-owned, rank among the larger public companies in the country by market capitalization, and be positioned to drive revenue and to generate jobs across Ontario. By unfettering Hydro One and allowing it to expand its business opportunities, the company could also return an increasingly profitable dividend to all Ontarians.

We believe strongly that bringing in new capital in this way will benefit the government, ratepayers, and taxpayers. It will facilitate improvements in the efficiency of the electricity system in Ontario, which in turn would lead to a favourable impact on rates

and support funding of much-needed public transit and transportation infrastructure that otherwise would not be possible.



## FINAL RECOMMENDATIONS

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The Council has now completed its review of Hydro One and Hydro One Brampton, and we are pleased to present our final recommendations in support of the Province's 2015 Budget.

1. The Province should proceed immediately with a sale or merger of its interest in Hydro One Brampton Networks Inc. to or with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area and to strengthen competition in the electricity distribution sector by increasing the number of LDCs with the capacity to drive further consolidation.
2. The Province should amend the transfer tax rules and departure tax rules that apply when municipal electricity utilities leave the payment-in-lieu of taxes regime both on a time-limited basis and implement these changes as quickly as possible.
3. The Province should proceed with a partial sale of a portion of its interest in Hydro One as an integrated entity, including both the transmission and distribution businesses, to create a growth-oriented company centred in Ontario.
4. The partial sale of the Province's interest in Hydro One should be by way of an Initial Public Offering (IPO) so that the company will be widely held, predominantly by Canadians.
5. The government should indicate its intention to retain its remaining shares after selling down to 40%, and the balance should be widely held with no other individual shareholder having more than a 10% holding.
6. Hydro One should be required to maintain its head office and substantially all of its strategic management functions in Ontario.
7. The mandate and powers of the Ontario Energy Board should be strengthened to ensure that changes in industry structure do not put upward pressure on rates.

8. Governance of Hydro One should be adjusted to meet the requirements for a widely-held public company, and certain legislative and government regulatory and policy requirements that are applicable to government entities should be removed.
9. Governance of the company should be vested in its Board of Directors; all directors would be independent with the requisite skills and board experience for an operation of the company's size and owe a fiduciary duty to the company.
10. In order to ensure the Province has additional powers to protect both the public interest and its investment through the company in Ontario's transmission and distribution systems, Hydro One should not be allowed to do any of the following:
  - sell all or substantially all of the Ontario-based transmission assets of the company;
  - sell all or substantially all of the Ontario-based distribution assets of the company; or
  - change the jurisdiction of incorporation of the company.
11. The Province, Hydro One management, and unions should finalize agreements on pensions and labour costs in advance of the Hydro One IPO to address issues raised by the Leech Report and the Ontario Energy Board with respect to pensions and compensation.



News  
from Ontario Power Generation

700 University Avenue Toronto, ON M5G 1X6

Tel: 416-592-4008 or 1-800-592-4008 Fax: 416-592-2178  
www.opg.com

aggregated for purposes of reporting and other obligations under applicable securities laws. The Corporation understands that after completing the Offering, the Province owns 427,668,860 common shares of Hydro One, representing approximately 71.9% of the common shares of Hydro One. If the underwriters' over-allotment option is exercised in full, the Province would own 416,803,660 common shares of Hydro One, representing approximately 70.1% of the common shares of Hydro One. If the Hydro One shares owned by the Corporation are included with the Province's shareholdings, the Province would own 436,668,860 common shares of Hydro One, representing approximately 73.4% of the common shares of Hydro One (425,803,660 common shares of Hydro One, representing approximately 71.6% of the common shares of Hydro One, if the underwriters' over-allotment option is exercised in full). The Corporation independently made the decision to purchase Hydro One common shares in the Offering and does not have any agreement, arrangement or understanding with the Province with respect to Hydro One common shares or the voting of those shares.

A copy of the Corporation's share ownership report may be found on Hydro One's SEDAR profile, at [www.sedar.com](http://www.sedar.com). The Province files separate share ownership reports on Hydro One's SEDAR profile, which contain additional information about its holdings of Hydro One common shares and its investment intentions and other agreements with Hydro One.

The Corporation is the beneficial owner of the shares referred to above:

Ontario Power Generation Inc.  
700 University Avenue  
Toronto, ON M5G 1X6

SOURCE: Ontario Power Generation Inc.

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For further information, please contact:

Ontario Power Generation  
Media Relations  
416-592-4008 or 1-877-592-4008  
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# Hydro One Limited (TSX:H.TO)

September 11, 2017

## Earnings & Analyst Data

### EPS Estimates

	# of Ests.	Mean Est.	High Est.	Low Est.
Quarter Ending Sep-17	10	\$0.37	\$0.43	\$0.29
Quarter Ending Dec-17	8	\$0.25	\$0.30	\$0.20
Year Ending Dec-17	10	\$1.11	\$1.19	\$1.02
Year Ending Dec-18	10	\$1.30	\$1.39	\$1.20

### EPS Historical Surprises

	Estimates	Actual	Difference	Surprise %
Quarter Ending Jun-17	\$0.25	\$0.20	\$0.05	18.47%
Quarter Ending Mar-17	\$0.31	\$0.28	\$0.03	9.76%
Quarter Ending Dec-16	\$0.23	\$0.21	\$0.02	8.77%
Quarter Ending Sep-16	\$0.31	\$0.39	\$0.08	24.36%
Quarter Ending Jun-16	\$0.23	\$0.25	\$0.02	9.22%

### Analyst Recommendation Summary

1-5 Linear Scale	Current Month	1 Month Ago	2 Months Ago	3 Months Ago
(1) BUY	1	1	1	1
(2) OUTPERFORM	7	5	5	5
(3) HOLD	6	6	7	7
(4) UNDERPERFORM	1	1	1	1
(5) SELL	0	0	0	0
Mean Rating	2.47	2.54	2.57	2.57
Current Consensus	Outperform			

### Dividend Payments

Dividend Amount	Ex-dividend Date	Payable Date

### Analyst Upgrades & Downgrades

N/A	
N/A	N/A
N/A	N/A
N/A	N/A



# Hydro One Limited (TSX:H.TO)

September 11, 2017

## Financial Statements

Figures in Millions of US Dollars (except per share values)

Balance Sheet	Annual			Quarterly			
Period Ending							
<b>Assets</b>							
Cash And Cash Equivalents	--	--	--	-	-	-	-
Short Term Investments	--	--	--	-	-	-	-
Net Receivables	--	--	--	-	-	-	-
Inventory	--	--	--	-	-	-	-
Other Current Assets	--	--	--	-	-	-	-
<b>Total Current Assets</b>	--	--	--	-	-	-	-
Long Term Investments	--	--	--	-	-	-	-
Property Plant and Equipment	--	--	--	-	-	-	-
Goodwill	--	--	--	-	-	-	-
Intangible Assets	--	--	--	-	-	-	-
Accumulated Amortization	--	--	--	-	-	-	-
Other Assets	--	--	--	-	-	-	-
Deferred Long Term Asset Charges	--	--	--	-	-	-	-
<b>Total Assets</b>	--	--	--	-	-	-	-
<b>Liabilities</b>							
Accounts Payable	--	--	--	-	-	-	-
Short/Current Long Term Debt	--	--	--	-	-	-	-
Other Current Liabilities	--	--	--	-	-	-	-
<b>Total Current Liabilities</b>	--	--	--	-	-	-	-
Long Term Debt	--	--	--	-	-	-	-
Other Liabilities	--	--	--	-	-	-	-
Deferred Long Term Liability Charges	--	--	--	-	-	-	-
<b>Total Liabilities</b>	--	--	--	-	-	-	-
<b>Stockholders' Equity</b>							
Misc Stocks Options Warrants	--	--	--	-	-	-	-
Redeemable Preferred Stock	--	--	--	-	-	-	-
Preferred Stock	--	--	--	-	-	-	-
Common Stock	--	--	--	-	-	-	-
Retained Earnings	--	--	--	-	-	-	-
Treasury Stock	--	--	--	-	-	-	-
Capital Surplus	--	--	--	-	-	-	-
Other Stockholder Equity	--	--	--	-	-	-	-
<b>Total Stockholder Equity</b>	--	--	--	-	-	-	-
<b>Net Tangible Assets (Book Value)</b>	--	--	--	-	-	-	-





# Hydro One Limited (TSX:H.TO)

September 11, 2017

Income Statement	Annual			Quarterly			
<b>Period Ending</b>							
Total Revenue	--	--	--	--	--	--	--
Cost of Revenue	--	--	--	--	--	--	--
<b>Gross Income</b>	--	--	--	--	--	--	--
Research and Development	--	--	--	--	--	--	--
Selling General and Administrative	--	--	--	--	--	--	--
Non Recurring	--	--	--	--	--	--	--
Others	--	--	--	--	--	--	--
Total Operating Expenses	--	--	--	--	--	--	--
<b>Operating Income or Loss</b>	--	--	--	--	--	--	--
Total Other Income(Expenses) Net	--	--	--	--	--	--	--
Earnings Before Interest And Taxes	--	--	--	--	--	--	--
Interest Expense	--	--	--	--	--	--	--
Income Tax Expense	--	--	--	--	--	--	--
<b>Net Income From Continuing Ops</b>	--	--	--	--	--	--	--
Other Items not from Continuing Operations	--	--	--	--	--	--	--
<b>Net Income attributable to the Company</b>	--	--	--	--	--	--	--
Preferred Stock And Other Adjustments	--	--	--	--	--	--	--
<b>Net Income Applicable To Common Shares</b>	--	--	--	--	--	--	--

Cash Flow Statement	Annual			Quarterly			
<b>Period Ending</b>							
Net Income	--	--	--	--	--	--	--
<b>Operating Activities</b>							
Depreciation	--	--	--	--	--	--	--
Adjustments To Net Income	--	--	--	--	--	--	--
Changes In Accounts Receivables	--	--	--	--	--	--	--
Changes In Liabilities	--	--	--	--	--	--	--
Changes In Inventories	--	--	--	--	--	--	--
Changes In Other Operating Activities	--	--	--	--	--	--	--
<b>Total Cash Flow From Operating Activities</b>	--	--	--	--	--	--	--
<b>Investing Activities</b>							
Capital Expenditures	--	--	--	--	--	--	--
Investments	--	--	--	--	--	--	--
Other Cash flows from Investing Activities	--	--	--	--	--	--	--
<b>Total Cash Flows From Investing Activities</b>	--	--	--	--	--	--	--
<b>Financing Activities</b>							
Dividends Paid	--	--	--	--	--	--	--
Sale Purchase of Stock	--	--	--	--	--	--	--
Net Borrowings	--	--	--	--	--	--	--
Other Cash Flows from Financing Activities	--	--	--	--	--	--	--
<b>Total Cash Flows From Financing Activities</b>	--	--	--	--	--	--	--
Effect Of Exchange Rate Changes	--	--	--	--	--	--	--
<b>Other Liabilities</b>	--	--	--	--	--	--	--



# Hydro One Limited (TSX:H.TO)

September 11, 2017

## Company Insiders

### Company Officers

Name	Age	Since	Current Position	Basic Compensation	Options	Options Value
David Denison	64		Chairman of the Board	\$155,100	--	--
Mayo Schmidt	59		President, Chief Executive Officer, Director	\$1,359,380	--	--
Michael Vels	55		Chief Financial Officer	\$795,808	--	--
Judy McKellar	60	2014	Senior Vice President, People and Culture/Health, Safety and Environment	\$483,000	--	--
Ian Bourne	69		Independent Director	\$95,674	--	--
Charles Brindamour	45		Independent Director	\$73,043	--	--
Marcello Caira	62		Independent Director	\$73,043	--	--
Christie Clark	62		Independent Director	\$73,043	--	--
George Cooke	62		Independent Director	\$105,255	--	--
Margaret Harris	58		Independent Director	\$82,174	--	--
James Hinds	59		Independent Director	\$73,043	--	--
Kathryn Jackson	59		Independent Director	\$77,543	--	--
Roberta Jamieson	63		Independent Director	\$74,543	--	--
Frances Lankin	61		Independent Director	\$79,043	--	--
Philip Orsino	62		Independent Director	\$82,174	--	--

### Insider Transactions

Trading Date	Name	Title	Type	Shares Traded	Price
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Hydro One Limited  
(TSX:H.TO)

September 11, 2017

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News  
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700 University Avenue Toronto, ON M5G 1X6

Tel: 416-592-4008 or 1-800-592-4008 Fax: 416-592-2178  
www.opg.com

April 14, 2016

**ONTARIO POWER GENERATION INC. REPORTS HYDRO ONE SHARE OWNERSHIP**  
*Pursuant to OSC Rule 62-504*

**Toronto** – Ontario Power Generation Inc. (the "**Corporation**") today announced that it has acquired 9,000,000 common shares of Hydro One Limited ("**Hydro One**"). The Corporation has filed a report of its ownership of common shares of Hydro One pursuant to OSC Rule 62-504 and corresponding provisions of applicable securities laws in other Canadian jurisdictions, which require disclosure of shareholdings in publicly traded companies by significant shareholders and their related entities.

During 2015, the Corporation entered into renewed three-year collective agreements with each of the Power Workers' Union ("**PWU**") and The Society of Energy Professionals ("**The Society**"). Changes to the respective collective agreements included increases to employee pension plan contributions. The changes to the collective agreements also provide existing employees represented by the PWU and The Society with eligibility to annually receive common shares of Hydro One for up to 15 years starting in the third year of the respective agreements. The Corporation's acquisition today of Hydro One common shares is being made for investment purposes, to mitigate the risk of future price increases in meeting its future share delivery obligations under the collective agreements. The Hydro One common shares acquired in this transaction represent the substantial majority of the Corporation's currently anticipated purchases of Hydro One shares. The Corporation continually reviews its investment alternatives and options to meet its future share delivery obligations and may purchase or sell common shares of Hydro One, or enter into derivative instruments relating to such shares, from time to time in accordance with applicable laws.

After completing the purchase, the Corporation owns 9,000,000 common shares of Hydro One, representing approximately 1.5% of the common shares of Hydro One.

The Corporation acquired the Hydro One common shares as part of a bought deal (firm commitment) offering by the Province of Ontario (the "**Province**") through a syndicate of underwriters of a total of 72,434,800 Hydro One common shares at a price of \$23.65 per share (the "**Offering**"). In addition, the Province granted to the underwriters an over-allotment option, exercisable for a period of 30 days following the closing of the Offering, to purchase up to an additional 10,865,200 common shares of Hydro One at a price of \$23.65 per share. The Corporation's purchase of the Hydro One shares is not subject to the take-over bid rules of applicable securities laws, as the Corporation paid the same price as other investors in the Offering, and that price does not exceed 115% of the market price of Hydro One's common shares, consistent with section 100.1 of the Ontario Securities Act.

The Province is the sole shareholder of the Corporation and, accordingly, the Province and the Corporation may be considered "joint actors" under applicable securities laws. Under OSC Rule 62-504, the shareholdings of the Province and the Corporation may be



# Investor Overview

## Post Second Quarter 2017

One of North America's largest electric utilities

TSX: H





# One of North America's Largest Electric Utilities



Service Territory



Service area is larger  
than France or the State of Texas

- Pure play electric transmission and distribution utility
- 30,000 circuit KMs of transmission lines across 98% of Ontario, home to 38% of Canadian population
- Largest local distribution company (LDC) in Ontario with 1.3 million end customers
- 99% of revenue from regulated operations
- Combined transmission and distribution rate base of \$17.83 billion
- Common shares traded on the TSX under ticker symbol "H"
- Market Capitalization of ~\$13.5 billion

# Compelling Value Proposition



- One of the largest electric utilities in North America, with a market capitalization of ~\$13.5 billion
- Significant scale and leadership position in Ontario, home to ~38% of Canada's population
- Transmission network serves 98% of Ontario, together with a local distribution network serving ~25% of end customers across 75% of the Province
- Stable and growing cash flows with 99% of overall business fully rate-regulated
- No generation or material exposure to commodity prices as the cost of electricity is passed directly to consumers
- Predictable self-funding organic growth profile with +5% expected five year rate base CAGR exceeding depreciation under multi-year capital investment plan to upgrade aging infrastructure
- Privatization initiative and stated objective by Province of Ontario to divest majority stake in Hydro One complete with post November 2015 IPO (15%), April 2016 secondary (15%), and May 2017 secondary (20%) offerings
- Blue chip independent Board together with legislated governance agreement ensure autonomous commercial operations with Province as an investor and not a manager
- Strong balance sheet with investment grade "A" credit ratings and significant available liquidity
- 70% - 80% target dividend payout ratio with recently increased annualized dividend of \$0.88 per share



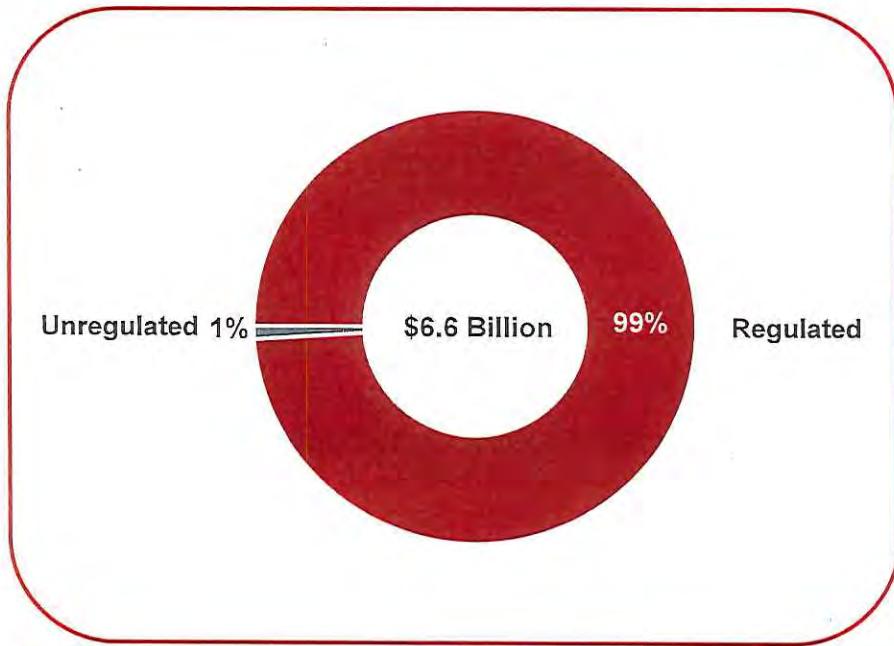
**A unique low-risk opportunity to invest in the transformation of a premium, large scale, stable transmission & local distribution electric utility**



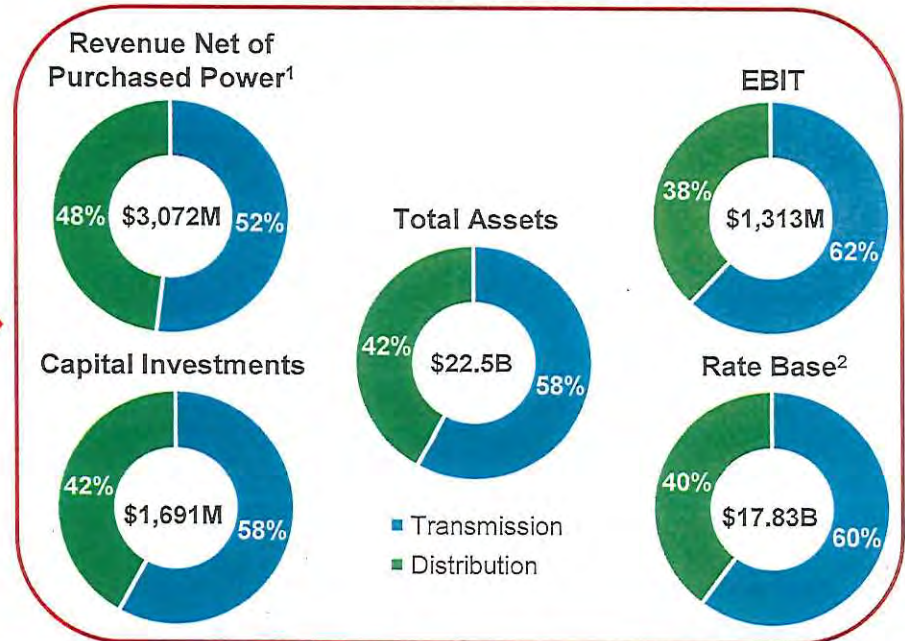
# Hydro One at a Glance (Full Year 2016)



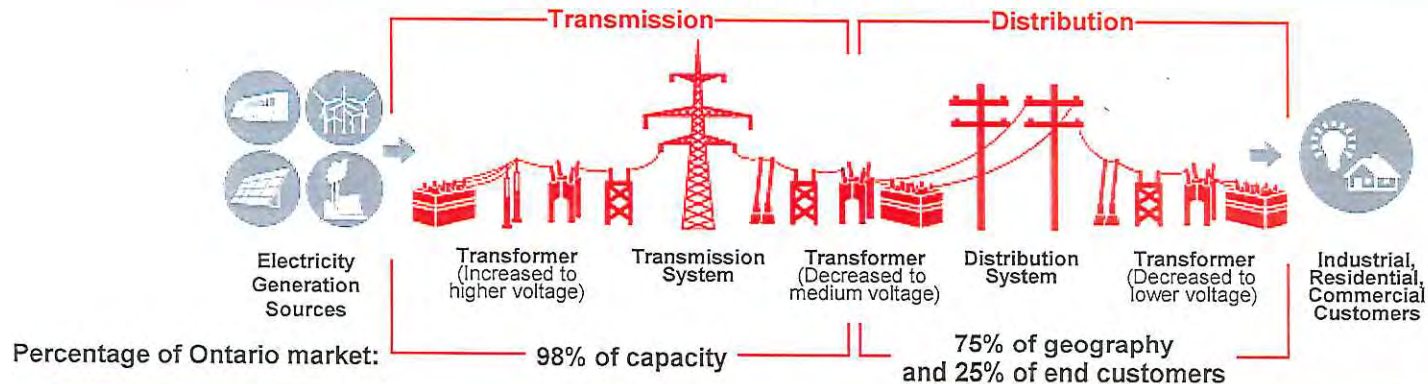
## Total Revenue (Hydro One Limited)



## Overview of Regulated Business (C\$)



## Hydro One's Role in the Electric System



**A large scale, pure-play electric transmission and distribution utility**

(1) Purchased power is a flow through to customers; (2) Transmission rate base includes 100% of B2M JV rate base and Hydro One Sault Ste. Marie

# Preparing to Accelerate Growth



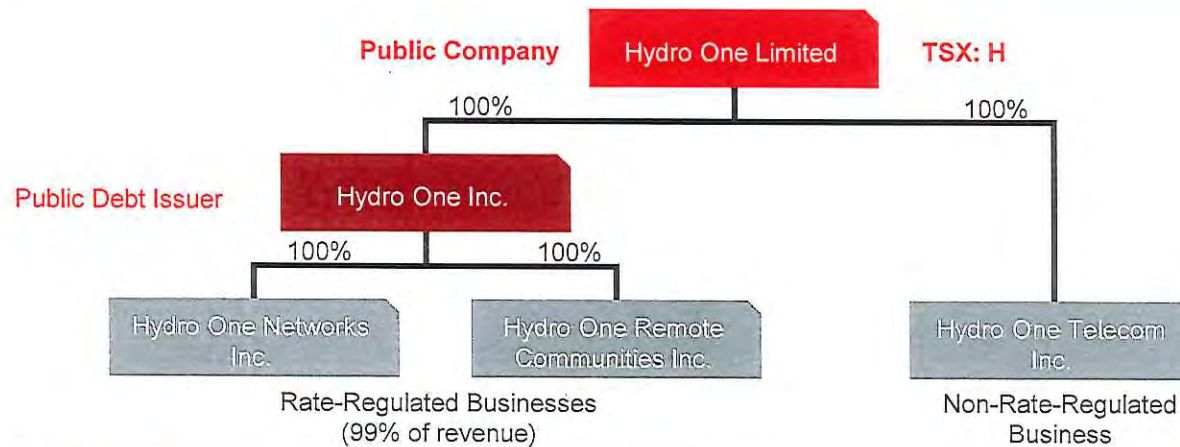
## Executive Leadership Team



**Mayo Schmidt**  
President and CEO



## Corporate Structure



Proven leadership with demonstrated experience transforming organizations and growing shareholder value



# Management Focus



## FLIP THE SWITCH



- Reinvigorated focus on integrating customer needs and advocacy into business decision making
- Deliver best in class operating metrics and position Hydro One for accelerated growth
- Increased concentration on generating operating efficiencies and productivity
- Accelerate effectiveness and efficiency of capital deployment as stewards of the grid
- Successfully transition from cost of service to incentive-based rate regulation
- Make Hydro One a more rewarding and safer place to work for employees
- Continue to consolidate fragmented Ontario electric local distribution market with an open mind to accretive North American utility opportunities
- Adapt to the emerging industry technology landscape



LET'S GET  
**GREAT**



Building commercial excellence to transform Hydro One from good to great



# Transmission Business



## Electric Transmission Network



Local distribution company (LDC) customers	44
Large directly connected industrial customers	87
Transmission lines (circuit KMs)	30,000
Transmission stations in service	306
Cross border interconnections	25

## Key Points

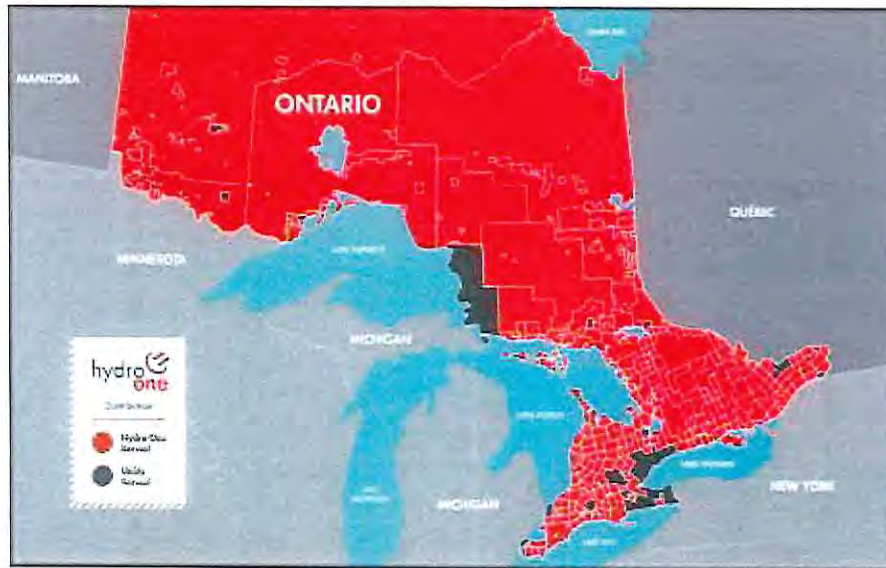
- One of North America's largest electric power transmitters, owning and operating 98% of Ontario's transmission capacity
- Transmission produces reliable cash flow with low volatility under Ontario Energy Board (OEB) cost of service regulation
- Growing rate base with planned annual capital investments of ~\$1,000 - \$1,500 million through 2021 with focus on refurbishing aging assets
- Continued shift to renewable and distributed generation sources helping drive expansion of transmission network
- 20,690 mega-watts of average monthly 60-minute peak demand in 2016
- 2017 allowed ROE of 8.78% with 40% / 60% deemed equity / debt capital structure
- No meaningful exposure to generation and power costs are passed through to end customers
- Acquisition of Great Lakes Power Transmission completed on October 31, 2016

**One of North America's largest electric transmission providers**



# Local Distribution Business (LDC)

## Electric Distribution Footprint



Individual LDCs consolidated since 2000	~90
Distribution lines ( <i>circuit KMs</i> )	123,000
Distribution poles	1.6 million
Distribution and regulating stations	1,005
Distribution end customers	+1.3 million
Remaining stand alone LDCs in Ontario	~65
Generation / exposure to power costs	De minimis

## Key Points

- The largest electric power distributor in Ontario, with +1.3 million residential and business end customers, and 55 municipal utility customers
- Distribution is a stable, rate-regulated business operating under OEB cost of service framework with transition to performance-based model in 2018
- Growing rate base with planned annual capital investments of ~\$650 - \$750 million through 2021
- 2017 allowed ROE of 8.78% with 40% / 60% deemed equity/debt capital structure
- Recent OEB decision in place transitioning residential distribution rates to fully fixed (decoupling)
- 26,289 giga-watt hours of electricity distributed to customers in 2016
- Recent Haldimand, Woodstock, Norfolk LDC acquisitions grew customer base by ~5%
- Drivers of growth include rate base expansion, productivity improvements and continued consolidation of other LDC's

**The largest electric LDC in Ontario with further expansion opportunities**



# Hydro One Telecom Business



## Fiber Optic Network Footprint



Fiber optic lines (route KMs)	6,400
Network points of presence	81
Customer site connections	1,900
Data centers connected	30

## Key Points

- Unregulated business with +\$85 million revenue and +\$24 million EBITDA in 2016
- Leverages Hydro One's network fiber assets used to monitor and manage power grid circuitry
- Diverse, secure, low latency broadband connectivity across Ontario utilizing infrastructure constructed principally along electric transmission network
- Provincial fiber routes extend to Montreal and also include connection points in Buffalo and Detroit
- Provides fiber-optic broadband network services including leased circuits, dark fiber, Ethernet transport, Internet transit, data center connectivity and tower access
- Customers include data centers, cloud service providers, enterprises, ISPs, other telcos and public sector entities
- Currently expanding number of data center connections and launching managed security, cloud backup and data recovery solutions

**Leveraging geographically unique fiber optic network along transmission network routes to generate non-regulated cash flows**

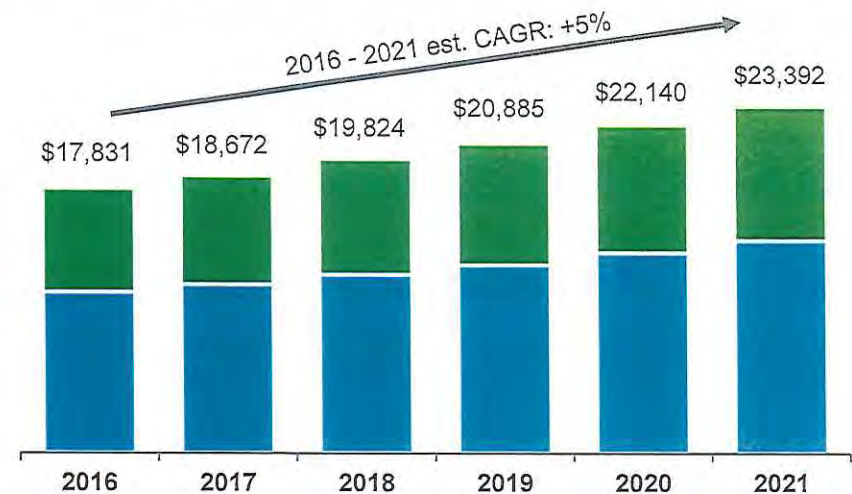
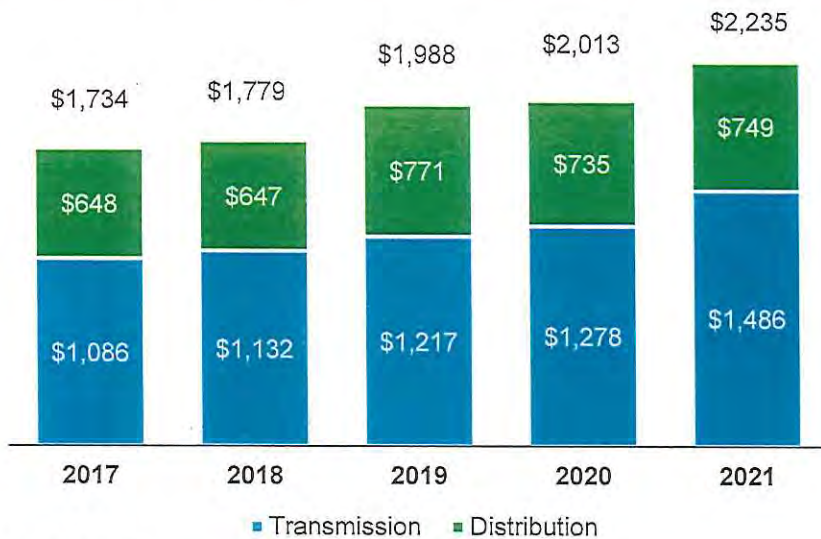


# \$10B of Capital Investment Driving Rate Base Growth



Projected Capital Investments\* (\$M)

Projected Rate Base Growth\*



\* Company estimates subject to change and include amounts from May 2016 filed transmission and March 2017 filed distribution rate applications which are both subject to OEB approval

## Comments

- Organic growth underpinned by continued rate base expansion to renew and modernize grid
- Material amounts of deteriorated, end-of-service life infrastructure must be upgraded or replaced
- Little concentration risk as most projects within capex envelope are small to medium relative to total
- Investments not undertaken without reasonable assurance of regulatory recovery
- Equity issuance not anticipated for planned capital investment program which is self-funded

**Consistent and predictable organic growth profile  
 underpinned by required replacement of aging infrastructure**



# Two Representative Medium Scale Capital Projects



## Clarington Transmission Station



### Key points

- Estimated Total Project Cost: \$267 million
- Capital Cost To Date: \$210 million
- Anticipated In-Service Date: 2018
- Comprised of two 750MVA, 500/230 kV transformers and associated termination facilities to connect Hydro One's bulk transmission network to Eastern Ontario upon retirement of the Pickering Nuclear Generation Station

## Richview Transmission Station



### Key points

- Estimated Total Project Cost: \$103 million
- Capital Cost To Date: \$75 million
- Anticipated In-Service Date: 2019
- Replacement of 50 year old end-of-life equipment at Richview Transformer Station to ensure the secure and reliable power supply to the City of Toronto and surrounding communities



# Pending Avista Acquisition



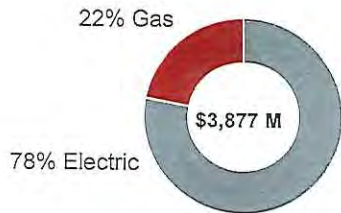
(C\$ in mm)<sup>3</sup>

## Avista Business Overview

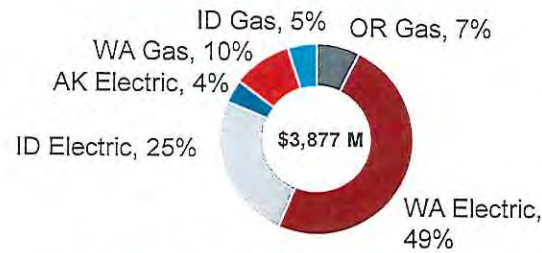


	2016A
Revenue	\$1,824
EBITDA	\$570
Net Income	\$174

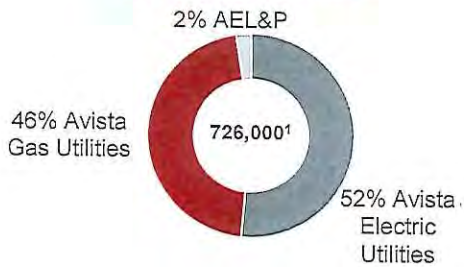
### 2016 Rate Base



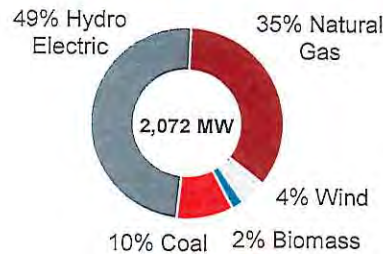
### 2016 Rate Base by State



### 2016 Customers

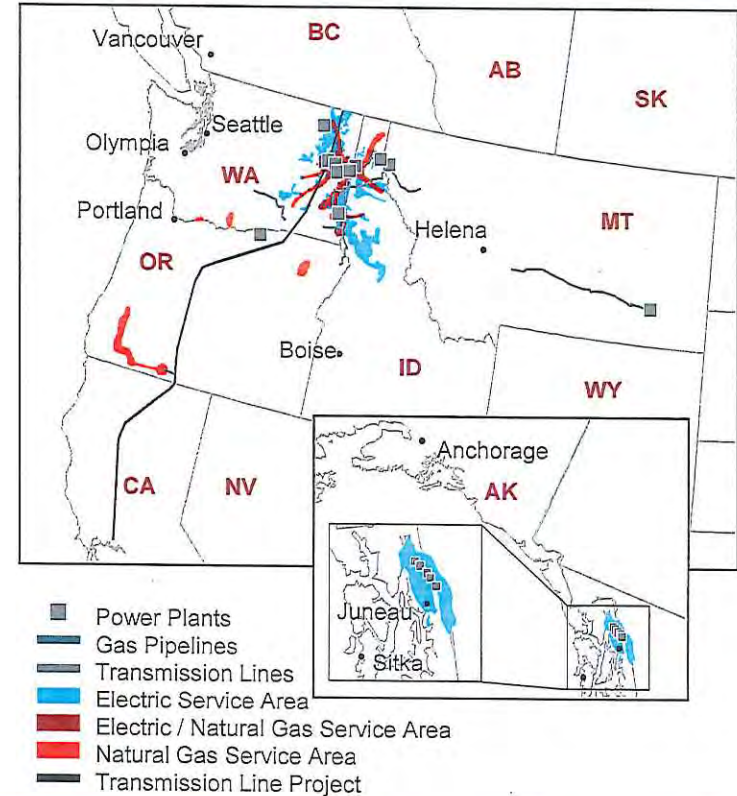


### 2016 Electric Generation<sup>2</sup>



### Service Area

Service territories across WA, OR, ID, AK, and MT



**Growing regulated business with a geographically diverse customer base, supported by one of the lowest electricity rates in the US**

1. Includes combined electric and gas customers  
 2. Based on maximum capacity and excludes Alaska generation  
 3. Based on an exchange rate of C\$/US\$ 1.264



# Pending Avista Acquisition



## Strategic Rationale & Transaction Details

### Diversification

- Increases geographic, economic, regulatory and asset class diversification
- Adds complementary and growing gas distribution
- Provides exposure to regulated and predominantly clean generation

### Building quality regulated asset scale

- Earnings and cash flow accretion in the first full year following close, excluding transaction costs
- On a pro forma basis increases Hydro One's total assets from approximately \$25.4 billion to approximately \$34.9 billion
- Hydro One expected to continue growing dividend and to maintain 70-80% dividend payout ratio
- Planned pro forma rate base growth of approximately 6%, starting from a combined 2017 base of C\$22.6 billion.

### Innovation and knowledge transfer

- Avista is a leader in utility innovation with a track record of investments in advanced technologies, including energy management solutions
- Opportunity to reduce operating costs and gain strategic benefits by leveraging and sharing innovation and best practices

		Allowed ROE	Equity Capitalization
Allowed Equity Returns	ON	8.78%	40.00%
	WA	9.50%	48.50%
	ID	9.50%	50.00%
	OR	9.40%	50.00%
	AK	12.88%	53.80%

*Access to new regulatory jurisdictions with higher ROEs and attractive allowed capital structures*

### Transaction Details

- Offer price of US\$53.00 per Avista common share in cash, a 24% premium to Avista's closing price on 18 July, 2017 of US\$42.74
- Equity purchase price of US\$3.4 billion (C\$4.4 billion)
- Total enterprise value for Avista of US\$5.3 billion (C\$6.7 billion), including Avista debt assumed
- Planned financing is a combination of 5-year, 10-year and 30-year US\$ denominated notes together with the fully executed convertible debenture offering

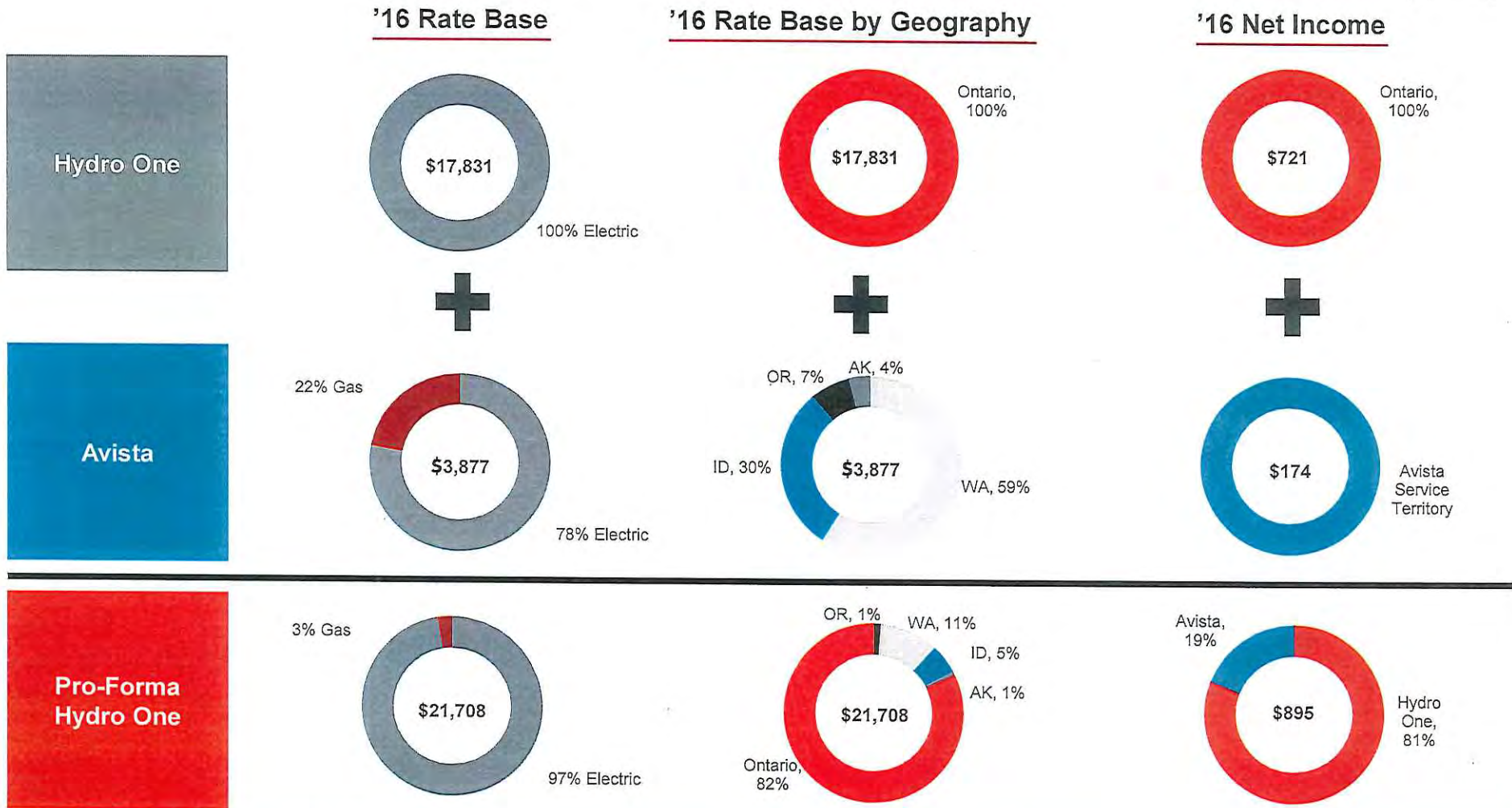
**Hydro One will become a Top 20 North American investor owned utility with an attractive growth profile**



# Pending Avista Acquisition



(C\$ in mm)



**Diversification across multiple geographies, economies, regulatory jurisdictions and utility businesses enhances stability and strategic positioning**

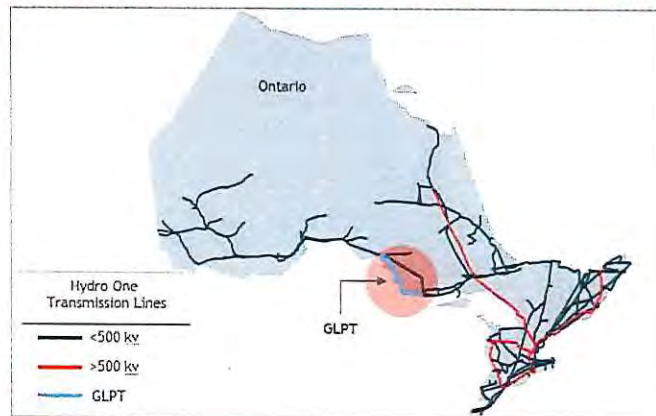
Note: Combination of Avista and Hydro One numbers as reported using an exchange rate of C\$ / US\$ 1.264  
 Note: Pro forma net income does not include any potential adjustments required as a result of the merger including funding costs or other expenses.



# Ontario Mergers and Acquisitions Update



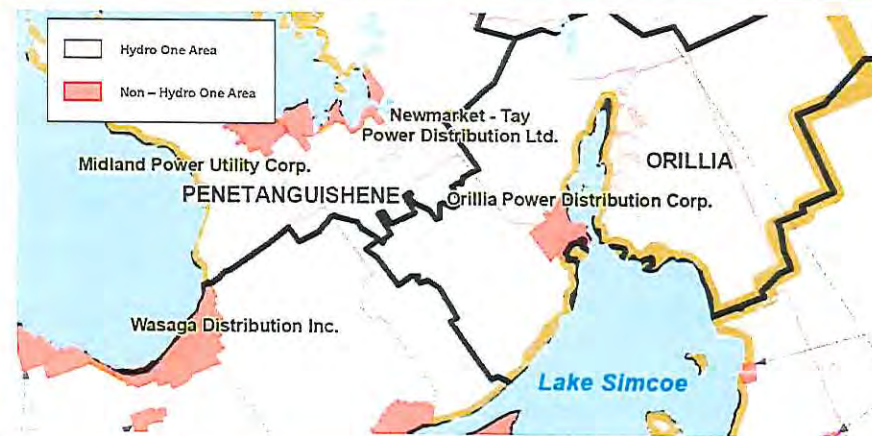
## Hydro One Sault Ste. Marie (Great Lakes Power Transmission)



### Key points

- OEB approval received October 13, 2016 and transaction closed October 31, 2016
- Increased Hydro One's transmission coverage to ~98% of province-wide capacity
- Expected to be earnings accretive in first full year
- 560km of high voltage transmission lines, towers and stations
- \$376 million purchase price, including approximately \$150 million of assumed debt

## Orillia Power Distribution



### Key points

- Transaction announced August 15, 2016
- \$41 million purchase price, including approximately \$15 million of assumed debt and regulatory liabilities, subject to closing adjustments
- Serves 14,000 customers located in Simcoe County, and is surrounded by existing Hydro One service territory
- Conditional agreements to build backup grid control center and additional operating facilities following closing
- Closing subject to OEB approval

**Continuing to consolidate the fragmented Ontario electric utility market**



# Regulatory Stakeholders



- **Who:** Provincial Government, Ministry of Energy
- **What:** Policy, legislation, regulations



- **Who:** Ontario Energy Board (OEB)
- **What:** Independent electric utility price and service quality regulation



- **Who:** Independent Electricity System Operator
- **What:** Wholesale power market rules, intermediary, North American reliability standards



- **Who:** National Energy Board
- **What:** Federal regulator, international power lines and substations



- **Who:** North American Electric Reliability Corporation
- **What:** Continent-wide bulk power reliability standards, certification, monitoring



- **Who:** Northeast Power Coordinating Council
- **What:** Northeastern North American grid reliability, standards, compliance

# Constructive Rate Regulator (OEB)



- Transmission and distribution businesses rate-regulated by the Ontario Energy Board (OEB)
- Deemed debt / equity ratio of 60% / 40% for both transmission and distribution segments
- Hydro One has earned or exceeded its allowed ROE on a consolidated basis over past five years
- Reduced regulatory lag through forward-looking test years, revenue decoupling and adjustment mechanisms

	<u>Current rate methodology</u>	<u>Allowed ROE</u>	<u>Expected rate base<sup>1</sup></u>	<u>Effective term of next application</u>	<u>Comments</u>
<b>Transmission</b>	Cost of Service	2017 8.78%	2017 \$11.28 billion	Filed in May 2016 for 2017-18	Incentive based rate model to become effective early 2019. Allowed ROE reset annually by a formula linked to long-term government bond yields and utility bond spreads.
<b>Distribution</b>	Cost of Service	2017 8.78%	2017 \$7.39 billion	Filed on 31 <sup>st</sup> March, 2017 for 2018-22	Five-year incentive based rate filing made March 31, 2017. Decision for phased transition to fixed residential rates (decoupling) already in place.

**Consistent, independent regulator with a transparent rate-setting process**

(1) Transmission rate base includes 100% of B2M JV rate base and Hydro One Sault Ste. Marie (2) Distribution Rate Base includes recent LDC acquisitions and Hydro One Remote Communities



# Distribution Segment Incentive Regulatory Construct



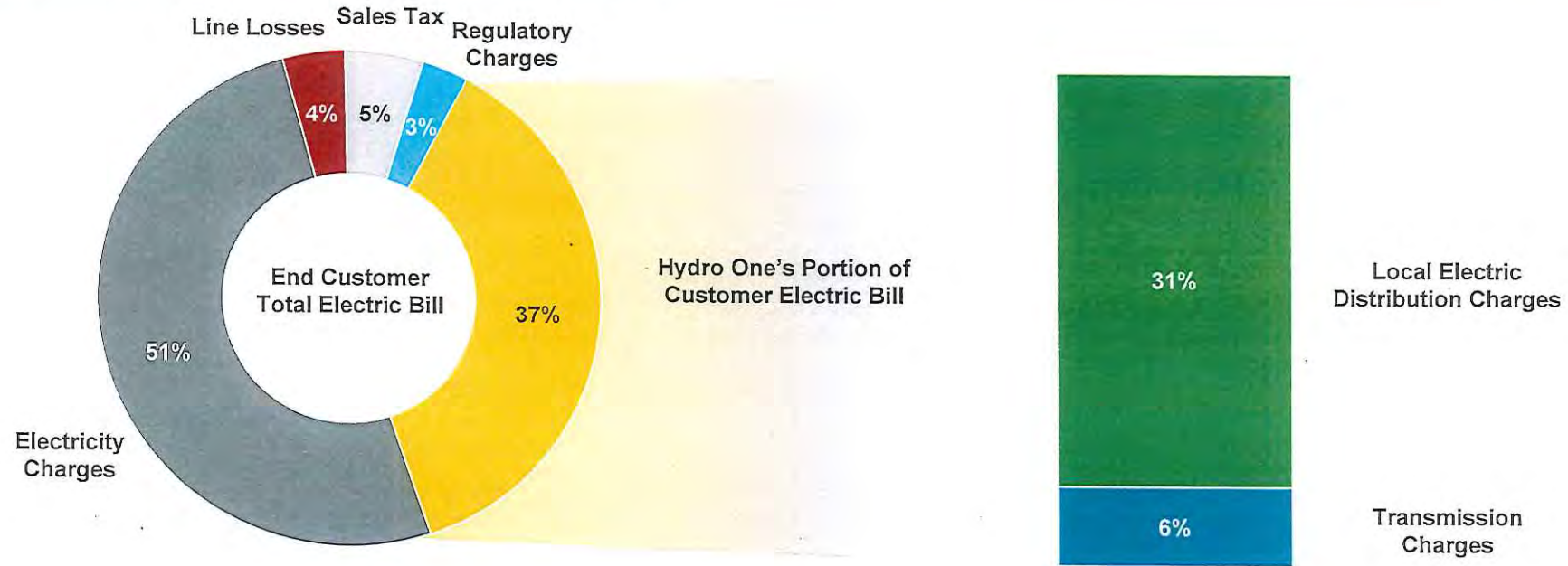
- Filed March 31, 2017 under OEB's Custom Incentive Rate Making model for 2018 – 2022 five year term
- 2018 is considered “rebasing” year where a cost of service forward test year rate model is applied
- Revenue requirement for each of the ensuing four years determined annually by
  - i) applying an inflation adjustment factor,
  - ii) offset by a productivity and stretch factor of 0.45%, and
  - iii) adding a capital factor (added revenue requirement to recover planned capital investments)
- Cost of capital parameters to be set based on September 30, 2017 market rates, to be updated in 2021
- 50% of earnings that exceed allowed ROE by more than 100 basis points in any year of the term of the filing shared with customers (actual sharing deferred until 2023 rebasing)
- Previously acquired Norfolk, Haldimand and Woodstock LDC's brought into rate base in 2021
- Planned rate base CAGR of 5.3% over five year term of filing
- Average annual impact on rates over the five year term of the rate application is 3.5%
- Transmission segment incentive rate filing expected to be filed under same construct in early 2018 for five year period 2019 – 2023

**The transition from cost of service to incentive based regulatory model coincident with transformation of business will create value for both customers and shareholders**

# The Typical Residential Hydro One End Customer Bill



## End Customer Monthly Electric Bill Breakdown<sup>1</sup>



## Growth in Typical Hydro One End Customer Electric Bill

<u>Component</u>	<u>10 Year Compound Annual Growth Rate (CAGR)</u>
Electricity Charges <sup>2</sup>	8.2%
Transmission	1.5%
Distribution	3.1%
<b>Hydro One Portion - 10 Year CAGR: 2.9%</b>	

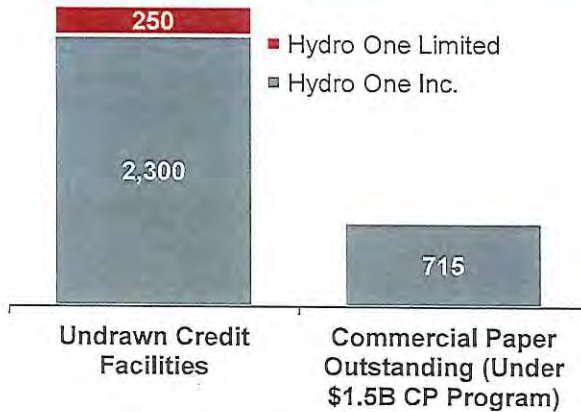
(1) The pie chart represents the breakdown of a typical bill for a Hydro One medium-density residential local distribution end customer using 750 kWh a month with a typical consumption profile (18% of electricity used during on-peak, 18% used mid-peak and 64% used off-peak); Includes impact of 8% rebate of the provincial portion of the sales tax  
 (2) Includes cost of line losses



# Strong Balance Sheet and Liquidity



## Significant Available Liquidity (\$M)



## Strong Investment Grade Credit Ratings (LT/ST/Outlook)

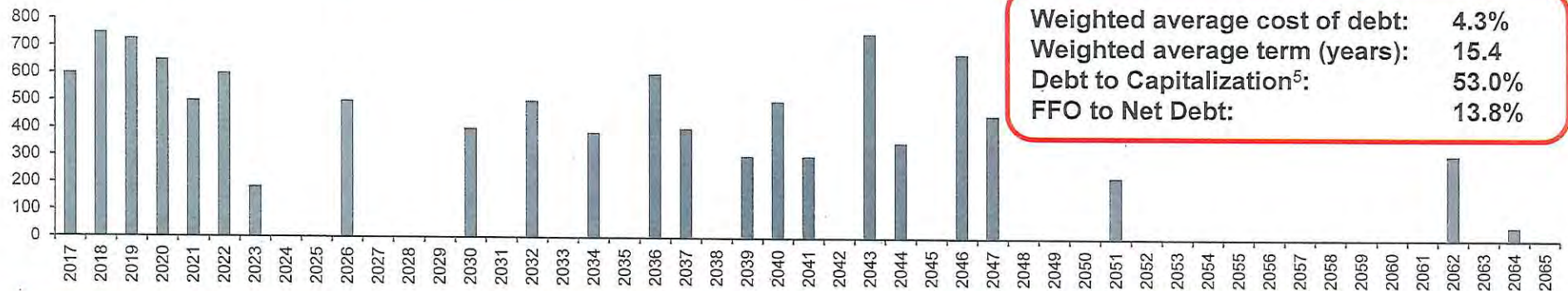
Hydro One Inc. (HOI)	
S&P	A / A-1/ negative <sup>1</sup>
DBRS	A (high) / R-1 (low) / stable
Moody's	A3 / Prime-2 / negative <sup>2</sup>

## Shelf Registrations

**HOL:**  
Universal Shelf<sup>3</sup>  
\$8B

**HOI:**  
Medium Term Note Shelf<sup>4</sup>  
\$3.5B

## Debt Maturity Schedule (\$M)



## Investment grade balance sheet with one of lowest debt costs in utility sector

(1) On July 19, 2017, S&P revised its outlook on Hydro One Limited and Hydro One Inc. to negative from stable while affirming the existing ratings. S&P indicated that the negative outlook on Hydro One Limited reflects its view that the Merger signals a shift in Hydro One Limited's business strategy, which will align the company with its global peers removing the historical rationale for a one-notch rating uplift, and the execution and financing risk inherent in any large acquisition.

(2) On July 19, 2017, Moody's affirmed the ratings of Hydro One Inc. and changed the outlook to negative from stable. Moody's indicated that the negative outlook on Hydro One Inc. reflects its view that the Merger will reduce the probability of extraordinary support from the Province.

(3) \$2,790 million was drawn from the Universal Shelf during May 2017 with respect to a secondary share offering by the Province, leaving \$3,240 million remaining available until April 2018.

(4) \$950 million was drawn from the Medium Term Note Shelf on November 18, 2016, leaving \$1,200 million remaining available until January 2018.

(5) Debt to capitalization ratio has been calculated as net debt divided by net debt plus total shareholder's equity, including preferred shares but excluding any amounts related to non-controlling interest.

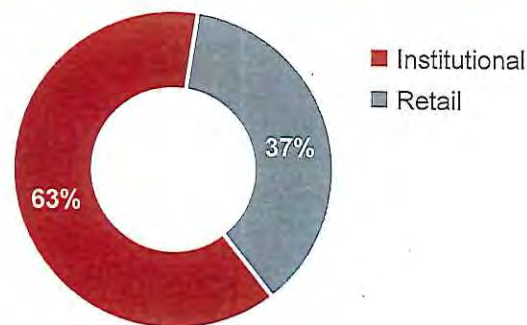


# Equity Market Cap Overview

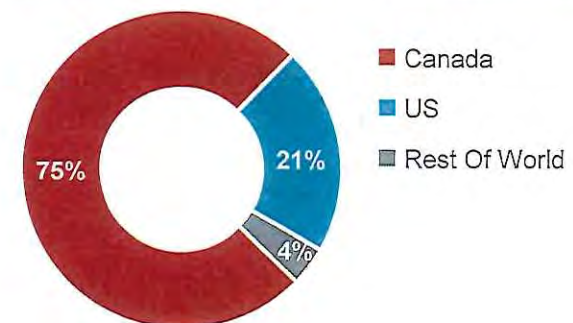
- 595 million common shares outstanding, listed on Toronto Stock Exchange (TSX: H)
- Equity market capitalization of ~\$13.5 billion and public float of ~\$7 billion
- Equity market capitalization amongst the top 30 of all listed Canadian companies
- Secondary offerings by Province increased liquidity without diluting public shareholders
- Equity index inclusions to date:



Approximate Ownership of Public Float



Approximate Geographic Dispersion of Public Float



# Common Share Dividend Increased May 4<sup>th</sup>, 2017



## Dividend Statistics

Yield <sup>1</sup>	3.8%
Annualized Dividend <sup>2,3</sup>	\$0.88 / share

(1) Based on closing share price on June 30, 2017

(2) Unless indicated otherwise, all common share dividends are designated as "eligible" dividends for the purpose of the Income Tax Act (Canada)

## Expected Upcoming Quarterly Dividend Dates<sup>3</sup>

Declaration Date	Record Date	Payment Date
August 8, 2017	September 12, 2017	September 29, 2017
November 9, 2017	December 12, 2017	December 29, 2017

(3) All dividend declarations and related dates are subject to Board approval.

## Key Points

- Quarterly dividend increased 5% to \$0.22 per share (\$0.88 annualized); announced May 4, 2017
- Targeted dividend payout ratio remains at 70% - 80% of net income
- Dividend growth supported by continued rate base expansion driven by planned capital investments
- No equity issuance anticipated to fund planned five year capital investment program
- Non-dilutive dividend reinvestment plan (DRIP) was implemented post IPO (shares purchased on open market, not issued from treasury)

**Attractive and growing dividend supported by  
 stable, regulated cash flows and planned rate base growth**



# Delivering Clean, Sustainable Energy



- Ontario was the first North American jurisdiction to fully eliminate coal electricity generation and leads Canada in wind and solar capacity
- Recent five year Ontario Climate Change Action Plan will further accelerate province's leadership in reduction of greenhouse gas emissions
- One of only four utilities in Canada to achieve the Sustainable Energy Company designation from the Canadian Electrical Association
- Ontario electricity now generated by: nuclear 58%, hydro 23%, natural gas 10%, wind 7%, solar 2%
- Ranked as the top utility in Corporate Knights Canada's 2016 Best Corporate Citizens on a set of 12 sustainability metrics, including carbon productivity and gender diversity in leadership
- Environmental stewards of thousands of kilometers of transmission grid corridor lands, including management of vegetation for habitat preservation and protection of species at risk
- ISO 14001 Compatible Environmental Management System to identify and proactively manage environmental risks for continual improvement
- Greener Choices program actively engages employees in sustainability improvement efforts for energy efficiency, recycling and waste reduction at work



**Transmitting and delivering some of the cleanest energy in North America**



# Why Invest in Hydro One



- One of the largest electric utilities in North America with significant scale and leadership position across Canada's most populated province
- Unique combination of pure-play electric power transmission and local distribution, with no generation or material exposure to commodity prices
- 99% of business is rate-regulated in a constructive, stable, transparent and collaborative regulatory environment
- Predictable growth profile with expanding rate base and strong cash flows, together with broad support for refurbishment of aging infrastructure
- Opportunities to transform to a performance driven culture, capture productivity improvements and transition to incentive-based regulatory model
- One of the strongest investment grade balance sheets in the North American utility sector
- Recently increased \$0.88 annualized dividend with 70% - 80% target payout ratio and opportunity for continued dividend growth with rate base expansion, continued consolidation and efficiency realization
- Float and liquidity increased without dilution as phased privatization by Province of Ontario was executed
- Blue chip fully independent board together with legislated governance structure allow company to operate autonomously, transform culture and drive shareholder value creation on multiple fronts
- Proven management team with demonstrated experience transforming organizations, accelerating performance and creating significant shareholder value

**A unique low-risk opportunity to participate in the transformation of a premium, large scale regulated electric utility**

Appendix



# Hydro One Limited – 2Q17 Financial Summary



(\$ millions)	Second Quarter			Year to Date		
	2017	2016	% Change	2017	2016	% Change
<b>Revenue</b>						
Transmission	\$361	\$381	(5.2%)	\$728	\$767	(5.1%)
Distribution	998	1,152	(13.4%)	2,277	2,438	(6.6%)
Distribution (Net of Purchased Power)	349	349	-	739	739	-
Other	12	13	(7.7%)	24	27	(11.1%)
<i>Consolidated</i>	<i>1,371</i>	<i>1,546</i>	<i>(11.3%)</i>	<i>3,029</i>	<i>3,232</i>	<i>(6.3%)</i>
<b>Consolidated (Net of Purchased Power)</b>	<b>722</b>	<b>743</b>	<b>(2.8%)</b>	<b>1,491</b>	<b>1,533</b>	<b>(2.7%)</b>
<b>OM&amp;A Costs</b>	<b>274</b>	<b>262</b>	<b>4.6%</b>	<b>545</b>	<b>518</b>	<b>5.2%</b>
<b>Earnings Before Financing Charges and Income Taxes (EBIT)</b>						
Transmission	159	195	(18.5%)	323	390	(17.2%)
Distribution	102	108	(5.6%)	255	264	(3.4%)
Other	(12)	(15)	(20.0%)	(26)	(22)	(18.2%)
<b>Consolidated</b>	<b>249</b>	<b>288</b>	<b>(13.5%)</b>	<b>552</b>	<b>632</b>	<b>(12.7%)</b>
<b>Net Income<sup>1</sup></b>	<b>117</b>	<b>152</b>	<b>(23.0%)</b>	<b>284</b>	<b>360</b>	<b>(21.1%)</b>
<b>Basic EPS</b>	<b>\$0.20</b>	<b>\$0.26</b>	<b>(23.0%)</b>	<b>\$0.48</b>	<b>\$0.61</b>	<b>(21.1%)</b>
<b>Diluted EPS</b>	<b>\$0.20</b>	<b>\$0.25</b>	<b>(20.0%)</b>	<b>\$0.48</b>	<b>\$0.60</b>	<b>(20.0%)</b>
<b>Capital Investments</b>	<b>406</b>	<b>417</b>	<b>(2.6%)</b>	<b>756</b>	<b>796</b>	<b>(5.0%)</b>
<b>Assets Placed In-Service</b>						
Transmission	165	174	(5.2%)	247	225	9.8%
Distribution	164	186	(11.8%)	310	293	5.8%
Other	8	2	300.0%	8	5	60.0%
<b>Consolidated</b>	<b>337</b>	<b>362</b>	<b>(6.9%)</b>	<b>565</b>	<b>523</b>	<b>8.0%</b>

Financial Statements reported under U.S. GAAP

(1) Net Income is attributable to common shareholders and is after non-controlling interest and dividends to preferred shareholders



# Top Transmission Capital Projects Underway



## Development Projects:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date
Clarington Transmission Station	Oshawa area Southwestern Ontario	New transmission station	2018	\$267 million	\$210 million
Supply to Essex County Transmission Reinforcement	Windsor-Essex area Southwestern Ontario	New transmission line and station	2018	\$73 million	\$35 million
East-West Tie Station Expansion	Northern Ontario	Station expansion	2021	\$157 million	\$5 million
Northwest Bulk Transmission Line	Thunder Bay area Northwestern Ontario	New transmission line	TBD	TBD	-

## Sustainment Projects:

Project Name	Location	Type	Anticipated In-Service Date	Estimated Cost	Capital Cost To-Date
Bruce A Transmission Station	Tiverton area Southwestern Ontario	Stations sustainment	2019	\$109 million	\$95 million
Richview TS Circuit Breaker Replacement	Toronto area Southwestern Ontario	Stations sustainment	2019	\$103 million	\$75 million
Lennox TS Circuit Breaker Replacement	Napanee area Southeastern Ontario	Stations sustainment	2023	\$95 million	\$33 million
Beck #2 TS Circuit Breaker Replacement	Niagara area Southwestern Ontario	Stations sustainment	2021	\$93 million	\$43 million

**Largest capital projects underway are in the Transmission segment and are of medium scale**



# Fully Independent Board of Directors



**David Denison, O.C., FCPA, FCA** Currently a Director of Royal Bank of Canada (Audit Committee Chair), Bell Canada, Allison Transmission and of Sinai Health Systems (Vice-Chair). Formerly President and CEO of the Canada Pension Plan Investment Board, President of Fidelity Investments Canada Limited and of Bentall Kennedy LP (Board Chair).

**Ian Bourne, ICD.D, F.ICD** Currently a Director of Ballard Power Systems (Board Chair) and a Director of Canada Pension Plan Investment Board, Canadian Oil Sands Limited, Wajax Corporation, and the Canadian Public Accountability Board. Formerly the Board Chair and interim CEO of SNC-Lavalin Group, Executive Vice President and CFO of TransAlta Corporation and CEO of TransAlta Power LP.

**Charles Brindamour** Currently is Chief Executive Officer of Intact Financial Corporation, which, under his leadership, became an independent and widely-held Canadian company in 2009. Currently a board member of Intact Financial Corporation, of the C.D. Howe Institute and of the Insurance Bureau of Canada, and a member of the Advisory Committee of the Climate Change Adaptation Project, an initiative of the University of Waterloo.

**Marcello (Marc) Caira** Currently a Director of Restaurant Brands International Inc. (Vice-Chairman) and Director of The Minto Group. Formerly President and CEO of Tim Hortons Inc., held extensive senior management and executive roles with Nestlé Canada, Nestlé S.A. and Parmalat North America Inc., including serving as COO of Parmalat Canada Inc. and President and CEO of Parmalat North America.

**Christie Clark, FCA, FCPA** Currently a Director of Loblaw Companies, Air Canada, Choice Properties Real Estate Investment Trust and a member of the Advisory Council of Queen's University School of Business. Formerly the CEO and Senior Partner of PricewaterhouseCoopers Canada and served as PwC's National Managing Partner and a member of the firm's Executive Committee.

**George Cooke** A Director of Hydro One since 2010. Currently a Director of OMERS Administration Corporation (Board Chair) and CANATICS (Board Chair). Formerly President, CEO and Director of The Dominion of Canada General Insurance Company, a Director of the Insurance Bureau of Canada, a Director and Executive Vice President of E-L Financial Corporation Limited, Director of Empire Life Insurance and AECL (Atomic Energy of Canada Limited).

**Margaret (Marianne) Harris** Currently a Director of the Investment Industry Regulatory Organization of Canada (Board Chair) and a Director of Sun Life Financial Inc., Sun Life Assurance Company of Canada and Loblaw Companies Limited. Formerly a Director of Agrium Inc., Managing Director of the Bank of America Merrill Lynch, President of Corporate and Investment Banking for Merrill Lynch Canada Inc. and Group Head RBC Capital Markets.

**Mayo Schmidt** President and CEO of Hydro One Ltd. and a director of Agrium Inc. Previously President, CEO and a director of Viterra Inc., prior to which he held senior executive positions at ConAgra Food, Inc. and General Mills, Inc.

**James Hinds** Currently a Corporate Director and the former Board Chair of the Independent Electricity System Operator and of the Ontario Power Authority (Board Chair). A retired investment banker, he previously served as Managing Director of TD Securities Inc., and also held senior positions with CIBC Wood Gundy Inc. and Newcrest Capital Inc.

**Kathryn J. Jackson, Ph.D.** Currently a Director of Portland General Electric. Formerly Senior Vice President and Chief Technology Officer of RTI International Metals, Director of the Independent System Operator New England (Board Chair), Senior Vice President and Chief Technology Officer of Westinghouse Electric, and Executive Vice President of the Tennessee Valley Authority.

**Roberta Jamieson C.M., I.P.C, LL.B, LL.D (Hon)** Currently the President and CEO of Indspire and a Member of the Elections Canada Advisory Board. Formerly a Director of Ontario Power Generation, elected Chief of the Six Nations of the Grand River Territory and former Ombudsman of Ontario (1989-1999).

**Hon. Frances L. Lankin, P.C., C.M.** Currently a member of the Senate of Canada, a Director of the Ontario Lottery and Gaming Corporation, the Institute of Corporate Directors and of the National NewsMedia Council (Board Chair). Formerly an MPP and Cabinet Minister, Member of the Queen's Privy Council for Canada and Member of its Security Intelligence Review Committee and President and CEO of the United Way – Toronto.

**Philip S. Orsino, O.C., FCPA, FCA** Currently a Director of the Bank of Montreal (Audit and Conduct Review Committee Chair), a Consultant for Onex Corporation and Director of The Minto Group. Formerly a Director Clairvest Group Inc. (Audit Committee Chair), Biox Corporation (Board Chair), University Health Network (Board Chair), President and CEO Jeld-Wen Inc. and President and CEO of Masonite International Corporation.

**Jane Peverett, FCMA, ICD.D** Currently a Director of the Canadian Imperial Bank of Commerce (Audit Committee Chair), Director Encana Corporation (Audit Committee Chair), AEGIS Insurance Services and Northwest Natural Gas (Portland, Oregon). Formerly a Director of the Canadian Electricity Association, President and CEO of the British Columbia Transmission Corporation and President and CEO of Union Gas.

**Gale Rubenstein** A Director of Hydro One since 2007. Currently a Partner of Goodmans LLP and a member of the firm's Executive Committee and a Director of the Insolvency Institute of Canada.



# Disclaimers



## DISCLAIMERS

In this presentation, all amounts are in Canadian dollars, unless otherwise indicated. Any graphs, tables or other information in this presentation demonstrating the historical performance of the Company or any other entity contained in this presentation are intended only to illustrate past performance of such entities and are not necessarily indicative of future performance of Hydro One. In this presentation, "Hydro One" refers to Hydro One Limited and its subsidiaries and other investments, taken together as a whole.

### Forward-Looking Information

This presentation contains "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information in this presentation is based on current expectations, estimates, forecasts and projections about Hydro One's business and the industry in which Hydro One operates and includes beliefs of and assumptions made by management. Such statements include, but are not limited to: statements related to project costs; statements related to continued consolidation of the electric utility market; statements related to dividends, including expectations regarding the ability of continued rate base expansion through capital investments to drive growth in dividends; statements regarding future equity issuances; expectations regarding funding for planned capital investments; statements related to rate applications and models; statements regarding rate base and cash flows; and statements regarding productivity improvements.

Words such as "aim", "could", "would", "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", "goal", "target", and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Hydro One does not intend, and it disclaims any obligation to update any forward-looking information, except as required by law.

The forward-looking information in this presentation is based on a variety of factors and assumptions, as described in the financial statements and management's discussion and analysis. Actual results may differ materially from those predicted by such forward-looking information. While Hydro One does not know what impact any of these differences may have, Hydro One's business, results of operations and financial condition may be materially adversely affected if any such differences occur. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information are described in the financial statements and management's discussion and analysis.

### Non-GAAP Measures

Hydro One prepares and presents its financial statements in accordance with U.S. GAAP. "Funds from Operations" or "FFO" and "Adjusted Earnings Per Share" are not recognized measures under U.S. GAAP and do not have standardized meanings prescribed by U.S. GAAP. These are therefore unlikely to be comparable to similar measures presented by other companies. Funds from Operations should not be considered in isolation nor as a substitute for analysis of Hydro One's financial information reported under U.S. GAAP. "Funds from Operations" or "FFO" is defined as net cash from operating activities, adjusted for the following: (i) changes in non-cash balances related to operations, (ii) dividends paid on preferred shares, and (iii) non-controlling interest distributions. Management believes that these measures will be helpful as a supplemental measure of the Company's operating cash flows and earnings. For more information, see "Non-GAAP Measures" in Hydro One's 2016 full year MD&A.

## For More Information

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### Investor Relations Website:

<http://www.hydroone.com/InvestorRelations/>

### Investor Relations Contacts:

Omar Javed  
Director, Investor Relations  
ojaved@hydroone.com  
416 345 5943





## Analyst Consensus Rating<sup>1</sup>



**MEDIUM BULLISH**

## About Hydro One Limited

Hydro One Limited, through its subsidiaries, operates as an electrical transmission and distribution utility in Ontario. The company owns and operates approximately 30,000 circuit kilometers of high-voltage transmission network and approximately 123,000 circuit kilometers of low-voltage distribution network; and 306 transmission stations, as well as 1,026 distribution and regulating stations. It serves approximately 1.4 million residential and business customers across the province of Ontario, and large industrial customers and local distribution companies. The company also offers broadband fibre optic capacity. Hydro One Limited was incorporated in 1998 and is headquartered in Toronto, Canada.

## Contents

1. Overview
2. Technical Data
3. Key Ratios
4. Earnings & Analyst
- 5.6. Financial Statements
7. Company Insiders
8. Disclaimer

### Overview

Sector	N/A
Industry	N/A
Full Time Employees	5,494
IPO Year	N/A

### Key Data

Last Trade	\$23.13
Price Range (52 week)	21.32 - 26.39
Avg Volume (13 Week)	752,090
Shares Outstanding	595,390,000
Mkt Cap	\$13,770,000,000
Enterprise Value	N/A
Book Value per Share	\$16.19
Dividend Yield	--

## Highlights & Recent Developments

Hydro One Limited's stock edged 0.30% lower Friday, to close the day at \$23.13. The stock recorded a trading volume of 541,185 shares, which was below its three months average volume of 748,841 shares. In the last year Hydro One Limited's shares have traded in a range of 21.32 - 26.50. The stock is currently trading 12.72% below its 52 week high. The company's shares are currently trading below their 200-day moving average. Moreover, the stock's 50-day moving average of \$22.73 is below its 200-day moving average of \$23.34. Shares of Hydro One Limited are trading at a Price to Earnings ratio of 21.34. Shares of Hydro One have fallen approximately 1.91 percent year-to-date.

<sup>1</sup> Analyst Consensus Rating based on publicly reported third party data. See disclaimer.

September 11, 2017

### Technical Data

#### Price Information

52 Week Low	21.32
52 Week High	26.39
50 Day Moving Average	\$22.73
200 Day Moving Average	\$23.34

#### Support / Resistance

Type	Value	Confluence
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Technical Signals	Indicator	Signal	Strength	Direction
<b>Composite Indicator</b>	Trend Spotter	Buy	Weak	Weakening
<b>Short-Term Indicators</b>	7 Day Average Directional Indicator	Buy	Weak	Strengthening
	10 - 8 Day Moving Average Hilo Channel	Hold		Bearish
	20 Day Moving Average vs Price	Buy	Weak	Weakest
	20 - 50 Day MACD Oscillator	Buy	Weak	Strongest
	20 Day Bollinger Bands	Hold		Falling
<b>Medium-Term Indicators</b>	40 Day Commodity Channel Index	Buy	Weak	Weakening
	50 Day Moving Average vs Price	Buy	Weak	Weakening
	20 - 100 Day MACD Oscillator	Sell	Weak	Weakest
<b>Long-Term Indicators</b>	50 Day Parabolic Time/Price	Buy	Minimum	Weakest
	60 Day Commodity Channel Index	Hold		Rising
	100 Day Moving Average vs Price	Sell	Minimum	Weakening
	50 - 100 Day MACD Oscillator	Sell	Maximum	Weakest





# Hydro One Limited (TSX:H.TO)

September 11, 2017

## Key Statistics & Ratios

### Valuation Ratios

	Company	Industry	Sector
P/E Ratio (TTM)	0.00	12.28	16.36
P/E High - Last 5 Yrs.	0.00	138.46	33.23
P/E Low - Last 5 Yrs.	0.00	5.45	9.92
Beta	0.00	0.85	0.78
Price to Sales (TTM)	0.00	86.60	14.26
Price to Book (MRQ)	0.00	0.63	3.37
Price to Tangible Book (MRQ)	0.00	7.83	4.28
Price to Cash Flow (TTM)	0.00	6.71	10.10
Price to Free Cash Flow (TTM)	N/A	N/A	N/A
% Owned Institutions	0.0%	0.9%	0.4%

### Growth Rates

	Company	Industry	Sector
Sales (MRQ) vs Qtr. 1 Yr. Ago	0.0%	26.5%	32.1%
Sales (TTM) vs TTM 1 Yr. Ago	0.0%	9.9%	7.8%
Sales - 5 Yr. Growth Rate	0.0%	-3.2%	-8.5%
EPS (MRQ) vs Qtr. 1 Yr. Ago	0.0%	298.8%	116.2%
EPS (TTM) vs TTM 1 Yr. Ago	0.0%	0.0%	0.0%
EPS - 5 Yr. Growth Rate	0.0%	9.5%	-14.3%
Capital Spending - 5 Yr. Growth Rate	0.0%	-4.3%	-11.4%

### Financial Strength

	Company	Industry	Sector
Quick Ratio (MRQ)	0.00	1.25	1.37
Current Ratio (MRQ)	0.00	1.32	1.62
LT Debt to Equity (MRQ)	0.00	83.37	29.81
Total Debt to Equity (MRQ)	0.00	113.26	40.45
Interest Coverage (TTM)	0.00	25.45	125.91

### Profitability

	Company	Industry	Sector
Gross Margin (TTM)	0.0%	41.5%	34.0%
Gross Margin - 5 Yr. Avg.	0.0%	42.6%	24.9%
EBITD Margin (TTM)	0.0%	0.0%	0.0%
EBITD - 5 Yr. Avg.	0.0%	32.6%	0.0%
Operating Margin (TTM)	0.0%	-7.9%	-5.4%
Operating Margin - 5 Yr. Avg.	0.0%	10.8%	6.6%
Pre-Tax Margin (TTM)	0.0%	29.0%	29.0%
Pre-Tax Margin - 5 Yr. Avg.	0.0%	14.7%	3.5%
Net Profit Margin (TTM)	0.0%	18.1%	60.4%
Net Profit Margin - 5 Yr. Avg.	0.0%	2.8%	-1.0%
Effective Tax Rate (TTM)	0.0%	27.6%	1.2%
Effective Tax Rate - 5 Yr. Avg.	0.0%	60.4%	33.5%



### Management Effectiveness

	Company	Industry	Sector
Return On Assets (TTM)	0.0%	4.1%	7.8%
Return On Assets - 5 Yr. Avg.	0.0%	2.6%	5.4%
Return On Investment (TTM)	0.0%	5.3%	15.2%
Return On Investment - 5 Yr. Avg.	0.0%	3.5%	5.2%
Return On Equity (TTM)	0.0%	15.0%	14.0%
Return On Equity - 5 Yr. Avg.	0.0%	5.4%	12.4%

### Efficiency

	Company	Industry	Sector
Revenue/Employee (TTM)	0		
Net Income/Employee (TTM)	0		
Receivable Turnover (TTM)	0.00	4.14	6.01
Inventory Turnover (TTM)	0.00	4.98	9.98
Asset Turnover (TTM)	0.00	0.15	0.61

### Dividends

	Company	Industry	Sector
Dividend Yield	0.0%	1.6%	2.2%
Dividend Yield - 5 Year Avg.	0.0%	1.4%	2.4%
Dividend 5 Year Growth Rate	0.0%	7.7%	-3.5%
Payout Ratio (TTM)	0.0%	12.2%	22.8%





# Positioned for performance: An overview of Q3 2017 and beyond

December 2017

## Disclaimer

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All forward-looking statements are Avista management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

For more information on such factors and uncertainties, consult Avista's most recent form 10-K and 10-Q, which are available on our website at [www.avistacorp.com](http://www.avistacorp.com)





# Avista to be acquired by Hydro One

## Key Transaction Terms

- Offer price of US\$53.00 per Avista common share in cash
  - Represents a 24% premium to Avista's closing price on July 18, 2017, of US\$42.74
- Equity purchase price of US\$3.4 billion (C\$4.4 billion)
- Total enterprise value of US\$5.3 billion (C\$6.7 billion), including Avista debt assumed
- Avista preserves corporate identity and maintains headquarters in Spokane

## Timing and Approvals

- Shareholder approval obtained at special meeting on Nov. 21, 2017
- Filed for approval with all five state regulators and FERC
  - Requested regulatory decisions by August 2018
  - Proposed customer rate credit of \$31.5 million over 10 years
- Expect to file other regulatory approvals in 2018
- Expected closing date in the second half of 2018





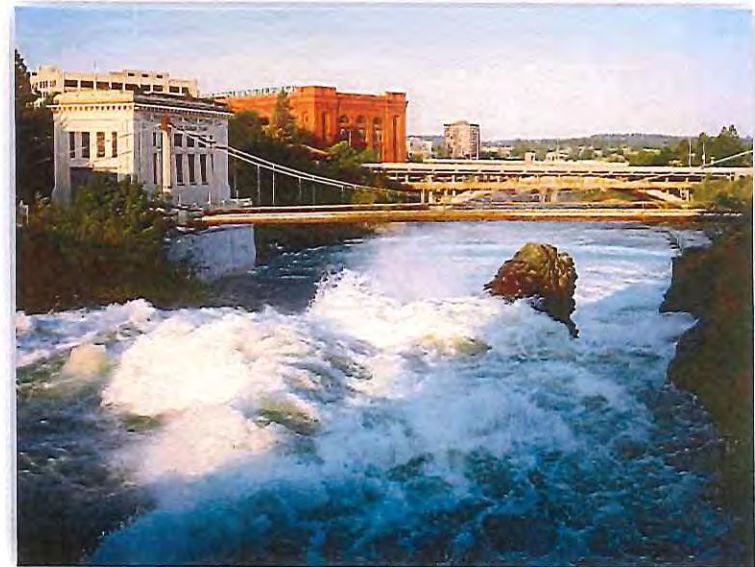
## Strong and stable utility core

### Avista Utilities

- Regulated electric and natural gas operations
- Serves customers in Washington, Idaho and Oregon
- Contributes about 95% of earnings

### Alaska Electric Light & Power Company (AEL&P)

- Regulated electric operations
- Serves customers in City and Borough of Juneau



*Long history of service, trust,  
innovation and collaboration*

*Photo: Spokane River Upper Falls*

# Steadily building long-term value

## Projecting long-term earnings and dividend growth of 4% to 5%

### Avista Utilities

- 5% to 6% rate base growth through utility capital investments
  - Upgrading infrastructure; grid modernization
- Customer growth ~1%
- Near-term earnings are challenged due to 2016 Washington rate order
  - Committed to reducing timing lag and aligning our earned returns with those authorized

### AEL&P

- Moderate rate base growth through utility capital investments
- Customer and load growth less than 1%

### Strategic Investments

- Developing platforms for future growth
  - Exploring data science and advanced analytics
  - Investing in emerging technologies
  - Current economics impact LNG opportunities

*Reliably building value for our customers,  
investors, communities and employees*

\*LNG: Liquefied natural gas



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# Avista Utilities

## Significant investments in utility infrastructure





# Solid foundation and continued commitment to innovation

## Providing safe and reliable service for 128 years

- Diverse customer base
  - 30,000 square mile service territory
  - Service area population 1.6 million
    - 377,000 electric customers
    - 340,000 natural gas customers
- Strong customer focus
  - 90% percent or better customer satisfaction ratings every year since 1999
  - Developing key customer initiatives
- Invested in our communities
  - More than \$2 million per year in charitable donations and over 48,000 volunteer hours from our employees



Information as of Dec. 31, 2016



# A responsible mix of generation

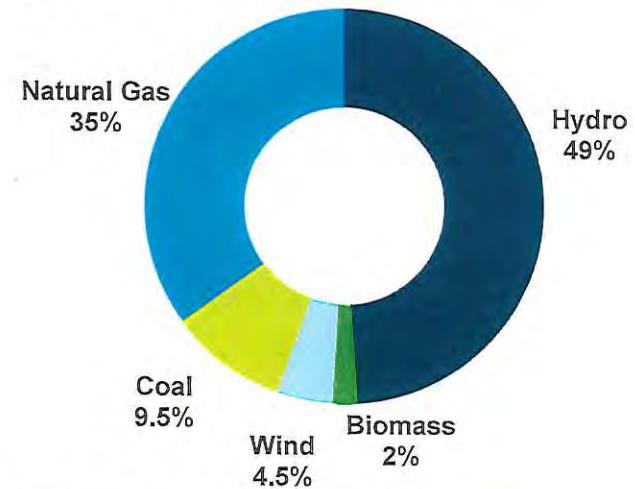
## Founded on clean, renewable hydropower

- Strategy is to control a portfolio of resources that responsibly meet our long-term energy needs
- Filed electric Integrated Resource Plan in August; long resources until 2026
  - 2026 resource acquisitions include a mix of upgrades to our thermal fleet, demand response, energy efficiency and a natural gas-fired peaker
- Exceeds Washington state's 15% Renewable Portfolio Standard for the next 20 years



Post Falls Dam, Idaho

Avista Utilities Electricity Generation Resource Mix\*  
Dec. 31, 2016



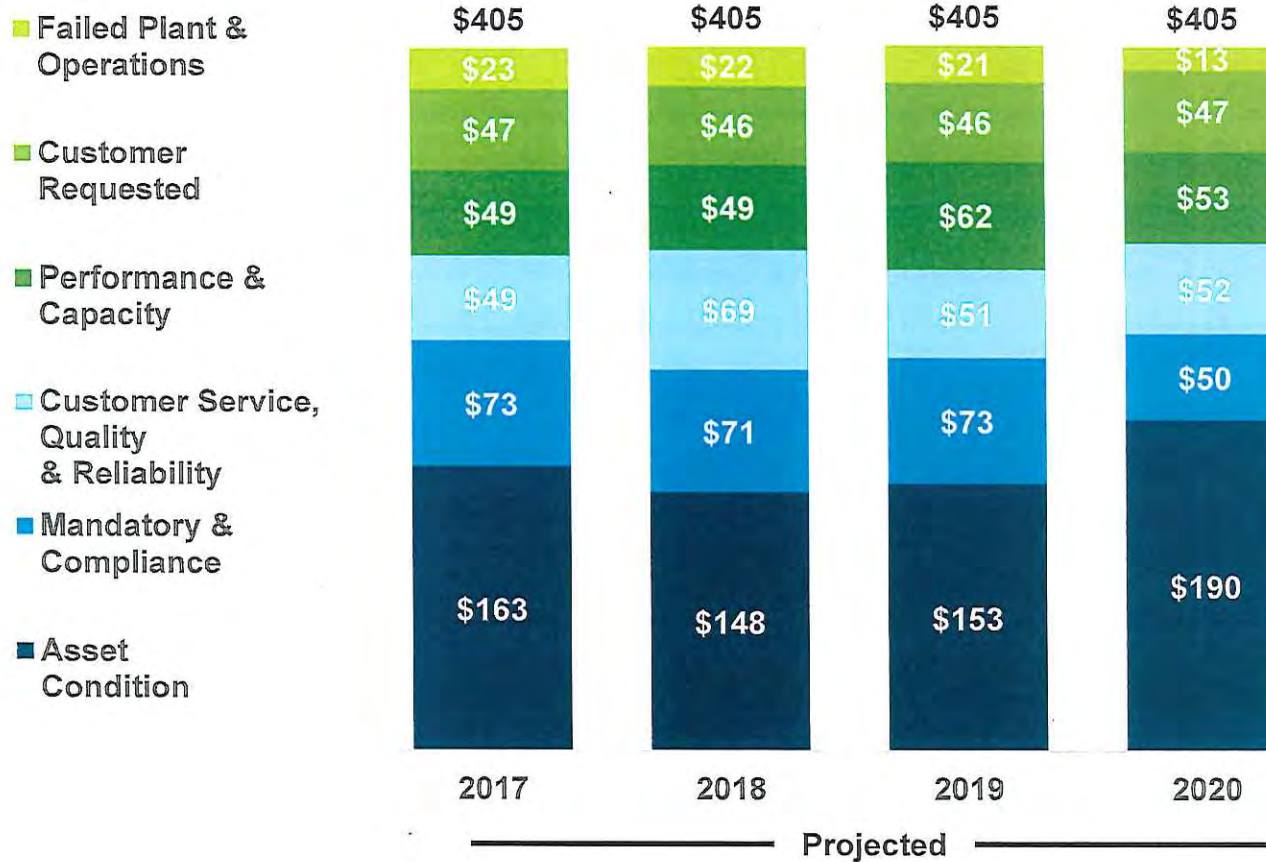
\*Based on maximum capacity  
Excludes AEL&P





# Investments to upgrade our systems

5% to 6% rate base growth



\*Excludes projected capital expenditures at AEL&P of \$7 million in 2017, \$7 million 2018 and \$13 million in 2019





# Investing in our utility

## Preserving and enhancing service reliability



**Advanced Metering Infrastructure (AMI)**



**Customer Facing Technology**



**Grid Modernization**



**Aldyl A Natural Gas Pipe Replacement**



**Electric Vehicle Pilot Program**



**Little Falls Plant Upgrade**





# Driving Effective Regulatory Outcomes

## Recovery of costs and capital investments

### Washington



- May 26, 2017, filed an electric and natural gas rate request designed to increase annual electric revenues by \$61.4 million and annual natural gas revenues by \$8.3 million, effective May 1, 2018.
  - Dec. 1, 2017, filed updated revenue requirements in rebuttal testimony due to timing of capital projects.
- Requests based on a 9.9% return on equity with a 50% common equity ratio.

#### Three-Year Rate Plan

- New rates will take effect May 1, 2018, with annual increases in May 2019 and May 2020.
- Power supply costs would be updated each year (on Rebuttal, only update power supply costs in Year 1).
- No new general rate cases would be filed with new rates effective prior to May 1, 2021.

	ELECTRIC			NATURAL GAS		
	Filed Revenue Increase	Filed Base % Increase	Rebuttal Revenue Increase	Filed Revenue Increase	Filed Base % Increase	Rebuttal Revenue Increase
May 1, 2018	\$61.4M	12.5%	\$54.4M	\$8.3M	9.3%	\$6.6M
May 1, 2019	\$14.0M*	2.5%	\$13.5M	\$4.2M	4.4%	\$3.7M
May 1, 2020	\$14.4M*	2.5%	\$13.9M	\$4.4M	4.4%	\$3.8M

\*Excludes power supply adjustment



# Driving Effective Regulatory Outcomes

## Recovery of costs and capital investments

### Alaska

- Nov. 15, 2017, all-party settlement agreement approved by Regulatory Commission of Alaska designed to increase base revenues by 3.86% or \$1.3 million, the level of interim rates that went into effect Nov. 23, 2016.
- Previously approved additional \$2.9 million annually from interruptible service will be decreased to \$2.06 million annually; a one-time \$0.9 million credit will be credited back to customers through the Cost of Power Adjustment (COPA).
- Based on a 58.18% equity ratio and an 11.95% return on equity.



### Idaho

- Oct. 19, 2017, filed multi-party settlement agreement designed to increase annual electric base revenues by \$12.9 million, or 5.2 percent, effective Jan. 1, 2018, and by \$4.5 million, or 2.3 percent, effective Jan. 1, 2019.
- For natural gas, the settlement agreement is designed to increase annual base revenues by \$1.2 million, or 2.9 percent, effective Jan. 1, 2018, and by \$1.1 million, or 2.7 percent on Jan. 1, 2019.
- Based on 50% equity ratio and 9.5% return on equity.
- Settlement agreement is dependent on Idaho Public Utilities Commission approval.



### Oregon

- Sept. 13, 2017, received Commission approval of an all-party settlement agreement designed to increase annual natural gas base revenues by 5.9% or \$3.5 million.
- Rate adjustment of \$2.6 million was effective Oct. 1, 2017, and a second adjustment of \$0.9 million was effective Nov. 1, 2017.
- Based on 50% equity ratio and 9.4% return on equity.







# Alaska Electric Light & Power Company (AEL&P)

Growing the utility core



# Diversifying our utility footprint



## Oldest regulated electric utility in Alaska, founded in 1893

- Serves 17,000 electric customers in the City and Borough of Juneau, meeting nearly all of its energy needs with hydropower
- One of the lowest-cost electric utilities in the state
- Approved capital structure of 58.18% equity ratio and an authorized return on equity of 11.95%



Juneau, Alaska



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# Strategic Investments

## Developing platforms for future growth





## Creating new growth platforms

- LNG opportunities continue to be impacted by current market economics
  - Salix (subsidiary)
    - Generation – substitution for diesel
    - Marine and rail fueling
  - Plum Energy
    - Small LNG project investments
- Targeted investments
  - Energy Impact Partners
    - Private equity fund that invests in emerging technologies, services, and business models throughout electric supply chain with a collaborative, strategic investment approach
  - TROVE
    - Leverage AMI, consumer and other data through predictive analytics to create utility value
  - Spirae
    - Microgrid and distributed energy resource management platform



ENERGY IMPACT PARTNERS™



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# Financial Performance Metrics

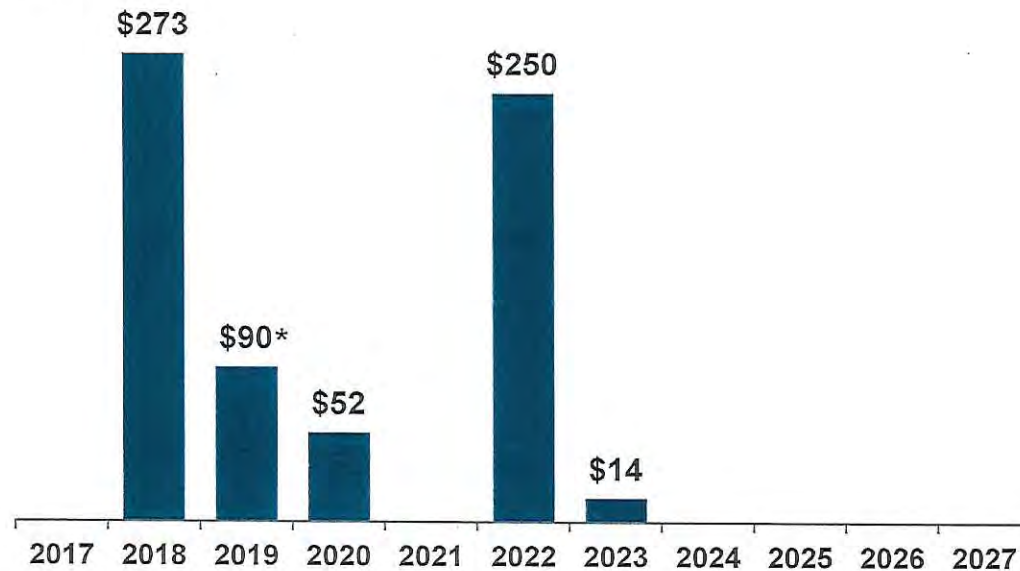


# Prudent Balance Sheet and Liquidity

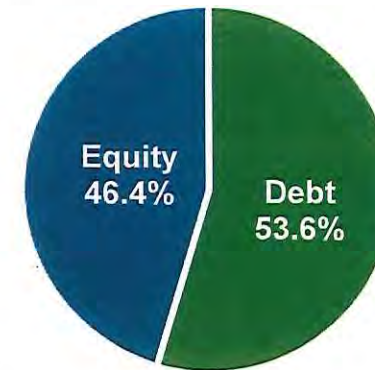
## \$161.1 million of available liquidity at Avista Corp. as of Sept. 30, 2017

- In August, priced \$90 million of Avista Corp. first mortgage bonds with a coupon of 3.91% and maturity date of December 2047. Expect to issue in December 2017.
- In the fourth quarter, expect to issue up to \$70 million of common stock in order to fund planned capital expenditures and maintain an appropriate capital structure

No significant maturities until 2018  
 (\$ millions)



Consolidated Capital Structure  
 Sept. 30, 2017



Additional long-term debt maturities beyond 2027 not shown

\*Excludes debt maturities of \$15 million at Alaska Energy and Resources Company in 2019



# Continued long-term earnings growth

**Total Earnings per Diluted Share**  
 Attributable to Avista Corporation

Business Segments	Q3 2017	Q3 2016
Avista Utilities	\$0.08	\$0.20
AEL&P	\$0.01	\$0.01
Other	\$(0.02)	\$(0.02)
<b>Diluted EPS</b>	<b>\$0.07</b>	<b>\$0.19</b>



\* 2017 earnings negatively impacted by Washington order





## Revised 2017 Guidance

2017 Earnings Guidance		
	Original	Revised*
Avista Utilities	\$1.71 – \$1.85	\$1.71 – \$1.80
AEL&P	\$0.10 – \$0.14	\$0.10 – \$0.14
Other	\$(0.01) – \$0.01	\$(0.06) – \$(0.04)
<b>Consolidated</b>	<b>\$1.80 – \$2.00</b>	<b>\$1.75 – \$1.90</b>

\*Avista Utilities guidance was revised to include expected acquisition transaction costs of \$0.20-\$0.25 per diluted share, partially offset by lower resources costs, operating expenses and net financing expenses. Other businesses guidance was revised due to renovation expenses at one of our subsidiaries and the recognition of our portion of net losses from our equity investments.

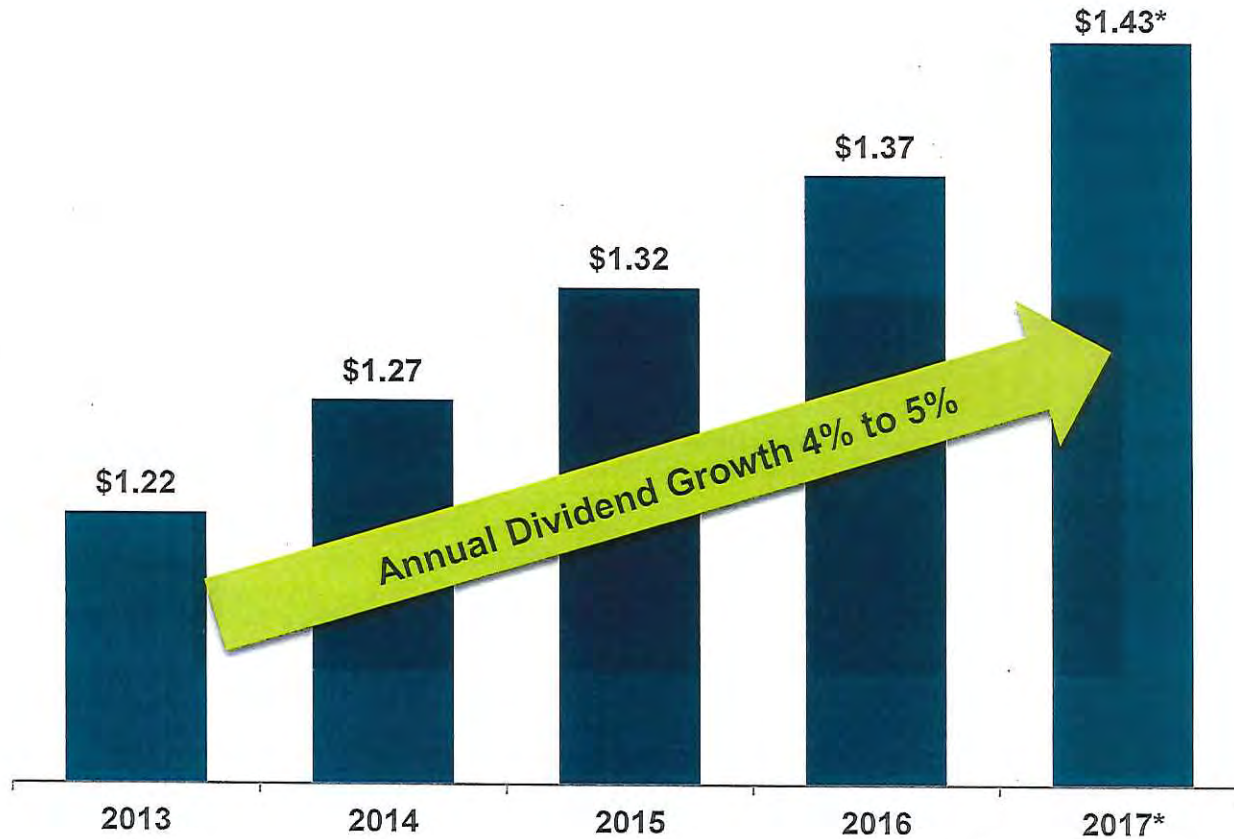
### Guidance Assumptions

- Our outlook for Avista Utilities assumes, among other variables, normal precipitation, temperatures and hydroelectric generation for the remainder of the year.
- Our outlook for AEL&P assumes, among other variables, normal precipitation, temperatures and hydroelectric generation for the remainder of the year.
- Our guidance range for Avista Utilities encompasses expected variability in power supply costs and the application of the ERM to that power supply cost variability.
- The midpoint of our original guidance range for Avista Utilities included \$0.07 of expense under the ERM; which was within the 90 percent customers/10 percent shareholders sharing band. Our current expectation for the ERM is a benefit position within the \$4 million deadband, an improvement of \$0.07 to \$0.09 per diluted share from our original guidance.



## Attractive and growing dividend

Dividend growth expected to keep pace with long-term earnings growth



\*Current quarterly dividend of \$0.3575 annualized





## A solid investment

- Strong and responsible core utility
  - Investing substantially to modernize infrastructure and upgrade systems
  - Steady returns and attractive dividend yield
  - One of the greenest utilities in the U.S.\*
  - Committed to reducing current regulatory timing lag
  
- Focus on utility growth
  - Selective acquisitions
  - Developing new products and services and supporting economic development throughout service area
  
- Positioning for the future
  - Leverage AMI data through applied analytics, gain insight into leading-edge energy solutions
  - Track record of innovation (e.g. Itron, ReliOn, Ecova)



***Reliably building value for  
our customers, investors,  
communities and employees***

*Photo: Cabinet Gorge Dam*

\*Source: *Benchmarking Air Emissions of the 100 Largest Power Producers in the United States*,  
NRDC, July 2016



# We welcome your questions

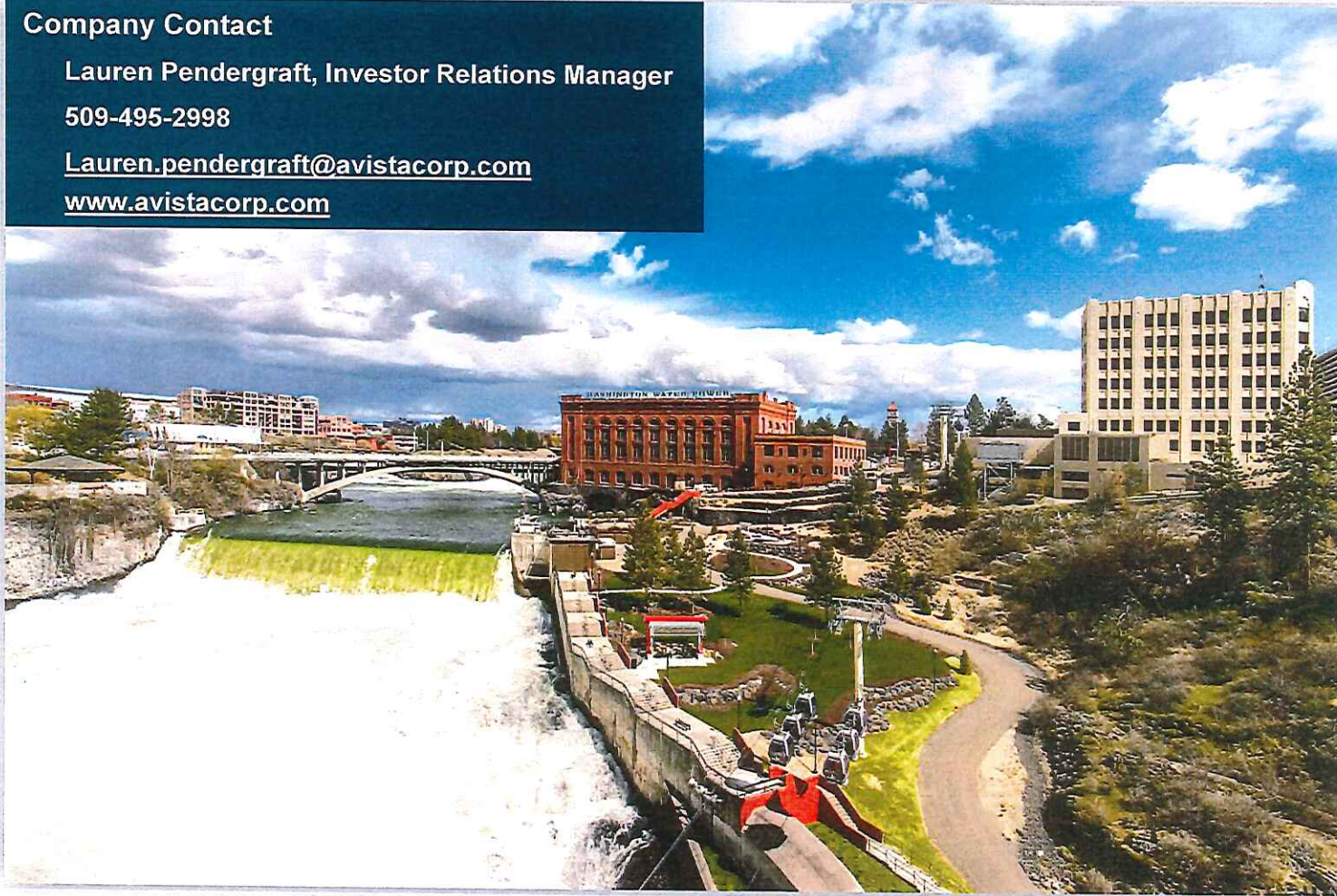
## Company Contact

Lauren Pendergraft, Investor Relations Manager

509-495-2998

[Lauren.pendergraft@avistacorp.com](mailto:Lauren.pendergraft@avistacorp.com)

[www.avistacorp.com](http://www.avistacorp.com)



*Photo: Huntington Park, Spokane, Wash.*



CASE: UM 1897  
WITNESS: MATT MULDOON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 205**

**Non-Confidential  
Security Markets and General News  
(News Investors are Seeing)**

**Exhibits in Support  
of Reply Testimony**

**February 12, 2018**



## News and Other Cited Non-Confidential Materials

### Hydro One Limited

is primarily an electricity transmission and distribution utility serving Ontario.  
<https://www.hydroone.com/about/corporate-information/subsidiaries>

### Subsidiary Hydro One, Inc.

will have two subsidiaries

**Hydro One Networks, Inc.** – electric transmission and distribution networks

**Hydro One Remote Communities, Inc.** – Serves 21 off-grid northern communities

<https://www.hydroone.com/remote-communities>

### Subsidiary Ontario, Inc.

will hold the subsidiary **Hydro One Telecom, Inc.** – w high speed fiber optics.

<http://www.hydroonetelecom.com/>

### Hydro One Brampton Networks, Inc.

[https://www.bramptonhydro.com/About/merger\\_overview.html](https://www.bramptonhydro.com/About/merger_overview.html)

On March 24, **2016**, **Enersource** Corporation, **Horizon** Utilities Corporation, and **PowerStream** Inc. announced their intention to **merge the three utilities, and purchase Hydro One Brampton Networks** Inc., **to form the second largest municipally-owned electricity distribution company in North America** (based on number of customers), serving close to one million customers in a service territory that encompasses much of the Greater **Golden Horseshoe** Area.

The transaction will enable this new, larger company to use its collective resources to reduce upward pressure on distribution rates, deliver more efficient services and innovative technologies for its customers, while providing significant benefits for communities and shareholders.

The application, known as **MAADs** (**Mergers, Acquisitions, Amalgamations** and **Divestitures**), was submitted to the **Ontario Energy Board** on **April 15, 2016** and is expected to take approximately **six months** for **regulatory review** and **approval**.

–

### Crown Corporation examples

**Hydro Quebec** has one shareholder, the Quebec government.

**BC Hydro** is also a Crown corporation with one shareholder, the B.C. government.

A change in government can mean a change in executives, boards of directors, investments and policies for a Crown corporation, such as BC Hydro just experienced.

**Ontario Power Generation** (OPG) is a Crown corporation that generates about half the electricity in Ontario from nuclear, hydroelectric, wind, gas and biomass. The Ontario Energy Board (OEB) has regulated the price of electricity generated since April 1, 2008. The Company owns the Pickering and Darlington Nuclear Stations which meet 50 percent of Ontario's electric needs. The last coal plant was shut down in 2014. The Company co-owns but does not operate the Portlands Energy Centre and the Brighton Beach gas-fired generation stations. It has 66 hydro

facilities and **one wind plant**. Capacity breakout beside two biomass units is:  
Nuclear 5,728 MW, Hydro 7,435 MW, and Thermal 2,458 MW.

**OPG** claims to be **99 percent smog and greenhouse gas emission free**.

<http://www.opg.com/generating-power/Pages/generating-power.aspx>



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Sa Majesté la Reine du chef du Canada, Ressources naturelles Canada.

## In the Age of 'Scale,' What Happens to Those Who Don't Have It?

by Bill Virgin – Clearing Up – Sep. 1, 2017

**Summary:** The **merger-and-acquisition wave in the IOU segment of the utility business** is being **driven by the quest for scale** — the need to **get bigger to reduce duplicative costs and achieve better pricing on capital**. But **that leaves the publics in a fix. What do they do to achieve** the benefits of **scale**?

For many industries, the natural life cycle is toward consolidation, the reduction of many small competitors into a handful of very large entities gobbling most market share, with a few much smaller players feeding off the tiny scraps not worth the attention of the big outfits.

The auto industry consolidated from dozens of names to the Big Three, in the U.S. The same thing happened in the commercial aerospace industry, with the Seattle area being a major beneficiary. The history of retailing has been written by mergers and consolidations, whether it was in grocery stores, traditional department stores or discounters.

Merger-and-acquisition activity, and growth by consolidation, are driven by the **theory of economies of scale** — that **bigger companies have competitive advantages in purchasing power, access to capital, marketing exposure, overhead that can be spread over a larger customer base, and reduction in duplication of operations**.

It **doesn't always work out so neatly**. New entrants prove more nimble, or employ new technology and approaches more effectively. Bigness brings market power, but it also can lead to stagnation and complacency.

**Nor does the model work in such neat theoretical terms for certain industries, like utilities**. The combination of an industry structure of monopoly service territories at the retail level and extensive regulation on prices and services tends to blunt the forces that in other industries push consolidation.

Add to the mix the prevalence in the Northwest of public power, and the political forces behind it, and what you get (at least in this region) is an industry characterized by lots of small and medium-sized independent players.

But even utilities aren't immune to those natural forces. Other regions of the country have long been served by multistate giants like The Southern Co. and American Electric Power. M&A activity in the utility sector actually provoked a competition between buyers. Warren Buffett's Berkshire Hathaway, parent of PacifiCorp and other utility and energy companies, was thwarted in its bid to acquire Texas utility Oncor by Sempra Energy, which came in with a bigger number (you can't call it a bidding war because Buffett famously refuses to get involved in them).

Not surprisingly, the concept of scale figured in Berkshire Hathaway's interest. "We will gain access to additional operational and financial resources as we continue to position Oncor to support the evolving energy needs of our state," a release said.



That same theme made an appearance in Hydro One's bid for Spokane-based Avista. In fact that very word did. "This combination means greater scale, diversity and financial flexibility," the release announcing the deal said. "This strategic combination demonstrates the value of consolidation by bringing together two highly complementary platforms to create one of North America's largest regulated utilities, meaningfully enhancing both shareholder and customer value. In addition, over time, non-headcount efficiencies will be realized through **collaboration and sharing of best practices on IT, innovation and supply chain purchasing**, all of which will further enhance cost savings."

**It even figured in the sale of Puget Sound Energy to a consortium of investors, a deal announced in 2007:** "Like many other utilities, Puget Sound Energy faces significant future capital requirements to meet the growing energy needs of our customers, while continuing to provide safe and reliable service to this dynamic region, ... The merger will provide us with \$5 billion over the next five years, insulating us from volatility in the public equity markets."

A report from accounting firm **Deloitte** earlier this year identifies a driver for utility-sector consolidation. "**Rising costs** have become the norm for utility planners — and that's likely to persist as long as requirements and **expectations from regulators, customers, and other stakeholders continue to mount**," the report says. Those demands include **replacing aging infrastructure, modernizing the grid, adding more renewables** to generating portfolios and **expanding natural-gas** pipeline, storage and distribution capacity.

**So smaller IOUs partner with each other, or with larger utility conglomerates, or with investment consortiums like the one backing PSE**, all with the **goal of wringing out costs in operations and borrowing**.

And the publics like the municipals and PUDs will do what exactly?

The demands on them to convert to renewables (and to add generation to accommodate growth), accommodate an increasingly complex and interconnected (not to mention expensive) grid, and replacing or rebuilding existing assets won't be any less on the publics than on the IOUs. But the **opportunities to capitalize on scale** will be.

That's a problem in the Northwest. **Public power in the aggregate may be a big deal in the region overall** (half of all customers in Washington, 17 percent in Oregon, according to numbers reported by the Energy Information Administration and the American Public Power Association) **but not so much individually**.

Of the 100 largest public-power utilities by electric customers served (2014 data), Puerto Rico is first with about 1.46 million; Los Angeles Department of Water & Power is next, at just over 1.4 million.

Seattle City Light? It ranks ninth, with almost a million fewer customers than L.A. Snohomish PUD is 13th, Clark Public Utilities comes in at 17th, Tacoma Power at 19th and then you drop down to Eugene Water & Electric Board in 34th.

In technical terms, those utilities aren't competing with others for customer market share; for their constituents local control is as crucial as the lower rates being a public

promises. And it could turn out that big in the utility business means cumbersome, slow and bureaucratic.

But **if scale does matter, then the publics have a challenge of finding some for themselves**. Would they consider mergers? Weirder things have happened — the ports of Seattle and Tacoma, public entities in separate counties, combined most of their maritime operations into one jointly owned and managed operation.

There may be **little precedent** for a similar arrangement in the utility business, **but** such are the **mounting pressures** on utilities that some small or mid-sized public may feel compelled to create one.

—



**Ontario Ministry of Energy**  
**Thibeault – Minister of Energy, MPP Sudbury**



**Trillium**



He issued the following statement today on July 19, 2017 regarding Hydro One's announcement that the utility has agreed to acquire Avista, a utility company in the northwest United States:

“Ontario is **pleased** to see today's announcement of the proposed acquisition of Avista by Hydro One, as it is expected to deliver **clear benefits** for the company's customers, employees and shareholders - including the **people of Ontario, given the government's position as the single largest shareholder in Hydro One**.

In particular, we welcome the fact that this **proposed acquisition will not impact the rates** that Ontario customers pay. Neither will it have any impact on **local jobs**.

As the single largest shareholder in Hydro One, the Ontario government would benefit from the company's **receipt of additional regulated returns** expected to begin in 2019. Those benefits will be **above and beyond the proceeds already attributed to the Ontario Trillium Trust** as a result of the **IPO** and **subsequent secondary offerings**.

The potential for transactions of this sort was always considered and communicated as part of the **Premier's Advisory Council on Government Assets**. In fact, one of the benefits of broadening the ownership of Hydro One was to unlock the potential for precisely this sort of transaction.

Similar acquisitions are increasingly common practice for Canadian-owned utilities, including **Newfoundland and Labrador-based Fortis' purchase of Michigan-based ITC** and **Edmonton-based EPCOR Utilities' purchase of two U.S. water utilities**. It is to the shared benefit of Hydro One's customers, employees and shareholders to see the company strengthened and growing. Our government's legislation that enabled the broadening of ownership of Hydro One and strengthened the Ontario Energy Board's regulatory process protects the interests of Ontario ratepayers.

While Ontario ratepayers will not be directly impacted by today's announcement, our government's **Fair Hydro Plan**, which came fully into effect on July 1, 2017 has lowered electricity bills by 25 per cent on average for all residential customers and as many as half a million small businesses and farms. Our plan also **holds any increases in electricity bills to the rate of inflation for four years.**"

### Ontario Fair Hydro Plan

[https://www.ontario.ca/page/ontarios-fair-hydro-plan?\\_ga=2.254070541.408504982.1503950430-1267576630.1503950430](https://www.ontario.ca/page/ontarios-fair-hydro-plan?_ga=2.254070541.408504982.1503950430-1267576630.1503950430)

### Overview

#### **Reduction of electricity bills by 25% on average for residential consumers from all households across Ontario.**

- As many as half a million small businesses and farms are also benefitting.
- **electricity rates will not increase beyond the rate of inflation for four years**
- Bills are reduced 40 to 50% for eligible remote communities and low income.
- This 25% reduction includes an 8% rebate that took effect on January 1, 2017.
- On reserves, **delivery charge & monthly service** charge removed from bills.

You are automatically getting additional reductions on your bill starting July 1, 2017 if you're a customer of:

- Hydro One (low and medium density customers)
- Northern Ontario Wires
- Lakeland Power (Parry Sound)
- Chapleau Public Utilities Corporation
- Sioux Lookout Hydro
- InnPower
- Atikokan Hydro
- Algoma Power

—

### **Avista, Hydro One File for Regulatory Approval of Proposed Merger**

by Rick Adair – Clearing Up – Sep. 15, 2017

**Avista and Hydro One** on Sept. 14 **requested approvals** of their proposed merger, with filings at **FERC [EC17-179]** and utility commissions in five states, asking for approval no later than Aug. 14, 2018. The states are **Washington [UE-170970]**, **Idaho [AVU-E-17-09; AVU-G-17-05]**, **Oregon [UM 1897]**, **Montana [D2017.9.71]**, and **Alaska [U-17-085]**.

Avista also filed a preliminary proxy for the merger with the **U.S. Securities and Exchange Commission** on Sept. 14. The merger also needs approvals from **Avista shareholders** and the **Federal Communications Commission**, as well as clearance by the **Committee on Foreign Investment in the United States**, and compliance with the **Hart-Scott-Rodino antitrust act**.

The transaction is expected to close in the second half of 2018. The \$5.3-billion deal was first announced July 18.

### Foreign Capital Adds Avista to Growing List of U.S. Utility Buys

Low-Cost Capital Seeking U.S. Assets

Bloomberg Intelligence – BICO Function Aug. 9, 2017

Canadian, Australian and Spanish buyers seem to prefer U.S. regulated utilities for capital deployment. Avista is the latest small-cap U.S. utility to accept a cross-border bid, \$5.3 billion from Hydro One.

Canadian utilities' high earnings multiples and strong balance sheets provide low-cost capital for accretive acquisitions of U.S. utilities. That gives Canadians an advantage over U.S. companies looking to grow via acquisitions, which tend to rely on operating-cost cuts disliked by regulators.

Fortis bought ITC and Emera added TECO among other recent U.S. acquisitions by Canadian utilities. Spain's Iberdrola and Australia's Macquarie have also made major U.S. utility purchases.

Recent Acquisitions of Smaller U.S. Utilities			
Target (< US\$ 10 Billion)	Acquired on	Buyer	Gas/Electric
PNY US	10/4/2016	DUK US	Gas
TE US	7/1/2016	EMA CN	Integrated
GAS US	7/1/2016	SO US	Gas
UIL US	12/17/2015	IBE SM	Electric and Gas
ITC US	10/14/2016	FTS CN	Transmission
STR US	9/19/2016	D US	Gas
POM US	3/24/2016	EXC US	Gas
CNL US	4/14/2016	MQG AU	Integrated
TEG US	6/30/2015	WEC US	Electric and Gas
WR US	Pending	GXP US	Integrated
WGL US	Pending	ALA CN	Gas
AVA US	Pending	H CN	Integrated

Source: Company Filing, Bloomberg Intelligence Bloomberg

Hydro One's agreement to acquire Avista is the second cross-border U.S. regulated-utility purchase of the Trump era, extending a trend of foreign investors buying U.S. natural gas assets. In January, Canada's AltaGas emphasized that, as part of its \$4.6 billion deal for WGL, it would keep the latter's U.S. jobs and headquarters and invest C\$4.6 billion through 2021. Though WGL is mainly overseen by state regulators, Federal Energy Regulatory Commission merger approval is also required.

Surging M&A among smaller utilities drove up Avista's stock price and valuations, even though the company's history and growth strategies suggested it was more likely to be a buyer than a target. Avista's stock outstripped the Bloomberg Intelligence (BI) regulated integrated utilities peer group by about 15 percentage points over three years as of June 30. Its P/E multiple is higher than the peer group median based

on 2018 consensus EPS, even with a long-term earnings growth forecast of 4-5 percent, about the industry average.

Stagnant electricity demand, high P/E multiples and relatively low interest rates encouraged buyouts of smaller utilities by larger rivals. Duke, Southern, Dominion, Exelon, Fortis and Emera all acquired smaller-cap U.S. utilities last year.

The smaller, geographically focused Avista fit Bloomberg's Utilities M&A Screen. Avista's four-state service area makes it an attractive target. Avista is one of the remaining 22 U.S. Investor-Owned Utilities with a market cap below \$10 billion. This is after nine were acquired, and with two (Great Plains –Westar) and (WGL-AltaGas) in the process of being bought since 2015. Surging M&A of smaller utilities by larger domestic or foreign rivals and finance companies shrink the peer group.

Berkshire Hathaway, which already distributes electricity in Avista's service states through its utility subsidiary PacifiCorp may realize better synergy benefits than other large-cap utilities in a potential takeover of Avista.

Smaller-Cap Regulated U.S. Utilities						
Company	Market Cap (\$Billions)	Electric/Gas /Both	S&P Issuer Rating	2018(E) P/E	2018(E) DVD Yield	
ALLETE INC	3.7	Both	BBB+	19.7	3.2	
ALLIANT ENERGY CORP	9.3	Both	A-	18.9	3.3	
ATMOS ENERGY CORP*	8.7	GAS	A	21.8	2.3	
AVISTA CORP	2.7	Both	BBB	20.7	3.5	
BLACK HILLS CORP	3.6	Both	BBB	17.8	2.8	
EL PASO ELECTRIC CO	2.1	Electric	BBB	18.7	2.8	
HAWAIIAN ELECTRIC INDS	3.5	Electric	BBB-	18.0	3.8	
IDACORP INC	4.3	Electric	BBB	20.7	#N/A	N/A
NATIONAL FUEL GAS CO*	4.8	GAS	BBB	17.7	3.0	
NEW JERSEY RESOURCES CORP*	3.4	Gas	#N/A	21.4	2.8	
NISOURCE INC	8.3	Both	BBB+	20.4	2.9	
NORTHWEST NATURAL GAS CO	1.7	GAS	A+	26.2	3.1	
NORTHWESTERN CORP	3.0	Both	BBB	17.5	3.6	
OGE ENERGY CORP	7.0	Both	A-	17.0	3.9	
ONE GAS INC	3.7	GAS	A-	22.6	2.6	
PNM RESOURCES INC	3.0	Electric	BBB+	21.7	2.8	
PORTLAND GENERAL ELECTRIC CO	4.1	Electric	BBB	18.7	3.1	
SOUTH JERSEY INDUSTRIES	2.7	GAS	BBB+	23.2	3.3	
SOUTHWEST GAS HOLDINGS INC	3.5	GAS	BBB+	20.5	2.9	
SPIRE INC*	3.3	GAS	A-	19.0	3.2	
UGI CORP*	8.4	GAS	#N/A	19.5	2.1	
VECTREN CORP	4.9	Both	A-	20.9	3.0	

Note: Fiscal Year Ends on September 30  
Source: Bloomberg, Consensus Estimates, Data as of June 30, 2017



Hydro One LTD		Long-Term (LT) Debt			(HYDONE)		
ID Number	CUSIP	Coupon	Maturity	(& Outstanding) Issued Amount	Issue Date	C Rating Moody's	
1	EG9376682	44810ZAT7	5.18	10/18/2017	\$ 600,000,000	10/18/2007	A3
2	EJ8668471	44810ZBJ8	2.78	10/9/2018	\$ 750,000,000	10/9/2013	A3
3	EK1304154	44810ZBM1	1.29	3/21/2019	\$ 228,000,000	3/21/2014	A3
4	AL2916164	44810ZBT6	1.48	11/18/2019	\$ 500,000,000	11/18/2016	A3
5	EK8839848	44810ZBP4	1.62	4/30/2020	\$ 350,000,000	4/30/2015	A3
6	EI1848213	44810ZBA7	4.40	6/1/2020	\$ 300,000,000	3/15/2010	A3
7	JK1991245	44810ZBQ2	1.84	2/24/2021	\$ 500,000,000	2/24/2016	A3
8	EI9547866	44810ZBF6	3.20	1/13/2022	\$ 600,000,000	1/13/2012	A3
9	JK1991351	44810ZBR0	2.77	2/24/2026	\$ 500,000,000	2/24/2016	A3
10	AO4758402	448811AB5	4.00	9/30/2027	\$ 1,400,000,000	8/9/2017	N/A
11	EC2611308	448810AC5	7.35	6/3/2030	\$ 400,000,000	6/1/2000	A3
12	EC4084140	44810ZAB6	6.93	6/1/2032	\$ 500,000,000	6/22/2001	A3
13	EC8406885	44810ZAD2	6.35	1/31/2034	\$ 385,000,000	1/31/2003	A3
14	ED9461580	44810ZAP5	5.36	5/20/2036	\$ 600,000,000	5/19/2005	A3
15	EG2531218	44810ZAS9	4.89	3/13/2037	\$ 400,000,000	3/13/2007	A3
16	EH7413469	44810ZAX8	6.03	3/3/2039	\$ 300,000,000	3/3/2009	A3
17	EH9033935	44810ZAY6	5.49	7/16/2040	\$ 500,000,000	7/16/2009	A3
18	EI8224293	44810ZBD1	4.39	9/26/2041	\$ 300,000,000	9/26/2011	A3
19	EC9457424	44810ZAE0	6.59	4/22/2043	\$ 315,000,000	4/22/2003	A3
20	EJ8668539	44810ZBK5	4.59	10/9/2043	\$ 435,000,000	10/9/2013	A3
21	EK3145878	44810ZBN9	4.17	6/6/2044	\$ 350,000,000	6/6/2014	A3
22	JK1991385	44810ZBS8	3.91	2/23/2046	\$ 350,000,000	2/24/2016	A3
23	EF7775358	44810ZAR1	5.00	10/19/2046	\$ 325,000,000	10/19/2006	A3
24	AL2934589	44810ZBU3	3.72	11/18/2047	\$ 450,000,000	11/18/2016	A3
25	EI9146412	44810ZBE9	4.00	12/22/2051	\$ 225,000,000	12/22/2011	A3
26	EJ3025826	44810ZBG4	3.79	7/31/2062	\$ 310,000,000	7/31/2012	A3
27	EK0465360	44810ZBL3	4.29	1/29/2064	\$ 50,000,000	1/29/2014	A3
<b>Bloomberg Functions : SECF, BGN, BVAL, EXCH, BGN</b>							

**Moody's Long Term Rating A3 – Outlook: Negative**

<https://www.moodys.com/page/search.aspx?tb=1&luar=hydro+one>

## Everything Investors Need to Know About the Avista / Hydro One Deal

by Nicholas Rossolillo – Motley Fool – Aug. 10, 2017



The Inland Pacific Northwest utility is getting purchased by a Canadian counterpart. Here's what investors (and customers) need to consider.

Last month, electric and natural gas utility **Avista** Corporation (NYSE: AVA) **announced** that it **will be acquired** by Canadian utility **Hydro One** (TSX: H) for \$5.3 billion to create one of North America's largest utilities. Here's what the new company will look like and how owners of shares will be affected.

### **No major shakeup here**

Spokane, Washington-based Avista has been providing power to the inland Northwest for a long time. The company was founded as Washington Water Power in 1889 when utilities were still young, and is one of the smaller publicly traded utility companies remaining in the U.S.

As Avista is a major employer and the primary power provider in the greater Spokane area, there is concern from both customers and employees of the company that the change in ownership could disrupt their lives as well. Avista and Hydro One were quick to put any fears to rest. Both said that customer rates on both sides of the border would not be affected by the deal. Avista will continue to operate as an independent business under Hydro One and said no changes to its workforce were in order.

With changes being kept to a minimum, why the deal in the first place? **Hydro One** – Ontario, Canada's leading utility provider –was **looking for an entry into the U.S. market**. The combined companies should also be able to capture some cost savings and faster rollout of infrastructure updates. The combination will create one of the 20 largest North American utilities, with combined assets of \$25.4 billion U.S.

## Shareholders sent packing

While customers and employees are supposedly safe from disruption, it's a slightly different story for owners of Avista stock. First, the good news: **Each share of Avista will be worth \$53 in cash, a 24% premium to the price the day before the announcement** was made. That



gives investors an all-time-high price and reverses what was shaping up to be a lackluster year of stock performance for the company.

**The bad news** is that Avista owners will no longer get a piece of the pie, stock-wise. Hydro One will be cashing out shareholders when the deal is finished. If you want back in, you'll have to buy Hydro One stock, but you'll have to ask your broker if they have access to the Toronto Stock Exchange, where shares are traded.

Losing out on ownership might be particularly aggravating since one of the most compelling reasons for owning any utility is the dividend. Avista has been steadily doling out pay raises for years, and until the merger announcement and share price spike, the yield was well over 3 percent.



The Motley Fool

Jul 27 2017, 2:56PM EDT. Powered by YCHARTS

A lot could unfold on this story before the deal closes, expected to happen about a year from now. Shareholders will continue to collect their dividend, though **the share price will likely hover** just below \$53. In the meantime, shareholders, hold tight for updates.

*Nicholas Rossolillo has no position in any stocks mentioned. The Motley Fool has no position in any of the stocks mentioned. The Motley Fool has a [disclosure policy](#).*

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## Today's Research Reports on Fortis Inc., TransCanada Corporation, Hydro One Limited, and Inter Pipeline Ltd.

Accesswire – Sep. 11, 2017

**RDI** has Initiated Coverage Today on:

Fortis Inc. (TSX: [FTS](#)) - <https://rdinvesting.com/news/?ticker=FTS.TO>

TransCanada Corporation (TSX: [TRP](#)) -

<https://rdinvesting.com/news/?ticker=TRP.TO>

Hydro One Limited (TSX: [H](#)) - <https://rdinvesting.com/news/?ticker=H.TO>

Inter Pipeline Ltd. (TSX: [IPL](#)) - <https://rdinvesting.com/news/?ticker=IPL.TO>

**Fortis** Inc.'s (TSX: [FTS](#)) stock edged 0.40% higher Friday, to close the day at \$45.67. The stock recorded a trading volume of 539,587 shares, which was below its three months average volume of 745,389 shares. In the last year, Fortis Inc.'s shares have traded in a range of 39.58 - 47.06. The share price has gained 15.39% from its 52 week low. The company's shares are currently trading above their 200-day moving average. Moreover, the stock's 50-day moving average of \$45.56 is greater than its 200-day moving average of \$44.57. Shares of the company are trading at a Price to Earnings ratio of 19.68. Shares of Fortis have gained approximately 10.15 percent year-to-date.

Access RDI's Fortis Inc. Research Report at: <https://rdinvesting.com/news/?ticker=FTS.TO>

On Friday, shares in **TransCanada** Corporation (TSX: [TRP](#)) recorded a trading volume of 986,293 shares, which was below the three months average volume of 1,344,590 shares. The stock ended the day 0.50% lower at 62.09. The stock is currently trading 4.83% below its 52-week high with a 52-week trading range of 57.36 - 65.24. The company's shares are currently trading below their 200-day moving average. Moreover, the stock's 50-day moving average of \$63.17 is greater than its 200-day moving average of \$62.80. Shares of the company are trading at a Price to Earnings ratio of 51.06. Shares of TransCanada Corporation have gained approximately 2.56 percent year-to-date.

Access RDI's TransCanada Corporation Research Report at: <https://rdinvesting.com/news/?ticker=TRP.TO>

**Hydro One** Limited's (TSX: [H](#)) stock **edged 0.30% lower** Friday, to close the day at **\$23.13**. The stock recorded a trading volume of 541,185 shares, which was below its three months average volume of 748,841 shares. In the last year, Hydro One Limited's shares have traded in a range of 21.32 - 26.50. The stock is currently **trading 12.72% below its 52-week high**. The company's shares are currently **trading below their 200-day moving average**. Moreover, the stock's 50-day moving average of \$22.73 is below its 200-day moving average of \$23.34. Shares

of Hydro One Limited are trading at a **Price to Earnings ratio of 21.34**. **Shares of Hydro One have fallen approximately 1.91 percent year-to-date.**

Access RDI's Hydro One Limited Research Report at: <https://rdinvesting.com/news/?ticker=H.TO>

[http://rdinvesting.com/reports?wpv-post\\_tag=h.TO&wpv\\_view\\_count=397](http://rdinvesting.com/reports?wpv-post_tag=h.TO&wpv_view_count=397)

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## Hydro One Ltd H-CA: Earnings Analysis: Q1, 2017 by the Numbers

by CapitalCube – August 2, 2017

<http://www.capitalcube.com/blog/index.php/hydro-one-ltd-h-ca-earnings-analysis-q1-2017-by-the-numbers-august-2-2017/?yptr=yahoo>

CapitalCube does not own any shares in the stocks mentioned and focuses solely on providing unique fundamental research and analysis on approximately 50,000 stocks and ETFs globally.

Hydro One Ltd. reports financial results for the quarter ended March 31, 2017.

We analyze the earnings against the following peers of Hydro One Ltd. – NextEra Energy Partners LP and Public Service Enterprise Group Inc (NEP-US and PEG-US) that have also reported for this period.

### Co. Profile:

Hydro One Ltd. engages in the **transmission and distribution of electricity**. It operates through the following segments: Transmission, Distribution, and Other Business. The Transmission segment owns, operates, and maintains electricity transmission networks. The Distribution segment manages the distribution system through the Hydro One Networks Inc. The **Other Business** segment provides telecommunications support for the transmission and distribution businesses and markets and **sells fiber optic capacity to telecommunications** carriers and customers with broadband network requirements. The company was **founded** on August 31, **2015** and is **headquartered** in **Toronto**, Canada.

Overview: <https://online.capitalcube.com/#!/stock/CA/TORONTO/H>

Its current Price/Book of 1.31 is about median in its peer group.

Operating performance is relatively good compared to its peers. The market currently does not expect high earnings growth relative to its peers but seems to expect the company to maintain its relatively high rates of return.

H-CA's median net profit margins and relatively high asset efficiency give it some operating leverage.

Compared with its chosen peers, the company's annual revenues and earnings change at a slower rate, implying a lack of strategic focus and/or lack of execution success.

H-CA's return on assets currently and over the past five years suggest that its



relatively high operating returns are sustainable.

The company's relatively low gross margin and median pre-tax margin suggest **operations may be constrained on pricing versus peers.**

While H-CA's revenues growth has been below the peer median in the last few years, the market still gives the stock a P/E ratio that is around peer median and seems to see the company as a long-term strategic bet.

The **company's level of capital investment is relatively low** and **suggests it is milking the business.**

**H-CA seems to be constrained by the current level of debt.**

## Highlights

- Summary numbers: Revenues of CAD 1658 million, Net Earnings of CAD 172 million.
- Gross margins narrowed from 20.40% to 18.28% compared to the same period last year, operating (EBITDA) margins now 30.04% from 31.67%.
- Year-on-year change in operating cash flow of 26.27% is about the same as the change in earnings, likely no significant movement in accruals or reserves.
- Narrowing of operating margins contributed to decline in earnings.

The table below shows the preliminary results and recent trends for key metrics such as revenues and net income growth:

Quarterly #'s	2017-03-31	2016-12-31	2016-09-30	2016-06-30	2016-03-31
Revenues (mil)	1658	1614	1706	1546	1686
Revenue Growth (%YOY)	-1.66	6.04	3.71	-1.09	-6.75
Earnings (mil)	172	133	237	156	214
Earnings Growth (%YOY)	-19.63	-6.99	23.44	14.71	-7.76
Net Margin (%)	10.37	8.24	13.89	10.09	12.69

EPS	0.28	0.21	0.39	0.25	0.35
Return on Equity (%)	1.65	1.27	2.32	1.53	2.09
Return on Assets (%)	2.71	2.12	3.85	2.55	3.5

H-CA's change in revenue this period compared to the same period last year of -1.66% is almost the same as its change in earnings, and is about average among the announced results thus far in its peer group, suggesting that H-CA is holding onto its market share. Also, for comparison purposes, revenues changed by 2.73% and earnings by 29.32% compared to the immediate last period.

#### Earnings Growth Analysis

The company's year-on-year decline in earnings was influenced by a weakening in gross margins from 20.40% to 18.28%, as well as issues with cost controls. As a result, operating margins (EBITDA margins) went from 31.67% to 30.04% in this time frame. For comparison, gross margins were 16.42% and EBITDA margins were 29.06 percent in the previous period.

#### Gross Margin Trend

Companies sometimes sacrifice improvements in revenues and margins in order to extend friendlier terms to customers and vendors. Capital Cube probes for such activity by comparing the changes in gross margins with any changes in working capital. If the gross margins improved without a worsening of working capital, it is possible that the company's performance is a result of truly delivering in the marketplace and not simply an accounting prop-up using the balance sheet.

H-CA's decline in gross margins has not produced any significant offsetting improvement in its working capital. This leads Capital Cube to conclude that the decline in gross margins are likely from operating issues and not trade-offs with the balance sheet. Working capital days are currently -57.57 days, compared to last year's level of -67.68 days.

H-CA's change in operating cash flow of 26.27 percent compared to the same period last year is about the same as its change in earnings this period. Additionally, this change in operating cash flow is about average among its peer group. This suggests that the company did not use accruals or reserves to manage earnings this period, and that, all else being equal, the earnings number is sustainable.

The company's decline in earnings has been influenced by the following factors: (1) Decline in operating margins (EBIT margins) from 20.40 percent to 18.28 percent and (2) one-time items that contributed to a decrease in pretax margins from 14.71 percent to 12.06 percent.

Investment Outlook – **Over Valued:**

Hydro One Ltd.'s price of CAD 22.34 is greater than CapitalCube's implied price of CAD 19.40.

<b>One year performance</b>	<b>-13.84%</b>
<b>One month performance</b>	<b>-3.83%</b>
<b>52 wk. Range</b>	<b>CAD 21.32 - 26.54</b>
<b>Total Shares Outstanding (Millions)</b>	<b>595.00</b>
<b>Listed Exchange</b>	<b>TORONTO</b>
<b>Market Cap (Millions)</b>	<b>CAD 13,301.00</b>

**Hydro One CEO Schmidt Sees Investor Appetite for \$5.3B Avista Buy**

by Gene Laverty – SNL Financial LC – Aug, 2017



Investors have snapped up securities being offered by **Hydro One Ltd.** to finance the company's **US\$5.3 billion takeover of** utility owner **Avista Corp.**, according to the Mayo Schmidt, CEO of the former Ontario government-owned electricity distributor, Left.

1. An offering of **C\$1.4 billion in convertible debentures** that will be used as part of the all-cash offer for Avista has been favorably received, Hydro One CEO Mayo Schmidt said on a conference call. Hydro One announced its bid for the Spokane, Wash.-based utility July 19, as it works to increase its presence beyond its home province.

"The convertible debentures offered in our C\$1.4 billion bought deal was oversubscribed with strong demand from both retail and institutional investors." Schmidt said on the Aug. 8 call. "The securities sold out within an extremely short period, a great testament to the investor support that we have received on the Avista transaction."

Hydro One was formerly owned by Ontario, which sold shares in the company in 2015 and hired Schmidt to guide the transition from government to public ownership. In the early days of his leadership, Schmidt vowed to grow earnings for the company through beneficial acquisitions. The positive initial response to the Toronto-based company's offerings in support of the deal will help meet its financial targets for the transaction, he said.

"Locking in our equity portion we will be able to realize mid-single-digit accretion in the first full year post-close, while retaining a strong investment-grade rating for Hydro One," Schmidt said. "Further, we anticipate an improvement in credit ratings at Avista."

The upbeat tone of the Avista discussion was offset by a quarter that saw **revenue slip to C\$1.37 billion from C\$1.55 billion a year earlier as unseasonably mild temperatures, storms and an undecided rate case hurt income. Hydro One's allowed rate of return was also hurt by an adjustment to reflect lower interest rates**, Schmidt said. **Diluted earnings per share slipped to 20 Canadian cents from 25 Canadian cents in the year-earlier quarter.**

"For the transmission segment we are expecting to receive a decision on our rate filing for 2017-2018 during the third quarter," Schmidt said. "We are already working to prepare the planned five-year [incentive rate-setting mechanism] filing in that segment early next year. We intend to continue to invest in rate base to drive earnings in both our transmission and distribution businesses."

**Schmidt said the Avista transaction should enable Hydro One to increase in dividend payments. That would benefit the company's largest shareholder, which is still the Ontario government.**

"The transaction is accretive to EPS and gives us further headroom for continued dividend growth, consistent with our long-term intention of continuing Hydro One's **dividend payout at 70% to 80% of earnings**," Schmidt said. "The combination gives us a strong position in the Pacific Northwest, which is a region of opportunity and experiencing growth."

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## **Ontario Liberals' Hydro Rate Cut Plan Did Little to Spark Voter Support, New Poll Suggests**

Canada Press – Mar. 15, 2017

<http://ca.pressfrom.com/news/canada/-18729-ontario-liberals-hydro-rate-cut-plan-did-little-to-spark-voter-support-new-poll-suggests/>



CBC – And earlier this month, Ontario's **New Democratic Party** leader Andrea Horwath released a [plan to reduce rates by as much as 30 per cent for some households](#)

The Ontario government's plan to dramatically cut hydro rates did little to boost support for the Liberals ahead of next year's provincial election, a new poll suggests.

The Mainstreet research poll, commissioned by Postmedia and released Wednesday, suggests the Ontario **Provincial Conservative party** remain in the lead despite the announcement, though more respondents say they are undecided about who they would vote for if an election were held today.

[Earlier this month, Premier Kathleen Wynne unveiled a plan that would slash residential and small business hydro bills by an average of 17 per cent and see billions in costs lifted off customers in the short term. It meant that some \\$28 billion in costs would be refinanced, with future ratepayers shouldering the interest.](#)

The move came as the Liberal government was found to be trailing the **PCs** by some 14 per cent in a range of polls, and nearly even with the **NDP**.

### **Move helped to shake support for PCs, poll finds**

According to the poll, which captured the views of 2,531 Ontarians on March 11-12, the move was received by 41 percent of respondents as a political one. Even so, 47 percent of those polled approved of the hydro plan, with 35 percent disapproving.





Left: Premier Kathleen Wynne brushes aside cynicism over hydro rate cut.

For comparison purposes only, a random sample of this size would yield a margin of error of plus or minus 1.95 percent. The poll was conducted by interactive voice response and included landline and cell line responses.

"Right now, it looks like Wynne has succeeded in expanding the number of Ontarians who might vote for her," Mainstreet Research executive vice-president David Valentin said. "But that doesn't mean they will."

**"Everywhere I go I hear from people worried about the price that they are asked to pay for hydro** and the impact that it has on their household budgets," Wynne said, making the announcement at Queen's Park almost exactly two weeks ago.

The Liberals don't appear to have garnered any new support following Wynne's announcement, the poll shows. In fact, it notes they dropped two percentage points within the margin of error.

"Anger over hydro prices doesn't just work like a light switch. You can't just turn it on and off," said Valentin. "I think if people begin to see a real tangible change in their hydro bills come September, then maybe we'll start to see more traction."

But with the number of undecided voters up among every demographic in the province, the numbers do indicate they've managed to "knock voters away from the opposition parties — for now."



**'Thee-way race' on question of hydro plan alone**

The largest jump in undecided voters came from southwestern Ontario, while the GTA's undecided rate was largely unchanged, it found. And among all those surveyed, the PCs posted a 10-point lead.

However, all bets were off **on the issue of Ontario's hydro plan alone**, the **poll found**, with PC leader Patrick Brown's lead disappearing altogether when respondents were asked who had the best plan for the province.

"When asked which provincial leader has the best Hydro plan, the results point to a **three-way race**," Valentin said.

"But I think the question is not how many people are going to base their vote just on who has the best hydro plan but has the premier been able to change the ballot question to not focus on hydro at all. If she can focus Ontarians on her plan for free tuition for low-income students in September or on upcoming job reform... she'll be doing a lot better."

The PCs have so far presented no plan for cutting hydro rates.

And earlier this month, Ontario's New Democratic Party leader Andrea Horwath released a plan to reduce rates by as much as 30 per cent for some households. The cornerstone of her plan was buying back shares of Hydro One sold by the government to private investors.

That plan appears to have resonated with voters, the poll found.

Horwath's score on the question of hydro alone was four percentage points higher than her score overall on voting intentions.

On Wednesday, Horwath issued what she called a challenge to Wynne: To table the details of her plan at the legislature for debate Monday.

"Show the people of Ontario what your \$40 billion dollar borrowing deal really means... People deserve to see it in black and white."

—

Staff Note: 3 Parties of Many have Seats in Ontario Legislature:

1<sup>st</sup> Party: Liberal Party led by Kathleen Wynne, Premiere

2<sup>nd</sup> Party: Progressive Conservative (PC) led by Tim Hudak

3<sup>rd</sup> Party: New Democratic Party (NDP)

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Holder Name	Portfolio Name	Source	Opt	Position ↓	% Out	Latest Chg
		All	All			
1. HER MAJESTY QUEEN ON...		SEDI		296,803,660	49.85	0
2. *BANK OF NOVA SCOTIA		ULT-AGG		18,482,964	3.10	-623,404
3. *IG INVESTMENT MANAGE...	Multiple Portfolios	MF-AGG		13,057,100	2.19	12,425,700
4. *ICI INVESTMENTS INC		ULT-AGG		9,887,977	1.66	914,831
5. ONTARIO POWER GEN		Early Wa...		8,378,349	1.41	0
6. *VANGUARD GROUP		ULT-AGG		6,576,131	1.10	1,801,044
7. *MAWER INVESTMENT MA...		MF-AGG		3,900,860	0.66	177,431
8. *MD FINANCIAL MANAGEM...	Multiple Portfolios	MF-AGG		3,822,474	0.64	1,794,602
9. *EMPIRE LIFE INSURANC...	Multiple Portfolios	MF-AGG		3,629,050	0.61	0
10. *BANK OF MONTREAL		ULT-AGG		3,606,019	0.61	7,774
11. *FMR LLC		ULT-AGG		3,245,127	0.55	-119,635
12. *BLACKROCK		ULT-AGG		2,554,121	0.43	44,484
13. *MANULIFE FINANCIAL C...		ULT-AGG		2,513,550	0.42	-1,389,484
14. *ROYAL BANK OF CANADA		ULT-AGG		2,502,414	0.42	101,300
15. *FRANKLIN RESOURCES		ULT-AGG		2,000,787	0.34	0
16. *NORGES BANK	Multiple Portfolios	MF-AGG		1,746,303	0.29	0
17. *SENTRY INVESTMENTS C...	Multiple Portfolios	MF-AGG		1,699,000	0.29	-82,000
18. *GOVMT PENSION INVST ...	Multiple Portfolios	MF-AGG		1,367,646	0.23	0
19. *TORONTO-DOMINION BA...		ULT-AGG		1,163,319	0.20	-23,300

**Hydro One Limited** – Ticker Symbol **H** on the Toronto Stock Exchange

483 Bay Street, South Tower (8<sup>th</sup> Floor)

Toronto, ON M5G 2P5, Canada

Tel: (416) 345-5000 – <http://www.hydroone.com>

**Yahoo Finance:**

Hydro One Limited, through its subsidiaries, operates as an electrical transmission and distribution utility in Ontario. The company owns and operates approximately 30,000 circuit kilometers of high-voltage transmission network and approximately 123,000 circuit kilometers of low-voltage distribution network; and 306 transmission stations, as well as 1,026 distribution and regulating stations. It serves approximately 1.4 million residential and business customers across the province of Ontario, and large industrial customers and local distribution companies. The company also offers broadband fibre optic capacity. Hydro One Limited was incorporated in 1998 and is headquartered in Toronto, Canada.

Next earnings call is scheduled for Aug. 7, 2017

Officer	Title	Pay
Mayo M. Schmidt	Chief Exec. Officer, Pres and Director	N/A
Gregory K. Kiraly	Chief Operating Officer	335.59k
James D. Scarlett	Chief Legal Officer and Exec. VP	333.53k
Ferio Pugliese	Exec. VP of Customer and Corp. Affairs	519.44k
Bruce M. Mann CPA	VP of Investor Relations	N/A

**Wells Fargo Fundamentals:**

**Market Cap 10.71 B**

**7,539 employees –**

**No Employee Stock Option Plan (ESOP)**

**No Dividend Reinvestment Plan (DRIP)**

**10,523 B in current LT Debt (Canadian Dollars?)**

**Commercial Paper Program**

**Earnings Growth = -12.95%**

**No Options Data Available**

**Caution: Well Fargo Securities Does NOT Cover this Company**

**No Consensus Rating Data Available**

**No Morningstar Rating Data Available**

Public Debentures				
Issue Date	Par Amount (\$ millions)	Maturity Date	Coupon	Currency
1-Jun-00	400	3-Jun-30	7.35%	CAD
<b>Total</b>	<b>\$400</b>			
Medium Term Notes				

Issue Date	Par Amount (\$ millions)	Maturity Date	Coupon	Currency
18-Oct-07	600 <sup>5</sup>	18-Oct-17	5.18%	CAD
09-Oct-13	750	09-Oct-18	2.78%	CAD
21-Mar-14	228 <sup>11</sup>	21-Mar-19	3 mo. CDOR + 35 bps	CAD
18-Nov-16	500	18-Nov-19	1.48%	CAD
30-Apr-15	350	30-Apr-20	1.62%	CAD
10-Mar-10	300	01-Jun-20	4.40%	CAD
24-Feb-16	500	24-Feb-21	1.84%	CAD
13-Jan-12	600 <sup>8</sup>	13-Jan-22	3.20%	CAD
24-Feb-16	500	24-Feb-26	2.77%	CAD
22-Jun-01	500 <sup>1</sup>	01-Jun-32	6.93%	CAD
31-Jan-03	385 <sup>2</sup>	31-Jan-34	6.35%	CAD
19-May-05	600 <sup>4</sup>	20-May-36	5.36%	CAD
13-Mar-07	400	13-Mar-37	4.89%	CAD
03-Mar-09	300	03-Mar-39	6.03%	CAD
16-Jul-09	500 <sup>6</sup>	16-Jul-40	5.49%	CAD
26-Sept-11	300	26-Sept-41	4.39%	CAD
22-Apr-03	315 <sup>3</sup>	22-Apr-43	6.59%	CAD
09-Oct-13	435	09-Oct-43	4.59%	CAD
06-Jun-14	350	06-Jun-44	4.17%	CAD
24-Feb-16	350	23-Feb-46	3.91%	CAD
19-Oct-06	325 <sup>7</sup>	19-Oct-46	5.00%	CAD
18-Nov-16	450	18-Nov-47	3.72%	CAD
22-Dec-11	225 <sup>9</sup>	22-Dec-51	4.00%	CAD
31-Jul-12	310 <sup>10</sup>	31-Jul-62	3.79%	CAD
29-Jan-14	50	29-Jan-64	4.29%	CAD
<b>Total</b>	<b>\$10,123</b>			
<b>Grand Total</b>	<b>\$10,523</b>			

#### Historical Quarterly Dividend Dates and Amounts

Date	Date	Date	Per Share
May 3, 2017	June 13, 2017	June 30, 2017	\$0.22
February 9, 2017	March 14, 2017	March 31, 2017	\$0.21
November 10, 2016	December 14, 2016	December 30, 2016	\$0.21

August 11, 2016	September 14, 2016	September 30, 2016	\$0.21
May 5, 2016	June 14, 2016	June 30, 2016	\$0.21
February 11, 2016**	March 17, 2016	March 31, 2016	\$0.34

All dividend declarations and related dates are subject to Board approval.

Note: November 5, 2015 initial public offering of common stock. The 34 cent per share dividend included 13 cents for the post IPO fourth quarter period of November 5 through December 31 2015, plus 21 cents for the full first quarter ending March 31, 2016.

### SNL Financial LC Corporate Profile:

Credit Ratings – Long-Term – Moody’s A3, S&P A, Negative Watch on Moody’s Hydro One Q1 **-19.4%** Drop in Net Income YOY – DFO Departed Apr 26, 2017 Minimal Coverage by SNL

#### Co. Self-Description:

Hydro One Inc. is a fully owned subsidiary of Hydro One Limited, Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, \$25 billion in assets and annual revenues of over \$6.5 billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks.

**TSX** – Toronto Stock Exchange – 9<sup>th</sup> largest exchange in world by capitalization  
Minimal Information re Hydro One

### Hydro One – Investor Relations Fact Sheet:

## Equity Analyst Coverage

### Brokerage Firms

Barclays Capital  
BMO Capital  
Canaccord Genuity  
CIBC World Markets  
Credit Suisse  
Desjardins Capital Markets  
Edward Jones  
Industrial Alliance Securities  
Laurentian Bank Securities  
National Bank Financial  
Raymond James Financial  
RBC Capital Markets  
Scotia Capital  
TD Securities

### Analysts

Ross Fowler  
Ben Pham  
David Galison  
Robert Catellier  
Andrew Kuske  
Mark Jarvi  
Andy Smith  
Jeremy Rosenfield  
Mona Nazir  
Patrick Kenny  
Frederic Bastien  
Robert Kwan  
Robert Hope  
Linda Ezergailis



Veritas Investment Research  
Wells Fargo Securities  
Fixed Income Coverage

Darryl McCoubrey  
Neil Kalton

### Brokerage Firms

BMO Capital  
CIBC World Markets  
RBC Capital Markets  
TD Securities

### Analysts

Manmit Pandori  
Joanna Zapior  
Matt Kolodzie  
Kathryn Nixon

Reuters – <http://www.reuters.com/article/us-scripps-net-int-m-a-discovery-commns-idUSKBN1AG173>

**Avista says if merger agreement between co, Hydro one is terminated**, co will be **required to pay** Hydro a termination fee of **\$103 million**.

## Hydro One Unit Completes Sale of Debentures to Fund Avista Acquisition

by Saad A. Sulehri – SNL Financial LC – Aug. 10, 2017

**Hydro One Ltd. subsidiary Ontario Inc.** has completed the sale of **C\$1.54 billion of its 4 percent convertible unsecured subordinated debentures due Sept. 30, 2027**, according to an Aug. 9 release.

Hydro One will use the sale proceeds of approximately **C\$909.3 million to fund** the company's previously announced **acquisition of Avista Corp.** The **remaining C\$441.7 million** of the proceeds will be used to **repay debts** under Hydro One's or its subsidiaries' existing revolving credit facilities, to finance short-term interest-bearing U.S. dollar securities and for other general corporate purposes.

The syndicate of underwriters was co-led by **RBC Capital Markets, CIBC Capital Markets and BMO Capital Markets.**

The **underwriters** have **used the overallotment option** to purchase an **additional C\$140 million of debentures to cover any overallotments.**

## Ontario Energy Minister Denies Quebec Electricity Deal Reports

by Gene Laverty – SNL Financial LC – Aug. 9, 2017

**Ontario Energy Minister Glenn Thibeault denied reports that the province had reached a draft agreement to buy electricity from neighboring Quebec at a rate that could threaten the viability of renewable and nuclear power in Canada's most-populous province.**

The press office of Thibeault's governing Liberal Party on Aug. 8 released an image of a letter dated July 27 from the minister to his Quebec counterpart, Pierre Arcand, stating Ontario's rejection of the proposed deal. Thibeault said the deal

between the Independent Electricity System Operator, which is responsible for acquiring power for the provincial grid, and government-owned Hydro-Québec would require unacceptable changes in his province's generation market.

"Specifically, the current HQ [Hydro-Québec] offer would require significant curtailment of domestic renewables [i.e. wind, hydro and solar power], increase surplus baseload generation [, or SBG,] and result in increased costs to Ontario ratepayers," the letter said. "HQ's proposal would increase average residential electricity bills by approximately [C]\$30 per year."

The letter was released via the Twitter account of the Ontario Liberal Press Secretary. It had not been posted to the Ontario Ministry of Energy's website as of Aug. 8. Montreal newspaper *La Presse* reported it had details of a June 22 draft agreement that said Hydro-Québec would enter into a 20-year agreement with the Ontario grid operator, known as the IESO, that would see the company export 8 TWh annually at an average price of 6.12 Canadian cents per kWh, compared with an average 4.8 Canadian cents/kWh average export price in 2016. The French-language article was posted to the newspaper's website.

In his letter Thibeault referenced a June proposal and said his government is preparing a term sheet for Quebec that would outline its objectives for a longer-term power agreement. Ontario already has a seven-year pact with Quebec that will see it buy 2 TWh from Hydro-Québec annually starting this year.

The Aug. 8 *La Presse* article drew swift response from organizations involved in Ontario's energy industry. ***The Ontario Energy Association***, which ***represents*** the largest companies in the province's energy sector, including utility owners Enbridge Inc. and ***Hydro One*** Ltd., said in a statement that it was ***disappointed*** that the government was ***engaged in secret negotiations for power purchases***,

"This procurement process ***lacks transparency***, contradicts the government's announced direction to move to a 'technology agnostic capacity auction' for purchasing future capacity, and seriously undermines the IESO's Market Renewal initiative," association CEO Vince Brescia said in the statement. "If this particular deal is pursued, Ontarians will not get the benefit of competition to ensure it is the best of all possible options for the province, and companies who have invested in Ontario and have employees here will not get the opportunity to provide alternatives."

The Society of Energy Professionals, a union representing engineers, scientists, supervisors and lawyers in Ontario's energy sector, said the C\$12 billion deal was biased toward Quebec and ***could lead to the early closure of Ontario Power Generation, Inc.'s Pickering Nuclear Generating Station and the loss of 4,500 jobs***.

"I certainly see Quebec's interests reflected in the deal," society president Scott Travers said in a statement. "Ontario's interests in this are not so clear. This is not a deal that advances Ontario's emission-reduction targets. It will increase costs to the ratepayer and hurt Ontario's economy. All of the costs and risks seem to fall on Ontario."

The Ontario Waterpower Association called on the government to increase domestic production of hydroelectricity before seeking an increase in imports.

"Ontario's existing waterpower facilities are a reliable, cost-effective and long-lasting source of electricity in this province," Paul Norris, president of the association, said in a statement. "We should be looking at all opportunities to maximize production from these facilities as a first priority."

Hydro-Québec is a major exporter of power to New York and other northeastern states.

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## **Ontario Joins Quebec/Calif. Carbon Pact**

by Gene Laverty – SNL Financial LC – Sep. 22, 2017

**Ontario will become the third member of the Western Carbon Initiative on Jan. 1, 2018, after Premier Kathleen Wynne signed an agreement to integrate and harmonize emissions-cap programs.**

**California** Gov. Jerry Brown and **Quebec** Premier Philippe Couillard, who represent the **other two jurisdictions** involved in the **cap-and-trade** scheme, were in Quebec City to ratify the pact on Sept. 22. The agreement will allow the three governments to hold **joint auctions** under the program. **Ontario** has **already raised** about **C\$1.5 billion** through emissions-credit **auctions** as part of the program.

"Climate change, if left unchecked, will profoundly disrupt the economies of the world and cause untold human suffering," Brown said in a statement announcing the signing. "That's the reason why California and Quebec are joining with Ontario to create an expanded and dynamic carbon market, which will drive down greenhouse gas emissions."

The addition of Ontario to the program, known as **WCI**, will raise the number of people covered by the initiative to more than 60 million, the statement said. In addition to the auction process the **agreement will harmonize regulations and reporting**.

Ontario raised C\$525.7 million in a Sept. 6 auction, the third of four it plans for this year. Those auctions were run by the WCI. During the WCI's most recent quarterly auction, held in August, allowances sold at their highest price ever, US\$14.75/tonne, nearly a dollar higher than the May auction.

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## **Canada Completes Undersea Power Link with Prince Edward Island**

by Gene Laverty – SNL Financial LC – Aug. 29, 2017

Canada's federal government said a C\$142.5 million undersea cable project to boost power reliability in Prince Edward Island has been completed.

The **Northumberland Strait Submarine Transmission System** project will boost transmission **capacity** into the island province and **reduce** its **reliance** on **diesel** and **oil-fired generation**, the federal government said in a statement. The **two 180-MW**

**underwater cables** that stretch **between New Brunswick and Prince Edward Island** were **energized** in a ceremony **Aug. 29**.

The system will bolster Prince Edward Island's access to power supplies from other regions of Canada's east coast. The Northumberland Strait project was announced in June 2015 and initially expected to be in service by the end of 2016 at a cost of C\$100 million. The **province** was **previously served** by a **pair of 100-MW cables that were almost four decades old**. The **new cables will be owned by the province and leased to Fortis Inc.-owned utility Maritime Electric** Co. Ltd.

"This new electricity connection will lower energy costs for residents and businesses, create jobs, and grow our economy so that we can continue to increase prosperity for all Islanders," **Prince Edward Island Premier Wade MacLauchlan** said in the statement.

The system spans 17 kilometers between Cape Tormentine; New Brunswick; and Borden-Carleton, Prince Edward Island. **Cables and lease them to Fortis**, the statement said. The **undersea system will supply as much as 75 percent of Prince Edward Island's power**.

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## **Today's Research Reports on Fortis Inc., TransCanada Corporation, Hydro One Limited, and Inter Pipeline Ltd.**

Accesswire – Sep. 11, 2017

**RDI** has Initiated Coverage Today on:

Fortis Inc. (TSX: [FTS](#)) - <https://rdinvesting.com/news/?ticker=FTS.TO>

TransCanada Corporation (TSX: [TRP](#)) -

<https://rdinvesting.com/news/?ticker=TRP.TO>

Hydro One Limited (TSX: [H](#)) - <https://rdinvesting.com/news/?ticker=H.TO>

Inter Pipeline Ltd. (TSX: [IPL](#)) - <https://rdinvesting.com/news/?ticker=IPL.TO>

**Fortis** Inc.'s (TSX: [FTS](#)) stock edged 0.40% higher Friday, to close the day at \$45.67.

The stock recorded a trading volume of 539,587 shares, which was below its three months average volume of 745,389 shares. In the last year, Fortis Inc.'s shares have traded in a range of 39.58 - 47.06. The share price has gained 15.39% from its 52 week low. The company's shares are currently trading above their 200-day moving average. Moreover, the stock's 50-day moving average of \$45.56 is greater than its 200-day moving average of \$44.57. Shares of the company are trading at a Price to Earnings ratio of 19.68. Shares of Fortis have gained approximately 10.15 percent year-to-date.

**Access RDI's Fortis Inc. Research Report at:** <https://rdinvesting.com/news/?ticker=FTS.TO>

On Friday, shares in **TransCanada** Corporation (TSX: [TRP](#)) recorded a trading volume of 986,293 shares, which was below the three months average volume of 1,344,590 shares. The stock ended the day 0.50 percent lower at 62.09. The stock is currently trading 4.83 percent below its 52-week high with a 52-week trading range of 57.36 - 65.24. The company's shares are currently trading below their

200-day moving average. Moreover, the stock's 50-day moving average of \$63.17 is greater than its 200-day moving average of \$62.80. Shares of the company are trading at a Price to Earnings ratio of 51.06. Shares of TransCanada Corporation have gained approximately 2.56 percent year-to-date.

**Access RDI's TransCanada Corporation Research Report at:**  
<https://rdinvesting.com/news/?ticker=TRP.TO>

**Hydro One** Limited's (TSX: [H](#)) stock **edged 0.30% lower** Friday, to close the day at **\$23.13**. The stock recorded a trading volume of 541,185 shares, which was below its three months average volume of 748,841 shares. In the last year, Hydro One Limited's shares have traded in a range of 21.32 - 26.50. The stock is currently **trading 12.72 percent below its 52-week high**. The company's shares are currently **trading below their 200-day moving average**. Moreover, the stock's 50-day moving average of \$22.73 is below its 200-day moving average of \$23.34. Shares of Hydro One Limited are trading at a **Price to Earnings ratio of 21.34**. **Shares of Hydro One have fallen approximately 1.91 percent year-to-date.**

**Access RDI's Hydro One Limited Research Report at:** <https://rdinvesting.com/news/?ticker=H.TO>

On Friday, shares in **Inter Pipeline** Ltd. (TSX: [IPL](#)) recorded a trading volume of 836,893 shares, which was below the three months average volume of 906,687 shares. The stock ended the day 0.48 percent lower at 22.76. The stock is currently trading 24.31 percent below its 52-week high with a 52-week trading range of 22.14 - 30.07. The company's shares are currently trading below their 200-day moving average. Moreover, the stock's 50-day moving average of \$23.63 is below its 200-day moving average of \$26.22. Shares of Inter Pipeline Ltd. are trading at a Price to Earnings ratio of 17.02. Shares of Inter Pipeline Ltd. have fallen approximately 23.21 percent year-to-date.

**Access RDI's Inter Pipeline Ltd. Research Report at:** <https://rdinvesting.com/news/?ticker=IPL.TO>

Our Actionable Research on **Fortis** Inc. (TSX: [FTS](#)), TransCanada Corporation (TSX: [TRP](#)), Hydro One Limited (TSX: [H](#)), and Inter Pipeline Ltd. (TSX: [IPL](#)) can be downloaded free of charge at **Research Driven Investing**.

### **Research Driven Investing (RDI)**

We are committed to providing relevant and actionable information for the self-directed investor. Our research is reputed for being a leader in trusted, in-depth analysis vital for informed strategic trading decisions. The nimble investor can leverage our analysis and collective expertise to execute a disciplined approach to stock selection.



Symbol

Symbol	Company	Date Released	Download
H.TO	Hydro One Limited	September 11, 2017	<a href="#">Download Report</a>

[http://rdinvesting.com/reports?wpv-post\\_tag=h.TO&wpv\\_view\\_count=397](http://rdinvesting.com/reports?wpv-post_tag=h.TO&wpv_view_count=397)

Email: [Matt.Muldoon@state.or.us](mailto:Matt.Muldoon@state.or.us)

Ticker Symbol: H.TO

Download Link: <http://rdinvesting.com/?wpdmdl=12131>

## Hydro One Ltd – H (Canada: Toronto)

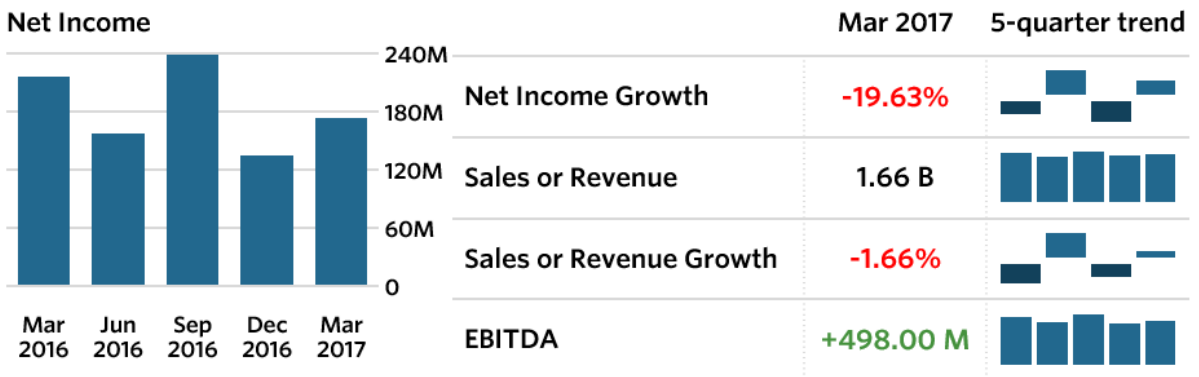
WSJ – Aug. 9, 2017

[www.wsj.com](http://www.wsj.com)

Financial – Hydro One Ltd.

### Financials

Hydro One Ltd.

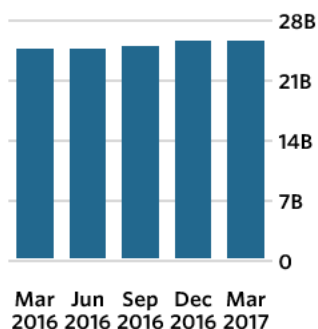


## Balance Sheet Hydro One Ltd. →

QUARTERLY

ANNUAL

### Total Assets



Mar 2017

5-quarter trend

Cash & Short-Term Investment

23.00 M



Total Debt

11.13 B



Total Liabilities

15.27 B



Total Shareholder's Equity

10.07 B



Book Value Per Share

16.22

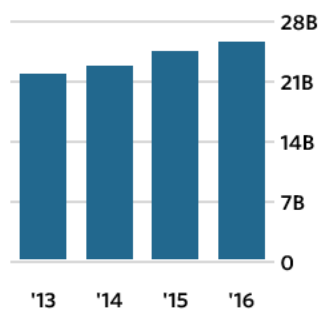
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## Balance Sheet Hydro One Ltd. →

QUARTERLY

ANNUAL

### Total Assets



2016

5-year trend

Cash & Short-Term Investment

50.00 M



Total Debt

11.15 B



Total Liabilities

15.26 B



Total Shareholder's Equity

10.02 B



Book Value Per Share

16.13

-

<p><b>Valuation</b></p> <p>P/E Ratio (TTM) <b>19.92</b></p> <p>P/E Ratio (including extraordinary items) <b>19.38</b></p> <p>Price to Sales Ratio <b>2.15</b></p> <p>Price to Book Ratio <b>1.46</b></p> <p>Price to Cash Flow Ratio <b>8.50</b></p> <p>Enterprise Value to EBITDA <b>11.94</b></p> <p>Enterprise Value to Sales <b>3.76</b></p> <p>Total Debt to Enterprise Value <b>0.43</b></p> <p>Total Debt to EBITDA <b>5.42</b></p> <p>EPS (recurring) <b>1.21</b></p> <p>EPS (basic) <b>1.21</b></p> <p>EPS (diluted) <b>1.21</b></p> <p><b>Efficiency</b></p> <p>Revenue/Employee <b>869,081</b></p> <p>Income Per Employee <b>98,156</b></p> <p>Receivables Turnover <b>6.62</b></p> <p>Total Asset Turnover <b>0.26</b></p> <p><b>Liquidity</b></p> <p>Current Ratio <b>0.53</b></p> <p>Quick Ratio <b>0.52</b></p> <p>Cash Ratio <b>0.02</b></p>	<p><b>Profitability</b></p> <p>Gross Margin <b>+19.51</b></p> <p>Operating Margin <b>+19.51</b></p> <p>Pretax Margin <b>+13.51</b></p> <p>Net Margin <b>+11.29</b></p> <p>Return on Assets <b>2.98</b></p> <p>Return on Equity <b>7.45</b></p> <p>Return on Total Capital <b>3.59</b></p> <p>Return on Invested Capital <b>3.88</b></p> <p><b>Capital Structure</b></p> <p>Total Debt to Total Equity <b>111.30</b></p> <p>Total Debt to Total Capital <b>52.67</b></p> <p>Total Debt to Total Assets <b>43.98</b></p> <p>Interest Coverage <b>2.85</b></p> <p>Long-Term Debt to Equity <b>104.99</b></p> <p>Long-Term Debt to Total Capital <b>47.61</b></p> <p>Long-Term Debt to Assets <b>0.40</b></p>
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Bond quotes are updated in real-time. Source: Tullett Prebon.

Currency quotes are updated in real-time. Source: Tullett Prebon.

Fundamental company data and analyst estimates provided by FactSet.

**A Former Miami Dolphin Wants More U.S. Deals for Hydro One**

by Allison McNeely, Bloomberg – Yahoo Finance – Nov. 21, 2017  
with assistance by Jim Polson

<https://finance.yahoo.com/m/480c3abe-b195-3e6f-bfe8-2a61a4ae65c2/a-former-miami-dolphin-wants.html>



**Hydro One** Ltd.'s **\$3.4 billion deal** to **purchase Avista** Corp. is **just the beginning** of a **strategy** that will see the Canadian utility expand into the U.S. market.

The Toronto-based electricity transmission and distribution company will **look to snap up other companies** in the **Pacific Northwest**, the region where Spokane, Washington-based Avista operates, said Hydro One Chief Executive Officer Mayo Schmidt, a former football player for the Miami Dolphins.

“There are **quite a number** of **organizations** of the **same size** and **complexity** of Avista in the arena that, as we think about over the course of the next years, there’s some potential,” he said in an interview at Bloomberg’s Toronto office last week. **Hydro One doesn’t have any specific targets in**

**mind**, he said.

In the Pacific Northwest, **Macquarie** Group Ltd. is **preparing to sell its stake in Puget** Energy Inc., the biggest utility in Washington state, people familiar with the matter said in June. Other publicly traded utilities in the region include **Idacorp** Inc. with a market value of \$4.9 billion, **Portland General Electric** Co., valued at \$4.4 billion and **NorthWestern** Corp., valued at about \$3 billion.

Hydro One’s foray south of the border is another sign the **company is moving away from its government-owned roots**, following its November 2015 initial public offering. The Avista purchase, its first acquisition outside of Ontario, will make Hydro One among the largest regulated utilities in North America, with assets totaling more than C\$32 billion (\$25 billion), if it receives final regulatory approval next year. The



company is already Canada’s largest electricity distributor with 1.3 million customers.

**Canadian companies** have been **charging into** the **U.S. energy market in search of growth in the past few years** with **Enbridge Inc.**, **TransCanada**

Corp. and **Fortis** Inc. all pulling off multi-billion deals.

Schmidt, 60, was appointed president and CEO of Hydro One in August 2015 to lead its transformation into a private company, albeit one that still has the Ontario government

as its biggest shareholder. A former wide receiver for the Dolphins who quit football in his first year to go into business, Schmidt steered Viterra Inc. through its sale in 2012 to Glencore Plc. His task has been to bring private-sector expertise to Hydro One, from marketing to business development to customer service, he said.

### Regulator Resistance

The utility has faced **criticism around high electricity prices and executive compensation** since the Ontario Liberal government sold a 13.6 percent stake of its shares through the initial public offering. The province now holds about 45 percent of Hydro One after two subsequent sales and doesn't intend to go below 40 percent.

Schmidt has had to address concerns that Hydro One can be a good corporate citizen while returning value to shareholders. The company lowered its accounts receivables by 46 percent since its IPO following an initiative to put low-income households on payment plans that allow them to spread out the cost of their bills, he said. **Disconnections** have also dropped by 68 percent.

But Hydro One recently saw key budgets in its transmission-revenue application lowered by its **regulator** on the grounds it had baked **expenses associated with privatization**, such as **dividend payouts** and **executive compensation**, into the application, **despite** the fact that **electricity-transmission capabilities** were **unchanged**.

### Shares Lag

Hydro One's request to have future tax savings from privatization returned to investors instead of ratepayers was also rejected. Hydro One has appealed that decision on the grounds that shareholders should get the benefit.

"Our advice says that they paid for it and therefore they should be entitled to it," Schmidt said. "We think that it is likely that they will review the tax opinions and they will come to an agreement."

**Hydro One shares have lagged their peers, gaining only about 9.5 percent since their trading debut compared with 19 percent for the S&P/TSX Composite Utilities index.** Share dilution, uncertainty around regulatory issues and the Avista acquisition, which some investors felt it paid too much for, have dragged on the stock. Schmidt said performance should smooth out next year, following the Ontario election and resolution of the regulatory and tax issues. The stock rose 0.3 percent to trade at C\$22.51 in Toronto at 9:48 a.m. on Tuesday.

As it looks ahead to future acquisitions, Hydro One will be making use of its strong balance sheet, about C\$700 million of annual net income, and A credit rating to grab opportunities, Schmidt said. The company sold C\$1.5 billion of convertible debentures, debt securities that can be converted to stock, to fund the Avista deal and preserve Hydro One's creditworthiness, he said.



“We have to **demonstrate** that we **can achieve** the **outcomes** that we’ve set forth to our investors, and we believe we will,” he said. “We think we’ll **be ready for other opportunities.**”

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 21, 2017

**AVISTA CORPORATION**

**Item 8.01 Other Events:** On November 21, 2017, **Avista** Corporation (Avista Corp. or the Company) announced the results of a special meeting of **shareholders** to **approve** the **proposed acquisition of the Company by Hydro One Limited** (Hydro One).

Avista Corp. shareholders approved the acquisition, with more than **77 percent** of the outstanding shares of common stock entitled to vote on the proposal voting **in favor** of the merger agreement.

Final results of the votes will be filed in a separate current report on Form 8-K once all the votes in favor, against and abstentions are tabulated.

The **Company expects** the **transaction** to **close** during the **second half of 2018** and upon closing, **shareholders will receive \$53.00 per common share**, other than Dissenting Shareholder Shares (as defined in the definitive merger agreement) and shares of Avista Corp. common stock that are owned by Hydro One or any of its subsidiaries. Upon closing, Avista Corp. will become a wholly-owned indirect subsidiary of Hydro One.

Applications for **regulatory approval** of the transaction are still **pending** with utility commissions in **Washington, Idaho, Oregon, Montana, and Alaska** as well as with the Federal Energy Regulatory Commission.

SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVISTA CORPORATION

(Registrant)

Date: November 21, 2017

/s/ Mark T. Thies

Mark T. Thies

Senior Vice President,  
Chief Financial Officer, and Treasurer

**Avista Corporation (AVA) 8-K Current Report Filed 12/17/2017**

Commission File No. 1-3701 – IRS EIN No. 91-0462470

Issuance of \$90.0 million of 3.91 percent First Mortgage Bonds (FMB) due in 2047

**On December 14, 2017, Avista** Corporation (Avista Corp. or the Company) **issued** and sold **\$90.0 million** of **3.91 percent first mortgage bonds due in 2047** pursuant to a bond purchase agreement with institutional investors in the **private placement** market. The new first mortgage bonds were issued under and in accordance with the Mortgage and Deed of Trust, dated as of June 1, 1939, from the Company to Citibank, N.A., trustee, as amended and supplemented by various supplemental indentures and other instruments.

In connection with the pricing of the first mortgage bonds in September 2017, the **Company cash settled five interest rate swap derivatives (notional aggregate amount of \$60.0 million)** and **paid a net amount of \$8.8 million**, which will be **amortized as** a component of **interest expense over the life of the debt**.

The **total net proceeds** from the sale of the new bonds will be **used to repay a portion** of the **borrowings outstanding** under the Company's **\$400.0 million** committed **line of credit**.

The **bonds have not been**, and **will not be, registered** under the Securities Act of 1933 or any state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

60<sup>th</sup> Supplemental Indenture to Citibank, N.A.

Signing: Mark T. Thies,

Senior Vice President, Chief Financial Officer, and Treasurer

THIS INDENTURE, dated as of the 1st day of December, 2017, between **AVISTA CORPORATION (formerly known as The Washington Water Power Company)**, a corporation of the State of Washington, whose post office address is 1411 East Mission Avenue, Spokane, Washington 99202 (the "Company"), and **CITIBANK, N.A., formerly First National City Bank** (successor by merger to First National City Trust Company, formerly City Bank Farmers Trust Company), a national banking association incorporated and existing under the laws of the United States of America, whose post office address is 388 Greenwich Street, 14th Floor, New York, New York 10013 (the "Trustee"), as Trustee under the Mortgage and Deed of Trust, dated as of June 1, 1939 (the "Original Mortgage"), executed and delivered by the Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions

thereof, this indenture (the "Sixtieth Supplemental Indenture") being supplemental to the Original Mortgage, as heretofore supplemented and amended.

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## **Avista Corp. (AVA), Hydro One Ltd (H)**

Co. Press Release – S&P Global Market Intelligence – Jan. 17, 2018

Hydro One and Avista receive first of several regulatory approvals for proposed merger.

Following Federal Energy Regulatory Commission approval, both companies look forward to continued progress toward closing the transaction in the second half of 2018.

Yesterday, Hydro One Limited ("Hydro One") (TSX: H) and Avista Corporation ("Avista") (NYSE: AVA) received **approval from** the Federal Energy Regulatory Commission (**FERC**) **on the merger** application filed on September 14, 2017.

"This marks another important milestone in bringing together Hydro One and Avista," said Mayo Schmidt, President and CEO, Hydro One. "As we continue on the journey to obtain the other necessary regulatory approvals, we are confident that bringing together our two companies will deliver long-term value."

In its order issued yesterday, FERC noted Hydro One's commitment to insulate Avista's transmission customers from costs associated with the transaction.

"We're pleased with FERC's decision. Together, Hydro One and Avista would like to reaffirm our commitments to our customers, employees and communities that will provide benefits well into the future," said Scott Morris, Chairman and CEO, Avista. "Along with the endorsement of the Avista shareholders, this decision signifies an important step in the process to complete the transaction."

Applications for regulatory approval of the transaction are still pending with utility commissions in Washington, Idaho, Oregon, Montana and Alaska.

Approval must be obtained from the Federal Communications Commission. Also required is clearance by the Committee on Foreign Investment in the United States, and compliance with applicable requirements under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, as well as the satisfaction of other customary closing conditions. The filings with these agencies will be made in the coming months.

### About Hydro One Limited

We are Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, \$25 billion in assets and annual revenues of over \$6.5 billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only five utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. We also provide advanced broadband

telecommunications services on a wholesale basis utilizing our extensive fibre optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

#### Forward-Looking Statements and Information

This press release may contain "forward-looking information" within the meaning of applicable securities laws. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "can", "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

#### About Avista Corporation

Avista Corporation is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. [Avista Utilities](#) is our operating division that provides electric service to 379,000 customers and natural gas to 342,000 customers. Its service territory covers 30,000 square miles in eastern Washington, northern Idaho and parts of southern and eastern Oregon, with a population of 1.6 million. Alaska Energy and Resources Company is an Avista subsidiary that provides retail electric service in the city and borough of Juneau, Alaska, through its subsidiary [Alaska Electric Light and Power Company](#). Avista stock is traded under the ticker symbol "AVA." For more information about Avista, please visit [www.myAvista.com](http://www.myAvista.com).

#### SOURCE Hydro One Limited

For further information, please contact:

Media: Natalie Poole-Moffatt, Vice President, Corporate Affairs,  
[media.relations@hydroone.com](mailto:media.relations@hydroone.com), 416-345-6868;

Investors: Omar Javed, Director, Investor Relations,  
[investor.relations@hydroone.com](mailto:investor.relations@hydroone.com), 416-345-5943;

Avista: Media: Casey Fielder,  
External Communications, [casey.fielder@avistacorp.com](mailto:casey.fielder@avistacorp.com), 509-495-4916;

Investors: Lauren Pendergraft, Investor Relations,  
[lauren.pendergraft@avistacorp.com](mailto:lauren.pendergraft@avistacorp.com), 509-495-2998

## **Avista Shareholders OK Acquisition by Hydro One**

by Rick Adair – Clearing Up – Dec. 1, 2017

**Avista shareholders overwhelmingly approved the company's acquisition by** Toronto-based **Hydro One**, with nearly 98 percent of common shares entitled to vote ratifying the proposal at a special meeting Nov. 21.

The companies announced the merger agreement on July 19, and expect it to close in the second half of 2018. Hydro One tendered \$53 per share for the deal, a 24-percent premium over the July 18 closing price.

Applications for regulatory approval of the transaction are still pending with utility regulators in Washington, Idaho, Oregon, Montana and Alaska, as well as with FERC.

Prior to entering into the merger agreement on July 19, Avista entertained **four other offers from unnamed companies between October 2016 and January 2017**, according to a chronology in the proxy statement to shareholders detailing the deal; Hydro One entered the scene on Feb. 23.

The **shareholders also narrowly affirmed – by 0.1 percent**, or 53,205 votes – a nonbinding advisory proposal to approve officer compensation contingent on the merger succeeding.

Although the compensation proposal was characterized as “nonbinding” and “advisory,” **Avista is contractually obligated to pay it if the merger is accomplished.**

The top three payouts would be **\$17 million for Scott Morris**, Avista chairman, president and CEO; **\$6 million for Mark Thies**, senior VP, CFO and treasurer; and **\$4.9 million for Marian Durkin**, senior VP, general counsel and chief commercial officer.

The compensation amounts are aggregates of severance pay, gross-up payments to offset income taxes, unvested performance awards, health benefits and outplacement expenses.

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## **Vermillion Named Avista Corp. President; Morris Remains Chairman, CEO**

by Rick Adair – Clearing Up – Dec. 1, 2017

**Dennis Vermillion** has been named **president** of **Avista Corp.**, effective Jan. 1, 2018, a post currently held by **Scott Morris**, who will **continue** as **chairman** and **CEO**, the Avista board of directors announced Nov. 21.

The **board** also **increased** its **membership by one**, to 11, and **named Vermillion** to fill the seat, **effective Jan. 1, 2018**.

**Vermillion** will **also continue** in his current positions as senior VP and **environmental compliance** officer for Avista, **president** of **Avista Utilities**, and



**chairman** of the **board** of Avista subsidiary **Alaska Electric Light and Power** Company.

Vermillion joined Avista in 1985, working in a variety of positions. He was named president and COO of Avista Energy in 2001, and remained in that post until 2007, when the unit was sold to Shell subsidiary Coral Energy, and he was named VP of energy resources at Avista Utilities.

Other changes in the Avista officer team include **Kevin Christie's** move **from VP of customer solutions to chief customer officer and VP of external affairs**, and the promotion of **Bryan Cox** from senior director of human resources operations **to VP of safety and HR** shared services.

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## **Avista Announces Changes in Its Officer Team and Board of Directors**

Co. Press Release – S&P Global Intelligence – Nov. 22, 2017

Avista Corp. (NYSE:AVA) today announced changes in its officer team and the appointment of a new director. These changes have been approved by the Board of Directors and will take **effect Jan. 1, 2018**.

**Dennis Vermillion** has been **named President of Avista Corp.** As president, Vermillion will retain his current duties while expanding his role and the impact he will have on the Company into the future. He has served as senior vice president of Avista Corp. and president of Avista Utilities since 2009. He **also** serves as **Chairman** of the **Board of Directors for Avista Corp. subsidiary Alaska Electric Light and Power Company. In addition**, Vermillion has been appointed as a **director** to the Avista Corp. board. **Scott Morris will continue as Chairman** and **Chief Executive Officer** of Avista Corp.

**Kevin Christie**, currently Vice President, Customer Solutions has been named **Vice President, External Affairs and Chief Customer Officer**. This change highlights Avista's continued emphasis on serving customers and more closely aligns with the activities within Christie's areas, including the rates and regulatory responsibilities previously overseen by **Kelly Norwood**, until his **retirement** earlier this month.

Joining the officer team as **Vice President, Safety and HR** Shared Services, is **Bryan Cox**. In this role, Cox will continue to heighten the focus on and commitment to safety throughout Avista and will lead safety strategy in addition to leading other HR functions. In this new role, he **will report to Senior Vice President** and **Chief HR Officer, Karen Feltes**, who will continue to lead HR and labor strategy in her current role.

Cox joined Avista in 1997, and most recently, served as Senior Director of HR Operations. He has held positions as Director of Transmission Operations, Director of Operations West, Director of Strategic Planning and Director of Gas Delivery.

“We are pleased to move Dennis and Bryan into these new roles and further align our leadership with the strategic needs and focus of the organization moving forward,” said Avista Corp. Chairman, President and Chief Executive Officer Scott Morris. “These are positive changes that leverage the strengths of our leaders and ensure we are well-positioned for the future. Dennis, Kevin and Bryan have deep leadership experience and a demonstrated commitment to Avista and those we serve that will continue to provide value for the Company and all of our stakeholders.”

**About Avista:**

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is the operating division that provides electric service to 379,000 customers and natural gas to 343,000 customers. Its service territory covers 30,000 square miles in eastern Washington, northern Idaho and parts of southern and eastern Oregon, with a population of 1.6 million. Alaska Energy and Resources Company is an Avista subsidiary that provides retail electric service in the city and borough of Juneau, Alaska, through its subsidiary Alaska Electric Light and Power Company. Avista stock is traded on the New York Stock Exchange under the ticker symbol "AVA." For more information about Avista, please visit [www.myavista.com](http://www.myavista.com).

**Contact:**

Media: Casey Fielder (509) 495-4916 [casey.fielder@avistacorp.com](mailto:casey.fielder@avistacorp.com)

Investors: Lauren Pendergraft (509) 495-2998 [lauren.pendergraft@avistacorp.com](mailto:lauren.pendergraft@avistacorp.com)

Avista 24/7 Media Access (509) 495-4174

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## **Innovative Funding and Financing Approaches**

### **BuildON 2017 Infrastructure Update**

<https://www.ontario.ca/page/buildon-2017-infrastructure-update#section-3>

Jurisdictions around the world are looking at how best to fund infrastructure. A mix of funding sources and tools is often used. General government revenues have been a traditional source of infrastructure funding and financing. User fees such as transit fares are also common in many jurisdictions, including Ontario.

Land value capture is gaining interest as a way of recognizing the increase in the value of privately owned land as a result of public investments like transit and roads. Land value capture is a general term that encompasses a range of tools intended to capture a portion of the increase in property values associated with investments in infrastructure, thus contributing to the funding of those investments or otherwise incentivizing investments. While such tools can help fund projects, accurately forecasting the increases in property values associated with particular investments is a complex undertaking, and careful design is required to manage risk. Joint development, where the private sector funds an asset in exchange for other development rights, is

another tool. In making efficiency-boosting upgrades and retrofits, asset owners can also earmark future operational savings to pay for the initial investments.

Ontario is also unlocking the value of existing assets to invest in new infrastructure. Under the **Trillium Trust Act, 2014**, all net revenue gains from the **sale of designated assets** are to be credited to the trust to support the Province's key **infrastructure priorities**.

The **Infrastructure Ontario Loan Program offers Ontario municipalities and other eligible public sector clients affordable, longer-term loans to renew and build public infrastructure**. Infrastructure Ontario has **advanced over \$7.7 billion in affordable long-term financing to public sector clients throughout Ontario**, representing **374 clients** (89 clients in Northern Ontario and 285 clients across all other regions) and **over 2,169 infrastructure renewal projects with a total project value of more than \$13.6 billion**.

In November 2016, the federal government announced the creation of the **Canada Infrastructure Bank**. The Bank presents an exciting opportunity for Ontario as it seeks to provide innovative funding and financing options that help more projects get built. The **Bank will invest \$35 billion in government capital** and will also aim to attract private sector capital to stimulate additional infrastructure investment. While details on the structure and investment approach of the Bank are still forthcoming, Ontario will continue to work with federal counterparts to ensure the Bank complements Ontario's existing approach to infrastructure procurement, including the application of innovative financing tools such as the **AFP model**.

Ontario is assessing its current approaches to funding, as well as innovative approaches from other jurisdictions. The ultimate mix of tools will reflect key public policy goals as well as the nature of the assets themselves.

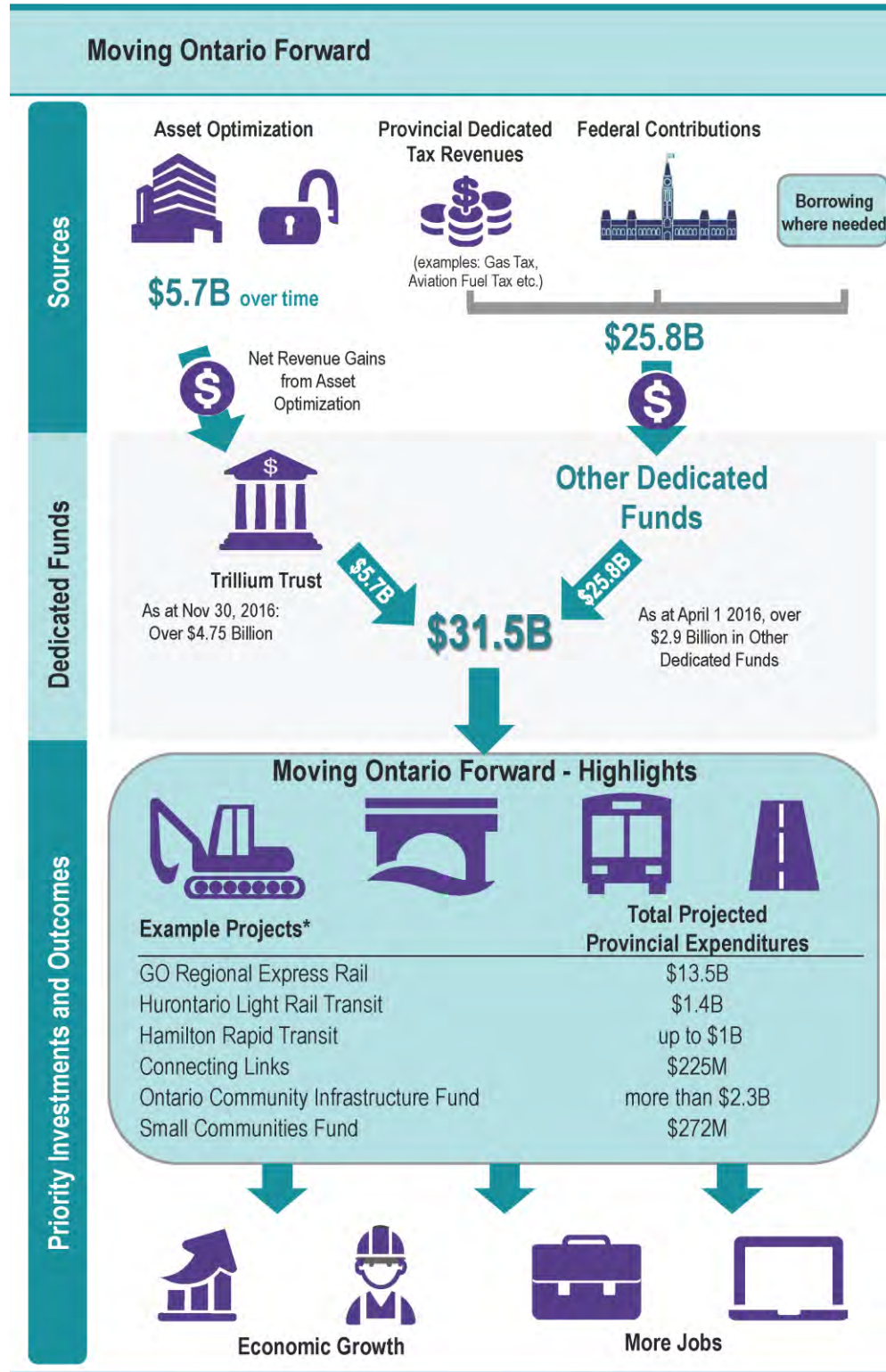
### **Update on Moving Ontario Forward**

In the 2014 Budget, the Province announced that nearly **\$29 billion** would be made available **for investment in its Moving Ontario Forward plan for public transit, transportation, and other priority infrastructure projects**, of which \$3.1 billion represented dedicated funds projected to be provided as part of the government's asset optimization strategy. In the 2015 Budget, the government announced it was moving forward with **broadening the ownership of Hydro One as part of its asset optimization strategy**, and increased its asset optimization target by \$2.6 billion. Investments in Moving Ontario Forward increased by an equivalent amount, from nearly \$29 billion to \$31.5 billion. In fall 2015, the government moved forward with the first phase in broadening ownership of Hydro One, and the Province remains on track to generate net revenue gains of \$5.7 billion from asset optimization over time.

### **Trillium Trust Update: Progress So Far**

In August, the government dedicated **\$3.2 billion** in net revenue gains to the **Trillium Trust** from the **sale of Hydro One** shares in 2015. In October, the Province

credited to the Trillium Trust \$246 million in net revenue gains from the sale of the LCBO head office lands.



The government previously credited \$1.35 billion in net proceeds from the sale of the Province's shares in General Motors, bringing the total balance of the Trillium Trust to more than \$4.75 billion.

The government **will also move forward** with a regulation to credit the Trillium Trust with the net revenue **gains from the secondary offering of Hydro One shares.**

The plan will support the development of an integrated transportation network across the province, manage congestion,

connect people, and improve the economy and quality of life.

\*Includes projects with anticipated federal contributions.

## **Hydro One Falls as Investors Sour on Avista's \$3.4 Billion Price**

by Mark Chediak and Kevin Orland – Bloomberg Markets – July 19, 2017

with assistance by Maciej Onoszko and David Scanlan

- ❖ exposes Canadian company to U.S. regulatory issues
- ❖ Utility follows Fortis in seeking higher returns abroad

Hydro One Ltd. fell the most in eight months after agreeing to buy U.S. power supplier Avista Corp. in a \$3.4 billion deal that analysts said is too costly and exposes the Canadian energy company to regulatory hassles.

The merger will add Avista's energy production and distribution operations in Washington, Idaho, Oregon and Alaska to Hydro One's transmission network in Ontario, creating one of North America's largest regulated utilities, with assets totaling C\$32 billion (\$25.4 billion). Avista stockholders will receive \$53 a share in cash, 24 percent above the market close Tuesday.

The takeover – following multibillion-dollar deals by Enbridge Inc., TransCanada Corp. and Fortis Inc. – is another testament to **Canada's hunger for U.S. energy assets offering higher returns**. But the **price** was **too high for some analysts**, with Hydro One paying about 11.2 times Avista's earnings before interest, taxes, depreciation and amortization, more than the 9.3 average multiple for comparable deals, according to data compiled by Bloomberg. Hydro One plans to issue \$1.1 billion of equity and \$2.6 billion of debt to finance the deal.

**“Hydro One is paying the price to gain exposure to U.S. markets,”** Shahriar Pourreza, an analyst at Guggenheim Securities, said in a note Thursday. The “very rich valuation” is “likely a near-term anomaly.”

Hydro One fell as much as 5.4 percent to C\$21.32 in Toronto, the biggest intraday decline since Nov. 10, before paring losses. Avista rose 20 percent to \$51.83 in New York.





While Pourreza said the deal will likely close, it will require the approval of several agencies, including utility commissions in Washington, Oregon, Idaho, Alaska and Montana, and the U.S. Federal Energy Regulatory Commission. **Washington**, where the bulk of Avista's assets are located, is a "**challenging jurisdiction**," he said.

The companies expect to complete the merger by the end of the second quarter of next year. They also said they don't expect to cut jobs as a result of the transaction.

The Avista purchase is the largest deal for Hydro One since the Toronto-based utility went public in 2015, selling shares at C\$20.50 apiece as part of the largest initial public offering in 15 years.

The **Ontario government**, the **largest shareholder**, **sold stock to raise money for infrastructure projects and to pay down debt**. The government most recently disclosed another share sale in May, reducing its stake in Hydro One to just under 50 percent.

The government's stake may fall further after Hydro One completes a sale of \$1.1 billion in convertible debentures to help finance the Avista deal. These debt securities can be converted into stock. The company has agreed to sell the debentures to a group of banks co-led by RBC Capital Markets, CIBC Capital Markets and BMO Capital Markets.

Using this much debt is "typical" in cross-border deals "where you have a much larger company that can use their balance sheet to borrow and make a cash acquisition," said Kit Konolige, a utilities analyst for Bloomberg Intelligence. "There are only a handful of Canadian utilities, so if you want to grow, then U.S. utilities are one major arena where you would look to go."

Hydro One's Schmidt said in a call with investors Wednesday that the company expects Standard & Poor's to confirm an investment-grade credit rating. The rating may

be lowered one notch to A-, the fourth level above junk status, primarily because the company is entering a new market, he said.

Moelis & Co. LLC is the exclusive financial adviser to Hydro One. BofA Merrill Lynch is Avista's. Bracewell LLP is serving as Hydro One's legal adviser. Kirkland & Ellis is Avista's.

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## Hydro One Had 'Very Positive' Regulatory Meetings on Avista Deal, CEO Says

by Colby Bermel – SNL Financial LC – Nov. 7, 2017

The leaders of Hydro One Ltd. and Avista Corp. have had "very positive, very welcoming" meetings with regulators and governors overseeing their proposed \$5.3 billion merger, Hydro One President and CEO **Mayo Schmidt** said Nov. 7.

Speaking at the Edison Electric Institute Financial Conference in Lake Buena Vista, Fla., Schmidt said he **and** Avista Chairman, President and CEO **Scott Morris** have **visited with four of the five of the utilities regulators** with jurisdiction over Avista, though he did not specifically name the states. They have also **met with governors "in a couple of states,"** Schmidt added. Avista is headquartered in Spokane, Wash., and has assets in Washington, Idaho, Oregon, Montana and Alaska. It serves about 600,000 electricity and natural gas customers.

"I gotta say that not only was Scott a champion in terms of commentary of his vision for the organization collectively with Hydro One, but he is a very, very strong supporter of the outcome," Schmidt said. "And I think his key point was, **'Could Avista have remained as a standalone organization in the next year, the next five years?'** And the answer is certainly, **probably. But the opportunity** to combine with an organization with shared values and, frankly, the same type of geographies and incremental value creation was highly **compelling** to an organization that had 129 years of history."

"So when Scott and I visited with the commissioners, not only a combination of his support but the idea of bringing the strength of our collective balance sheets to all of the five states was certainly highly attractive, we believe, for the commissioners," Schmidt continued. "And **not that there won't be certainly testing in the net benefits side of the transaction**, but it was very positive, very welcoming, and we believe the communication was very much along the lines of an efficient process toward getting through the regulatory process for the best interest of both organizations."

The two companies in October submitted necessary materials to regulators, Schmidt said, and are beginning to receive questions from them. **"We think some time by early of mid-summer is that we would be hopeful to get through the regulatory processes,"** he added.

Schmidt said on an Aug. 8 earnings call that investors have snapped up securities being offered by Hydro One, a Toronto-headquartered electric transmission and distribution utility serving much of the province of Ontario, to finance its Avista takeover.



## The Single Biggest Risk for Hydro One Ltd. Rears its Ugly Head, Again

by Chris MacDonald – The Motley Fool – Nov. 2, 2017

I, for one, am still a believer in the income-generation power (pardon the pun) and long-term capital appreciation ability of regulated utilities. With a regulated utility comes a sense of security and long-term stability — factors investors hoping for a relatively smooth stream of future cash flows prefer.

That said, **some regulated utilities** such as **Hydro One Ltd. (TSX:H)**, have **experienced weakness** this year on **investor concerns** that **raising utilities rates over time** may prove to be much **more difficult than anticipated following** the company's initial public offering (**IPO**) approximately **two years ago**.

Hydro One's IPO was one which brought newfound optimism to a sector which has remained relatively subdued in terms of growth expectations in recent years. With a large percentage of Canadian power generation still government owned and operated, the move for the Ontario government to cede control of the power generation of the country's most populous province was a move which brought investors ready to reap the long-term benefits of privatization in an industry which many saw as poorly run. After all, taking some of the best minds in the industry, attracting them to the utility, and generating synergies from the IPO should be easy, right?

The concept of the privatization of public utilities is one which, in my opinion, should continue to be given credence by investors. The art of streamlining operations, exploring strategic opportunities and partnerships, and attracting private money should, in theory, lead to growth above and beyond what a government-run monopoly could provide.

That said, a recent decision from the Ontario Energy Board (**OEB**) in which the regulator has **stymied Hydro One's plans** of **increasing rates** by 0.5 percent and 4.8 percent in 2017 and 2018, respectively, has brought concerns that the utility may not be as readily able to raise rates at will as once was thought to be the case.

The **regulator went one step further in its assessment of Hydro One's proposed rate increases, linking the increases to unnecessary improvements in infrastructure and compensation package increases** — two factors which may continue to be put under the microscope as the Ontario **government** attempts to make good on its **pledge to create** a "**fair**" Ontario. With Hydro One's profitability in direct conflict with a **government mandate to lower rates for consumers**, investors will need to assess what price makes sense for Hydro One's shares — a **share price** which has **dipped** nearly **5 percent year to date already**.

### Bottom line

Hydro One is **likely** to experience continued **medium-term volatility** given the **Ontario government's** need to fulfill its **mandate** to **lower energy bills** for the **average Ontario resident, while simultaneously raising revenue by issuing new shares** in

**secondary offerings over time.** As a long-term holding, Hydro One may indeed make sense. I would wait for a more attractive entry point, however.

## Hydro One Says FERC Approval for Avista Buy

Could Come in January 2018

by Gene Laverty – SNL Financial LC – Nov. 10, 2017




**Hydro One** Ltd.'s US\$5.3 billion acquisition of Washington utility owner **Avista** Corp. is expected to move closer to completion with **FERC approval as early as January**, President and CEO Mayo Schmidt said.

Left: Mayo Schmidt


As federal approval for the transaction nears, Schmidt has been meeting with regulators of the five states in which Avista operates. He said on a conference call that he has already met with members of four of the five state commissions and plans to meet the final one within two weeks. Avista is headquartered in Spokane, Wash., has assets in Washington, Idaho, Oregon, Montana and Alaska.

Toronto-based Hydro One, which was formerly owned by the Ontario government, is trying to drum up regulatory support for the deal by touting cost savings and consumer benefits for electricity and gas customers. Schmidt, a former commodities executive with a background in acquisitions, is looking to expand Hydro One beyond Canada's stagnant utilities market. Ontario's government is still the biggest shareholder in the company.

"This is a strategic acquisition of a high-quality, regulated transmission and distribution utility, top leadership team in the U.S. Pacific Northwest, which will place Hydro One in the Top 20 North American utilities," Schmidt said on the Nov. 10  call to discuss third-quarter 2017 earnings. "FERC approval is likely to proceed as no comments or requests for formal intervention were received by the deadline and, given the lack of opposition, the decision may be made in early January 2018."

Schmidt said Hydro One's efforts to turn around customer service problems under government ownership and its strong financial position have helped sell the deal to individual states. The company is just starting to work through detailed questions about Hydro One's purchase of Avista, which is expected to close in the second half of 2018.

"Bringing an organization with not only the good reputation but also the balance sheet that Hydro One has is been seeing as highly attractive to the states, both the governors that I've met, and also the state commissioners," Schmidt said. "Mid-September and October was a period of time where there were a lot of questions being answered."

Separately, Hydro One  reported third-quarter adjusted EPS of 40 Canadian cents, compared with adjusted EPS of 39 Canadian cents in the third quarter of 2016.

The result beat the S&P Capital IQ consensus normalized EPS estimate of 37 Canadian cents. Revenues for the period ended Sept. 30 dropped to C\$1.52 billion, from C\$1.71 billion a year ago, with the transmission segment contributing C\$471 million and the distribution segment contributing C\$1.04 billion during the most recent quarter.

The company took into account a **transmission revenue ruling from the Ontario Energy Board** that it is disputing. **Hydro One took the issue to a provincial court in October to clarify tax issues surrounding the government's sale of the utility to the public.**

"The revenue recorded this quarter for the transmission decision was calculated using a revenue requirement that was inclusive of 100% of its tax savings resulting from the Government of Ontario's decision to sell its ownership interest in Hydro One," Senior Vice President of Finance and acting CFO Chris Lopez said on the call

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## How Did Hydro One Limited's (TSX:H) 6.67% ROE Fare Against The Industry?

by Scott Perkins – Simply Wall St. – Yahoo Finance – Nov. 3, 2017

<https://finance.yahoo.com/news/did-hydro-one-limited-tsx-194109186.html>



**Hydro One** Limited's (TSX:H) **most recent return on equity** was a **substandard 6.67% relative to its industry performance of 7.51% over the past year.**

Though H's recent performance is underwhelming, it is useful to understand what ROE is made up of and how it should be interpreted. Knowing these components can change your views on H's below-average returns.

Metrics such as financial leverage can impact the level of ROE which in turn can affect the sustainability of H's returns. Let me show you what I mean by this.

### Peeling the layers of ROE – trisecting a company's profitability

Return on Equity (ROE) is a measure of H's profit relative to its shareholders' equity. It essentially shows how much H can generate in earnings given the amount of equity it has raised. Generally speaking, a higher ROE is preferred; however, there are other factors we must also consider before making any conclusions.

### Return on Equity = Net Profit ÷ Shareholders Equity

Returns are usually compared to costs to measure the efficiency of capital. H's cost of equity is 12.87%. Given a discrepancy of -6.20% between return and cost, this indicated that H may be paying more for its capital than what it's generating in return.

**ROE can be dissected into three distinct ratios: net profit margin, asset turnover, and financial leverage.** This is called the **Dupont Formula.**

### Dupont Formula

ROE = **profit margin** × **asset turnover** × **financial leverage**

ROE = (annual net profit ÷ sales) × (sales ÷ assets) × (assets ÷ shareholders' equity)



ROE = annual net profit ÷ shareholders' equity



Hydro One performance as of Nov. 4<sup>th</sup>, 2017

Essentially, **profit margin** shows **how much money the company makes after paying for all its expenses**. **Asset turnover** reveals **how much revenue** can be **generated from H's asset base**. The most interesting ratio, and reflective of sustainability of its ROE, is **financial leverage**. Since **ROE can be artificially increased through excessive borrowing**, we should check H's historic debt-to-equity ratio. Currently the **debt-to-equity ratio** stands at a balanced **112.43%**, which means its ROE is driven by its **ability to grow its profit without a significant debt burden**.



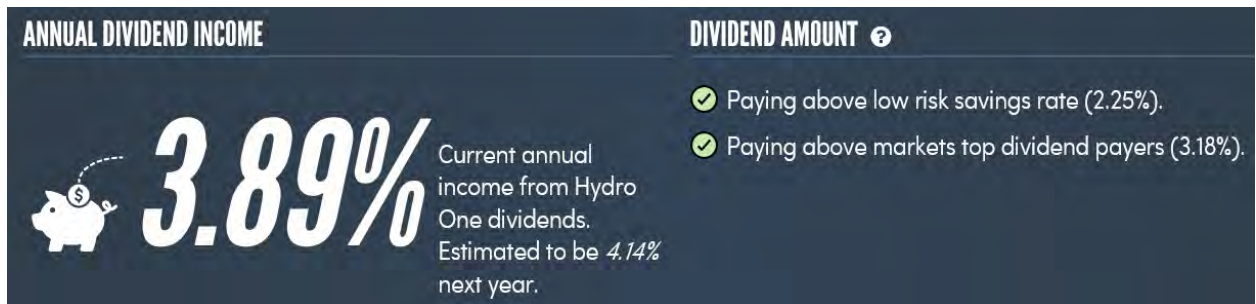
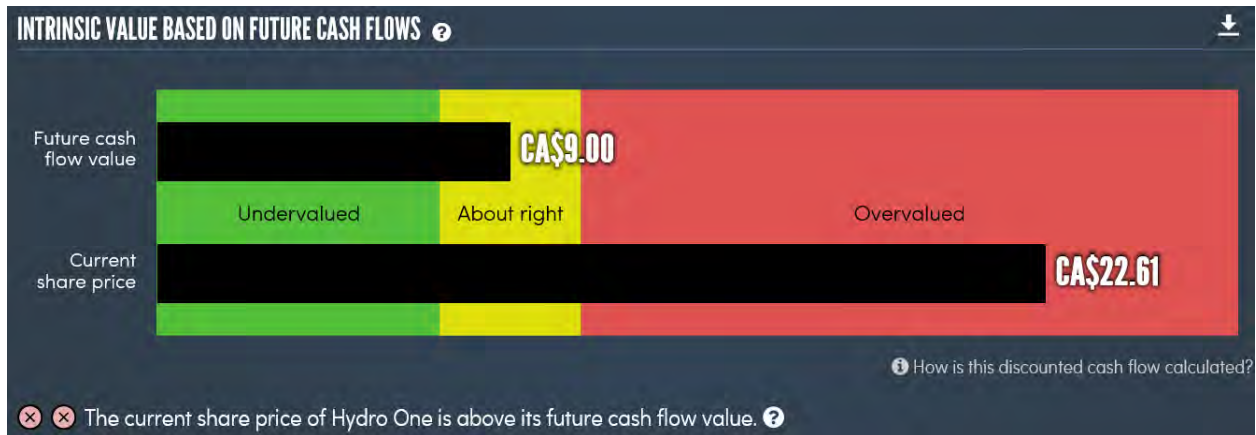
H's below-industry ROE is disappointing, furthermore, its returns were not even high enough to cover its own cost of equity. Since its existing ROE is not fueled by

unsustainable debt, investors shouldn't give up as H still has capacity to improve shareholder returns by borrowing to invest in new projects in the future.

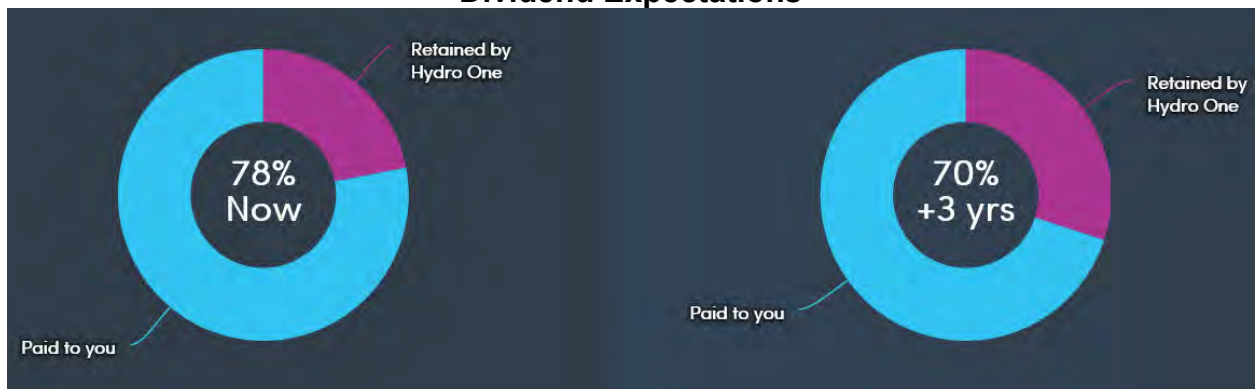
### Snowflake Charts

H1 Left Average Dividend with Moderate Growth Potential vs. Fortis Right Top Dividend Track Record.

#### Other Looks at Hydro One Follow:



#### Dividend Expectations





## Hydro One Takeover of U.S. Company a Big Negative for Ontarians

by Parker Gallant – The Financial Post – Aug. 10, 2017



**Thibeault** and Wynne believe it's wrong for the Province to borrow \$4 billion to reacquire Hydro One shares, but OK for **Hydro One to borrow \$5.1 billion while diluting the province's interest in it.**

On March 28th, a **few weeks after Ontario Premier Kathleen Wynne** and **Energy Minister Glenn Thibeault** held their press conference about the "**Fair Hydro Plan**," **Andrea Horwath**, leader of the **NDP**, **delivered** a **motion** to the Ontario legislature **calling for a buy-back of Hydro One.**

The motion failed and later resulted in **Thibeault calling** the **NDP motion "short on details and long on hollow promises."** He noted that many of the NDP's proposals "rely on a vague and yet-to-be-determined 'expert panel' that will be convened in the future." Buying back \$4 billion in Hydro One shares is **costly**, the energy minister added, and "will **not take one cent off electricity bills.** What it will do is **send billions to the stock market instead of making much needed infrastructure investments in communities across Ontario.**"

**Fast forward** to **July 19th**, when **Thibeault** was **beside himself with excitement** because **Hydro One** will be **paying US\$5.3 billion** (\$6.7 billion) to **purchase Avista**, a **much smaller** electricity and natural gas **utility** headquartered in Spokane, Wash., **3,200 kilometres from Toronto.** Hydro One offered a 24-per-cent **premium** on the traded value of the stock price over its July 18th closing and, based on Avista's 2016 annual profit, it will **take Hydro One 38 years to recoup the \$6.7-billion price tag.** Thibeault's press release announcing the takeover carried this obtuse claim: "It is to the shared benefit of Hydro One's customers, employees and shareholders to see the company strengthened and growing." He also stated that, "In particular, we welcome the fact that this proposed acquisition will not impact the rates that Ontario customers pay. Neither will it have any impact on local jobs."



***The privatization of Hydro One and dilution of the province's shareholding keep its debt off of the province's balance sheet***

Based on that press release, and the requirement to get shareholder approval, we must assume Thibeault gave his blessings to the acquisition and **dilution** of the **province's holdings**, which will **decline from 49 per cent to 44 per cent**. He presumably also blessed **Hydro One's borrowing** program, which will **add US\$2.6 billion** (\$3.7 billion) in **new debt, not including another \$1.4 billion via a convertible debenture paying 12 per cent per annum in interest prior to its conversion to common shares**.

Thibeault and Wynne believe it's **wrong** for the province to **borrow \$4 billion**, as the NDP suggested, to **reacquire Hydro One shares, but OK** for Hydro One to **borrow \$5.1 billion while diluting the province's interest in it**. The privatization of Hydro One and dilution of the province's shareholding keep its debt off of the province's balance sheet.

So, is the acquisition all that **Thibeault** and Hydro One's CEO, **Mayo Schmidt**, claim it is or is the **spin** meant to **distract ratepayers** into believing the takeover will lessen pressure on future rate increases? Let's examine a few facts:

- The **acquisition** of Avista **will result in Hydro One's debt (short and long term) increasing by 46 per cent, or \$5.1 billion, to reach in excess of \$16 billion. Should interest rates increase Hydro One will submit an application to the Ontario Energy Board (OEB) for a rate increase**, an accepted OEB process.
- Hydro One's 2017 first-quarter report notes it currently has five rate applications awaiting approval by the OEB and plans to file another nine **rate applications** over the next four years.
- **Washington**, where Avista's electricity **ratepayers** are located, pays the **second-lowest rates of any state on average**, with all-in residential rates of 9.43 cents/kWh as of April 2017. **Only Louisiana** can claim **lower** rates at an average of 9.35 cents/kWh (U.S. rates expressed in U.S. currency).
- Based on the information in Avista's 2016 annual report, it appears the all-in cost of a kilowatt-hour delivered to its ratepayers was 8.68 cents/kWh.
- **Hydro One, on the other hand**, has the **highest rates in Canada and in most of North America**. It is **difficult to see how Washington ratepayers will see any benefit from this acquisition**. Based on the data supplied by **Hydro One** to the OEB for 2015, its **average cost of a kilowatt-hour** was **almost double Avista's** at 17 cents/kWh.

**It is difficult to believe several of the claims in Hydro One's news release**

It is difficult to believe several of the claims in Hydro One's July 19th news release. As an example, it states the acquisition of Avista "will be **accretive to earnings per share** in the **mid-single digits in the first full year of operation**." Politicians and

regulators in Washington may be tougher than those in Ontario when Hydro One seeks a rate increase! It gains increases in Ontario from the OEB and via political tampering, which recently resulted in a requirement that taxpayers pick up a part of Hydro One's **bad debt allocations** via the **Ontario Electricity Support Program**.

Another quote is also a stretch: "**Efficiencies** through **enhanced scale, innovation, shared IT systems** and **increased purchasing power** provides cost savings for customers and better customer service, complementing both organization's commitment to excellence." This claim comes from the company that had the distinction of being singled out by **Ontario's ombudsman** for issuing over **100,000 faulty hydro bills**. Moreover, last October Global TV found Hydro One had almost **226,000 clients in arrears**, which represented **20 per cent of all its residential clients** and **40 percent of all ratepayers in arrears in the province**.

Ratepayers and taxpayers should view the Hydro One takeover of Avista as negative. To re-purpose Thibeault's comment to the NDP leader, **this action "will not take one cent off electricity bills."**

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## **Hydro One, Avista refile application for proposed merger in Alaska**

by Monica Hinka – Regulatory Research Associates (RRA)

An Affiliate of S&P Global Market Intelligence – Nov. 22, 2017

**Hydro One** Ltd. and **Avista** Corp. **filed** a **new application** with the **Regulatory Commission of Alaska** on **Nov. 21** concerning the proposed acquisition of Alaska Electric Light and Power Co.'s ultimate parent by Hydro One (Docket No. U-17-097).

This is the **second attempt** by the joint applicants **after** the Regulatory Commission of Alaska, or **RCA**, effectively **rejected** the **merger** and **closed** the **docket Nov. 8**. The **commission dismissed** a **joint motion to waive** a **requirement** that **Hydro One obtain** an **Alaskan business license** to **operate** and **conduct business in the state**.

The **application mirrors** the **initial application** filed by the two companies on Sept. 14, **but this time** the companies **passed on** the **request** to **waive** the **Alaska business license requirement**.

### **Alaska Jurisdictional Merger Commitments**

**Unlike** in **Idaho, Oregon** and **Washington**, **ratepayers** in **Alaska** **would not be provided rate credits**. According to the companies, **Alaska Electric Light and Power Co., or AEL&P, operates separately from Avista**, and **therefore**, "its customers generally **do not pay the Avista costs from which the merger-related cost savings are derived** ... [and] for that reason, there are **no immediate cost savings to flow through to AEL&P customers**."

The companies assert that **AEL&P would continue to operate as a stand-alone utility**, and the merger would **not alter** the **direct ownership** of **AEL&P by Alaska Energy & Resources Co., or AERC, or the direct ownership of AERC by Avista**. In



addition, **AEL&P** would **continue** to be **managed** and **operated by** the **same employees** that operated the utility **prior to** the **merger**.

The filing states that AEL&P would not seek recovery of any premium or transaction costs associated with the acquisition. The companies aver that the employee compensation and benefit levels for AEL&P employees would be maintained for three years following the close of the acquisition.

The joint applicants said that "over time the merger will provide increased opportunities for innovation, research and development, and efficiencies by extending the use of technology, best practices, and business processes over a broader customer base and a broader set of infrastructure between the two companies."

### Alaska Jurisdictional Merger Proceeding History

Regulatory Commission of Alaska	
Quick facts	
Commissioners	Term ends
Stephen McAlpine — chairman	03/2021
Janis Wilson	03/2018
Robert Pickett	03/2020
Norman Rokeberg	03/2019
Rebecca Pauli	03/2022
Approximate size of staff	50
RRA ranking — Energy	Below Average/1
Merger review standard	Public interest
Merger review time frame	180 days
As of Sep. 15, 2017.	
Source: Regulatory Research Associates, an offering of S&P Global Market Intelligence	

Marking its initial entry in the U.S. market, Hydro One, on July 19, announced the purchase of Avista for US\$5.3 billion in cash and the assumption of debt.

The transaction, expected to close in the second half of 2018, would expand Hydro One's electric transmission and distribution business into the U.S., adding gas distribution as well.

On Sept. 14, the joint applicants filed their initial request for approval in Alaska, Idaho, Montana, Oregon and Washington, as well as at the Federal Energy Regulatory Commission.

Additionally, the applicants filed a motion to waive the requirement to submit proof of registration to conduct business in Alaska when they had filed their initial application with the RCA. The companies asserted that AEL&P and AERC would remain subsidiaries of Avista and that Avista's Alaska business license is sufficient enough in this proceeding (Docket No. U-17-085).

In the **RCA's** order denying the motion, the commission stated: "**Because** the **burden of registration is minor when weighed against** the **benefit to the public from the additional safeguards afforded by registration** and the **availability of additional information not otherwise provided under** our regulations, **we do not find good cause to waive** the ... **requirement** that Hydro One and Olympus Equity

include proof of registration to do business in Alaska as part of their application to acquire a controlling interest in AEL&P. **Therefore**, we **deny** the **Motion for Waiver**."

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## Hydro One's \$6.7B Acquisition May Gouge Ratepayers, Critics Say

by Robert Benzie, Queen's Park Bureau Chief – The Star – Jul. 20, 2017

<https://www.thestar.com/news/queenspark/2017/07/20/hydro-ones-67b-acquisition-may-gouge-ratepayers-critics-say.html>



"Hydro One is **gouging ratepayers** while using our money **to buy up foreign companies**. In the end, Ontario families will be left paying even more for hydro," says **Progressive Conservative Leader Patrick Brown**.

Left: Hydro One's acquisition of an American utility is bad for ratepayers, warns PC Leader Patrick Brown. Brown says Hydro One is applying to the independent Ontario Energy Board to increase electricity rates by about \$141 per household annually.

**Hydro One's \$6.7 billion acquisition of an American utility could end up zapping Ontario ratepayers**, predicts Progressive Conservative Leader Patrick Brown.

"The purchase of Avista by Hydro One is the **direct result of** (Premier) **Kathleen Wynne's fire sale**," Brown said Thursday.

"Hydro One is gouging ratepayers while **using our money to buy up foreign companies**. In the end, Ontario families will be left paying even more for hydro," the Tory leader said.

Brown noted Hydro One is applying to the independent Ontario Energy Board to increase electricity rates by about \$141 per household annually.

**"Why should Ontario families be left with even higher bills when Hydro One has almost \$7 billion to throw at foreign companies?** This is **not fair to Ontario** ratepayers. Hydro One's application for a massive, unaffordable rate increase should be immediately rejected."

His comments came the morning after Hydro One announced the purchase of Spokane, Washington-based Avista, which operates in Washington State, Oregon, Montana, Idaho, and Alaska.

NDP **MPP Peter Tabuns** (Toronto Danforth) said the **deal "should raise red flags for every Ontarian who is struggling to pay their unaffordable hydro bills."**

"This **move to create a huge multi-national utility means less control over our province's electricity system and more financial risk for Ontarians**," said Tabuns.

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## Hydro: Ontario Permanently Bans Winter Disconnection from Electricity

by Brian Hill, Associate Producer – Global News – Nov. 2, 2017

<https://globalnews.ca/news/3840717/ontario-ban-disconnection-hydro/>



**Electricity customers in Ontario struggling to pay their hydro bills will no longer need to worry about being disconnected during the winter.**

The Ontario Energy Board (**OEB**) announced Thursday it has **permanently banned utility companies in the province from disconnecting residential customers for non-payment between Nov. 15 and April 30** of the following year.

The **announcement makes permanent an order issued by the OEB in February, which temporarily forbid electricity companies from cutting off a customer's power during the winter.**

Thursday's decision **also prohibits companies from installing load limiters during winter months.** These devices are used to restrict the flow of electricity to a customer's home in order to reduce overall consumption

"The OEB finds it to be in the public interest at this time to amend the licenses of all electricity distributors in order to ensure that residential customers are not disconnected for non-payment during a Disconnection Ban Period," said Thursday's statement.

"Unlike the February 2017 license conditions, however, the **new conditions apply on a going forward basis** rather than for a single winter period."

Thursday's announcement also requires electricity providers to reconnect any customer without power before the start of the disconnection ban period.

Any charges incurred as a result of the reconnection must be waived. This includes the Collection of Accounts services fee that some companies charge for managing overdue accounts.

Global News has been investigating rising electricity costs in Ontario since June 2016.

At that time, statistics on the number of disconnections and customers behind on their electricity bills in Ontario were unavailable.

Eventually, the OEB released data showing that **nearly 60,000 households in the province had been cut off from their hydro services in 2015** – an increase of nearly **20 per cent from the year before** – and that **more than 560,000 customers were behind on their bills.**

The issue of winter disconnections then become a serious liability for Wynne's government after Global News and other news organizations began reporting on

families from across the province who – despite their best efforts – simply couldn't keep up with the rising costs of energy.

For example, in November 2016, Global News profiled a family of six living outside Toronto who'd been without power for more than six months. Despite having a relatively high income, the parents had resorted to bathing their children from plastic bags and garbage cans because without electricity they had no running water.

This story led Hydro One to launch a full-scale review of its customer service policies. The review determined the company had acted inappropriately when implementing its own disconnection policy.

Eventually, Hydro One ordered that all of its 1,400 customers without power be reconnected.

Finally, in the middle of February, only a week after telling Global News the government would not pass legislation ending winter disconnections, Ontario's Energy Minister, Glenn Thibeault, made a dramatic shift in policy and requested that all electricity companies in the province put an end to cutting off power during the winter

When several companies refused Thibeault's request, the government moved ahead with legislation empowering the OEB with greater authority to determine how and when a customer may be disconnected.

The *Protection of Vulnerable Energy Customers Act*, which received unanimous consent from all political parties, was the result of this action.

Thursday's decision by the OEB guarantees protection for vulnerable electricity customers outlined in the act. The decision also ends a practice some low-income advocates and politicians have called "inhumane."

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Ontario's Largest Electricity Service Providers Stand Behind the Winter Moratorium and Reconnection Program  
Co. Press Release – SNL Financial LC – Nov. 7, 2017



**Hydro One**, Toronto Hydro and Alectra Utilities announced today that they **stand behind the Ontario Energy Board's (OEB) announcement mandating winter reconnections for those customers that have fallen behind on their accounts**. Together, the three utilities serve almost 75 percent of the province's electricity customers. All customers are encouraged to reach out and work with their local distribution companies to help them get reconnected.

"Hydro One along with our industry counterparts are committed to continuing to finding ways to provide support and relief to customers, especially at a time when they need it most. By working directly with our customers on achievable payment arrangements at the same time as enabling available low income support programs, we have been able to get our customers connected and keep them connected." - Mayo Schmidt, President and CEO, Hydro One, [www.HydroOne.com](http://www.HydroOne.com).

"Working with our residential customers to help them manage their electricity bills is a key priority for Toronto Hydro. This policy provides peace of mind for those most vulnerable customers during the coldest months of the year, while supporting our efforts to help customers manage their bills, including offering customized payment plans and access to assistance programs such as the Ontario Electricity Support Program and the Low-Income Energy Assistance Program." - Anthony Haines, President and CEO, Toronto Hydro, [www.torontohydro.com](http://www.torontohydro.com).

"We remain committed to helping Alectra customers who need assistance. This initiative, along with the **Ontario Electricity Support Program (OESP)** and other support programs that are in place will help to ensure that the power will be there for them during the cold winter months. We encourage those customers who are facing hardship to call us for assistance." - Brian Bentz, President and CEO, Alectra Inc., [www.alectrautilities.com](http://www.alectrautilities.com).

The **OEB's** Decision and Order **bans electricity service providers from disconnecting residential customers for non-payment from November 15 to April 30 every year and requires that homes currently disconnected be reconnected without charge.**

For this year, the OEB has ordered electricity service providers to reconnect homes as soon as possible; in subsequent years, reconnections must be done by November 15. Reconnection times will vary by electricity service provider according to their size and individual circumstances and at all times safety requirements will need to be respected.

Customers in need of additional assistance can also participate in the **Affordability Fund**, an easy-to-enroll program that extends Ontario's Home Assistance Program to help families and individuals with energy-efficient upgrades that will save them money. Many customers will qualify for upgrades like block heater timers, efficient shower heads and LEDs. Customers in greater need may be qualified for more substantial upgrades, such as appliances, a programmable thermostat and insulation.

"The Affordability Fund is ready to assist individuals and families needing help with their electricity bills through the provision of energy-efficient equipment. The **suspension of winter disconnections is an important step forward in supporting people who need additional assistance**," said Michael Allen, Chair, Affordability Fund Trust.

As the administrator of the fund, Hydro One is ready to provide customers with access to this program today and is encouraging Ontarians to apply. By answering four simple questions, customers can get the help they need to make energy-efficient improvements in their home to help manage their electricity bills. Customers can apply online at [affordabilityfund.org](http://affordabilityfund.org) or by calling 1-855-494-FUND.

#### **About Hydro One Inc.:**

Hydro One Inc. is a fully owned subsidiary of Hydro One Limited and Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, \$25 billion in assets and annual revenues of over \$6.5 billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves



suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only five utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fiber optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H). For more information about everything Hydro One, please visit [www.HydroOne.com](http://www.HydroOne.com).

#### **About Toronto Hydro:**

Toronto Hydro owns and operates the electricity distribution system for Canada's largest city. A leader in conservation and demand management, it has 765,000 customers located in the city of Toronto and distributes approximately 19 percent of the electricity consumed in Ontario.

#### **About Alectra Utilities Corporation:**

Alectra Utilities Corporation serves approximately one million homes and businesses across an 1,800 square kilometre service territory comprising 15 communities including Alliston, Aurora, Barrie, Beeton, Brampton, Bradford, Hamilton, Markham, Mississauga, Penetanguishene, Richmond Hill, St. Catharines, Thornton, Tottenham and Vaughan. The Alectra family of companies includes Alectra Inc. (Mississauga), Alectra Utilities Corporation (Hamilton) and Alectra Energy Solutions (Vaughan).

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### **Hydro One Customers Left in the Cold**

by Andre Marin – Toronto Sun – Dec. 10, 2016



**Andre Marin is the former ombudsman for Ontario. He recently ran for Progressive Conservatives in the Ottawa-Vanier byelection**

At the risk of interrupting the lovefest between Hydro One Executive vice-president Ferio Pugliese and Energy Minister Glenn Thibeault over reconnecting some 1,400 of its residential customers after they were disconnected for failure to pay their bills, can I ask the elephant in the room question: why on earth were they cut off in the cold of winter to begin

with?

It was downright nauseating to hear Pugliese crow about Hydro One's "program" being about "doing the right thing for customers experiencing hardship." He added in typical Hydro One doublespeak that they were currently reviewing all "customer-facing policies and practices."

My last report as Ontario's Ombudsman, titled "In the Dark" in May 2015, detailed how Hydro One cunningly threatened customers with bogus disconnection extortion in winter if they didn't pay up. But it was all a bluff — they were never going to follow through with it. I wrote then: "I am pleased that Hydro One has finally moved to take action to stop collection efforts through intimidation and deceit, and that it has finally come clean about its winter disconnection moratorium. However, its protracted and reticent response to this issue suggests that it still clings to the vestiges of a private sector mentality and lacks a public service vision."

Now it seems that **idle threats** to cut the Hydro One cord are **no more**. They have gone one step further and **cut off about 1,400 people from electricity in the middle of winter**. How can Hydro One, serving 1.3 million customers, have turned into a nastier, meaner Grinch so fast after committing to discontinue their fake disconnection threat?

The obvious answer is that **Hydro One**, in the process of partial **privatization**, lives in a zone of oversight immunity. It **used to be accountable to the eight officers of parliament, including the Auditor General and the Ombudsman**.

**Premier Kathleen Wynne's Liberals** passed legislation insulating Hydro One from all outside accountability. Instead, customers were given a hapless, organizational ombudsman reporting internally to its board of directors, more an "ombuddy" than a watchdog. Thus, Hydro One was free to do what it wanted and customers got the shaft.

Just about everybody but Wynne's Liberals knew at the time that shielding Hydro One from accountability would make it even more money-grubbing and heartless which is why I recommended that external oversight be preserved even though it was being privatized. Then-energy minister Bob Chiarelli would have none of it.

If anything, it was palpable to anyone paying attention that Hydro One needed more checks and balances, not fewer.

"It's a bad deal for the people of Ontario," **New Democratic Party Leader Andrea Horwath** said. "You think you have a hard time with Hydro One now? Wait until it behaves like your cellphone company. Wait until it behaves like (Hwy.) 407."

**Progressive Conservative** MPP Vic Fedeli also said at the time that the Wynne government is prepared to create a beer ombudsman, but doesn't want the province's ombudsman looking over Hydro One's shoulder despite all its problems.

Hydro One's exorbitant electricity and delivery charges give it a bad enough reputation. And if you don't pay up, they'll leave you out in the cold. Until they reconnect you and congratulate themselves for a job well-done. Welcome to the new Hydro One.

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**Ombud Blasts Hydro One's Phony Disconnection Notices**

by Antonella Artuso – Toronto Sun – Mar. 11, 2015

Hydro One must stop sending **bullying, phony disconnection notices** to its overdue customers when it knows it can't cut off power in the cold winter months, Ontario ombudsman Andre Marin warns.

"Don't worry, this is a **bluff**," Marin told a terrified senior who sent in a 45-page complaint to his office after receiving a threatening notice.

In a sample Hydro One letter, released by the ombudsman's office Wednesday, a **customer** was **advised** that **electricity service** would be **discontinued over Christmas holidays without a prompt bill payment**.

A London-area father with two small children contacted the ombud in desperation after receiving a similar notice on Valentine's Day demanding an immediate payment of \$3,200 with a temperature outside of -22C, Marin said.

The ombudsman's office began investigating **Hydro One's billing practices** after customers reported extraordinary bills and an ineffectual complaints process.

The investigation has so far generated a **record 10,000-plus public complaints**.

His growing concern over the **bogus bill collection practice** — **Hydro One's policy prohibits winter cut-offs** — led him to release an interim update Wednesday prior to the release of the full report this spring, Marin said.

The discovery of intimidating tactics is in addition to the **problem with inaccurate bills**, he noted.

"We've seen absurdly high bills and atrocious customer service," Marin said. "We've seen the same astounding errors over and over again — people charged \$10,000 or \$20,000 at a time, then what they really owe is closer to \$100."

**Energy Minister Bob Chiarelli** said he understands Marin's position on the letter, and Hydro One is working with him to improve on it.

The disconnect notices do not go out to people who have been caught up in billing issues, such as customers who have not received a bill for a long time and are playing catch up, he said.

"I have to say that we are concerned about those people on low income and who are challenged financially, particularly if they're in rural areas and on electric heat," Chiarelli said. "We are bringing in new programs to address that issue."

**Hydro One is negotiating payment terms for those who need them and is not disconnecting customers during the winter**, Chiarelli said.

The utility said in a statement that it has made significant improvements to its new customer information system and is revising its disconnection communications.

Marin said the **newest version of the warning letter advises customers that power will be disconnected weather permitting, a missive he finds even more unfair.**

NDP Leader Andrea Horwath said the billing fiasco comes after the **province's auditor concluded the smart meter program was a \$2-billion waste**, and she called for Chiarelli to step down as minister.

PC MPP John Yakabuski said Hydro One should be clearly articulating its disconnection policy rather than intimidating customers and inciting panic.

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## Hydro One IDs 4 Employees Killed in Helicopter Crash

by Joe Lofaro, CBC News – Dec. 18, 2017

<http://www.cbc.ca/news/canada/ottawa/hydro-one-names-workers-killed-helicopter-1.4452570>

James Baragar, 39, Jeff Howes and Darcy Jansen, both 26, and Kyle Shorrock, 27, died in crash



Darcy Jansen, left, and Jeff Howes, right, were two of the four Hydro One crew members killed when their helicopter crashed near Tweed, Ont., on Thursday. James Baragar and Kyle Shorrock also died in the crash.

**Hydro One** has released the names of the four crew members who were killed Thursday when their **helicopter crashed in eastern Ontario.**

"It is with heavy hearts that we share the names of the Hydro One employees who lost their lives in Thursday's tragic accident," the company said in a statement issued Saturday.

**One pilot and three crew members died while performing routine maintenance work on a hydro line** in the municipality of Tweed, Ont., about 190 kilometres **west of Ottawa**.

The four workers were James Baragar, 39, Jeff Howes and Darcy Jansen, both 26, and Kyle Shorrock, 27. All were residents of southern and eastern Ontario.

Baragar, the **pilot**, had been with the company since 2009. Howes and Jansen were both **power line technicians** and started working at Hydro One in 2013. Shorrock was also a power line technician since 2014.

Hydro One helicopter was attempting to land at time of fatal crash

"Our focus continues to be on supporting the impacted families through this difficult time. A family assistance centre has been established in the municipality of Tweed," the Hydro One statement said.

"The Hydro One family extends our deepest condolences, support and care to the grieving families and loved ones of James, Jeff, Darcy and Kyle."



Left: OPP officers gather at the Hydro One helicopter crash site near Tweed, Ont., on Thursday.

Families in mourning

Jansen's mother, Brenda Jansen, said her son was an outdoorsy person and an avid guitar player.

"Anyone that knew him just loved him. He was a really lovable kid," she said, adding that he had just bought a house last year and moved in with his

girlfriend.

"We're going to miss him. He's going to be really missed. He touched a lot of hearts," she said

In a statement, Howes' family said Jeff was a beloved fiancé, son, brother, grandson and friend. He loved music, fishing and adventures, his family said, but he always put his fiancée Brooke, his family and his friends first.

"He will be missed for his kind heart, contagious laughter and endless energy," his family said.

Others shared their grief on social media.

"I lost my best friend, my everything, my soul mate, the person who made my world go round," wrote Brittany Robertson, who said on Facebook she was engaged to Shorrock.

She described her fiancé as having "the biggest heart in the world" — dedicated to his family and friends and excited about his upcoming wedding.



"There are no words to describe the loss," Robertson said in her post.

The youngest of three children in his family, Shorrock loved the outdoors and a good card game, his family said in a statement.

The family added that Shorrock was working on completing his lines apprenticeship when he was killed in the crash.



Left: The Hydro One helicopter that crashed Thursday in Tweed can be seen in the trees on Thursday.

At a **Transportation Safety Board (TSB)** briefing on Friday, investigator-in-charge Peter Rowntree said the **helicopter** in which they were flying was **preparing to land when it lost control and crashed**. While there was no **cockpit voice recorder on board, officials have recovered a GPS recorder**, which could provide clues to investigators into what happened.

The owner of the property on Upper Flinton Road where the work was being done, Kim Clayton, said she heard a loud crash and saw workers rush to the tree line. She said she didn't see any smoke or fire but saw a piece of what looked like the helicopter in one of the trees.



The helicopter crash occurred northeast of Tweed, about 190 kilometres west of Ottawa. (CBC)

Hydro One chief operating officer Greg Kiraly said he was "shaken and heartbroken" by the crash — the worst in the company's history.

The **pilot had an excellent record, proper training and no issues of concern**.

The **TSB continues to investigate the crash**.

## Hydro One Sell-Off Legal Fees Hit \$6.2 Million

by Antonella Artuso – Toronto Sun – March 16, 2016

<http://torontosun.com/2016/03/16/hydro-one-sell-off-legal-fees-hit-62-million/wcm/f6c53a6e-92c3-4209-a86d-e9ccd3290a4e>

**Legal Fees for** the unpopular **Hydro One sell-off** have already **hit \$6.2 million**.

The **Canadian Taxpayers Federation (CTF)** obtained the information through a Freedom of Information request.

“The firms doing the legal work are top-tier firms in Toronto, and are getting a big payday on this work,” CTF Ontario director [Christine Van Geyn said in a blog post](#). “So far, **only one of the four rounds of share sales has been completed**. While much of the legal work is done, the costs will continue to climb in the subsequent rounds of sales.”

The **Ontario government’s own polling** has shown **75% of the public opposes Premier Kathleen Wynne’s plan to sell up to 60% of Hydro One to the private sector**.

Wynne has said the **money will pay for new transportation infrastructure**, such as **transit and bridges**, but opposition parties at Queen’s Park argue she’s using the cash to balance the books in the run-up to the 2018 general election.

Energy Minister Bob Chiarelli’s office says the legal fees, which cover expenses up to Nov. 30, are commensurate with the size and scope of the initial public offering (IPO).

“The province completed the Hydro One Ltd. IPO on Nov. 5, 2015 and raised approximately \$1.83 billion in gross proceeds,” the office’s statement says. “It is part of a government’s due diligence that expert legal advice is provided on such matters. This legal expertise ensured that the decisions made were in the best interest of all Ontarians and consistent with market practice for major initial public offerings.”

The **legal fees were recovered from the IPO proceeds** and **won’t impact electricity costs for customers**, the statement says.

The Liberals have already **spent about \$6 million on consultants’ fees** related to the Ed Clark panel, which recommended the Hydro One IPO.

“Frankly, a lot of consultants and a lot of lawyers are getting their summer vacations paid for,” NDP energy critic Peter Tabuns said. “None of this going down to the Toronto Islands for an afternoon.”

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## Small IPOs Are Dying – That’s Good.

by James Mackintosh – Streetwise Column – WSJ – Nov. 14, 2017

The U.S. stock market is eating itself, and nothing could be better for shareholders. There has been a **decade long drought in initial public offerings, fewer companies are listed now than four decades ago** and **companies are buying back as many or more shares than they sell**.

The **shrinking number of stocks** has prompted a lot of hand-wringing among economists, who worry that companies are deterred from accessing capital markets by short term shareholders and aren't investing enough.

The alternative theory is much more upbeat: Markets have become more efficient, and America is awash in capital. There is a genuine problem of reduced competition, but that isn't the fault of the capital markets.

Mentioning the words "efficient" and "markets" in the same sentence has been a route to ridicule since the financial crisis. But when it comes to smaller companies, it seems founders and CEOs have indeed found a way to eliminate one of the market's best known anomalies, known as the **small-capitalization effect**.

**Small-cap stocks used to beat the market pretty reliably.** Economists argued over whether this was a reward for the extra risk they carried or was a result of investors being unwilling to spend the time and effort to research tiny companies. Either way, it meant **small cap stock prices were on average lower than their larger brethren for otherwise identical companies, and so future returns higher.**

Since the effect was documented by academics in the early 1980s, **smaller companies have stopped beating the market.** It looks as though CEOs and founders took notice and changed strategy to avoid the **higher financing costs** that came from being a **small company on the stock market.** More listed companies chose to sell to rivals to get bigger, and fewer opted for IPOs in the first place.

The result is that the **average listed company is far bigger than it was,** and there are **far fewer very small companies,** data from René Stulz, director of the Dice Center for Research in Financial Economics at Ohio State University, show.

**Since 1997, on average 5.6% of listed companies have been bought each year,** against just 3.9% in the previous two decades, a rate that is also much higher than the rest of the world. If big companies can raise equity more cheaply — that is, investors are willing to pay more and so accept a lower future return than on small companies — it makes sense to merge to get bigger.

Takeovers aren't the full story, though. In the past two decades, money has flooded into venture capital and private equity, with buyout funds now sitting on a record \$954 billion available for deals, according to Preqin data.

The small-company CEO can choose between an IPO and selling to private funds — and private money is more easily available than ever before. Why bother to list? World-wide, though, IPOs remain a popular option. More than 1,450 companies globally have gone public so far in 2017, putting this year on track to become the busiest for new listings since 2007, according to Dealogic data through Friday. Roughly two-thirds of the IPOs were in the Asia-Pacific region, which has roared past the U.S. to become the dominant region for new stock listings.

CEOs and CFOs should know more about their company's prospects than outsiders, so if they have a choice of ways to finance, the one they pick is probably offering a better deal. But the asset class offering the best deal to the company is also the one offering the worst deal to the investor.

Plenty of other factors affect return, but if lots of companies choose to finance via IPOs — as in the late 1990s — then stocks are probably overvalued. If they mostly choose to finance via debt — as they did before the subprime crisis—then debt is probably overvalued. For the past few years, bonds have been popular again, suggesting that for the investor, debt is even more expensive than stocks.

If companies choose to stay private longer than they did, it is because they can get cheaper money privately. And cheaper equity for companies means lower returns for the private-equity investor

Markets working better is good for the economy, but monopoly power isn't. Big companies have become more dominant, helped by complex intellectual property law and regulations that make life tough for new entrants, by the network effects of new technology, by cheaper financing and, some critics allege, by lax antitrust enforcement. Studies show **big companies tend to be less innovative and invest less in research, which ultimately hurts growth**. Cheap venture finance is great for innovation, but the link from the IPO drought to oligopoly is visible in the Silicon Valley startup: Where once they fantasized about ringing the NYSE bell after listing, now their aim is to sell out to Alphabet or Amazon.

**If big companies can raise equity more cheaply, it makes sense to merge.**

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## **Surging Equities and Thinner Spreads Favor Higher Treasury Yields**

by John Lonski, Chief Economist

Moody's Capital Markets Research, Inc. – Jan. 18, 2018

Earnings-sensitive securities have thrived thus far in 2018. Not only was the market value of U.S. common stock recently up by 4.5% since year-end 2017, but a composite high-yield bond spread narrowed by 23 basis points to 336 bp. The latter brings attention to how the accompanying composite speculative-grade bond yield fell from year-end 2017's 5.82% to a recent 5.72% despite the 5-year Treasury yield's increase from 2.21% to 2.39%, respectively.

Thus, the **latest climb by the 10-year Treasury yield from year-end 2017's 2.41% to a recent 2.62% is largely in response to the upwardly revised outlook for real returns that are implicit to the equity rally and the drop by the speculative-grade bond yield**. The **10-year Treasury yield is likely to continue to trend higher until equity prices stagnate, the high-yield bond spread widens, interest-sensitive spending softens, and the industrial metals price index establishes a recurring slide**. In view of how the PHLX index of housing sector share prices has risen by 4.5% thus far in 2018, investors sense that home sales will grow despite the forthcoming rise by mortgage yields.

Moreover, increased confidence in the timely servicing of home mortgage debt has narrowed the gap between the 30-year mortgage yield and its 10-year Treasury yield benchmark from the 172 bp of a year earlier to a recent 152 bp. The latter is the narrowest such difference since the 150 bp of January 2014, which roughly coincided with a peaking of the 10-year Treasury yield amid 2013-2014's taper tantrum.

Do suppliers of credit to the high-yield bond market and mortgage market correctly sense an impending top for benchmark Treasury yields? If they are wrong and the 10-year Treasury yield quickly climbs above its 2.71% average of the six-months-ended March 2014, they will regret having acquiesced to the atypically thin spreads of mid-January 2018.

### **Another Record Year for M&A Requires a New Record High for Profits**

**A widely expected upturn by 2018's mergers and acquisitions should lend support to share prices, provided that benchmark borrowing costs do not increase considerably. In 2017, M&A involving at least one U.S.-domiciled company advanced by 18% annually to a calendar-year record \$3.317 trillion.**

A narrowing of corporate bond yield spreads from their yearlong 2017 averages of 161 bp for the long-term Baa-rated industrials and 383 bp for high-yield would support the realization of a new record high for M&A in 2018.

For now, **spreads** are **consistent with continued growth for M&A**. In addition to the previously mentioned high-yield bond spread of 336 bp, the long-term Baa industrial spread recently equaled 143 bp.

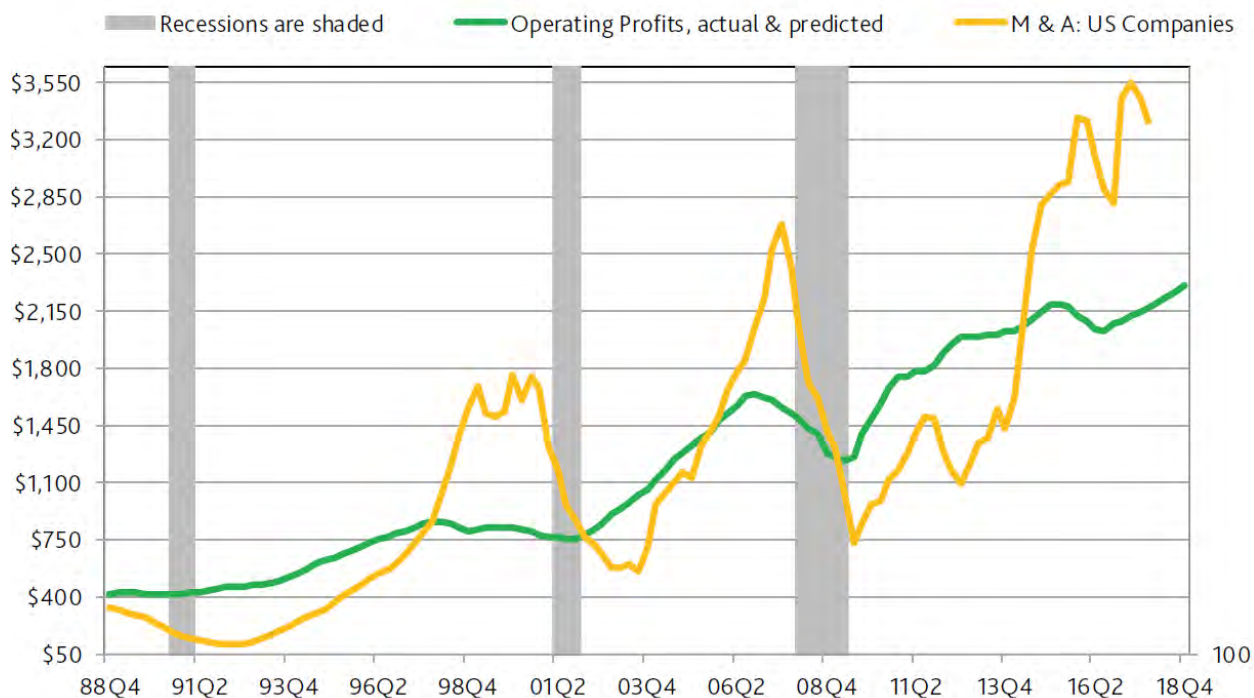
The continued growth of pretax operating profits is of critical importance to a further expansion of M&A. Since 1988, M&A's moving year-long sum grew annually for 72% of the observations showing an annual increase by operating profits' moving yearlong sum and for 41% of the annual contractions by operating profits.

Figure 1 not only shows M&A's sensitivity to the direction taken by pretax profits, it also shows that M&A goes through long stretches where it either exceeds or trails profits. For example, in each quarter beginning with 2014's second quarter, M&A exceeded pretax operating profits by 43%, on average, while M&A instead was 31% less than profits, on average, in each quarter beginning with Q2-2009 and ending with Q1-2014.



**Figure 1: If Operating Profits Grow, M&A Is Likely to Set a New Record High in 2018**

*\$ billions; source: Bloomberg, Bureau of Economic Analysis, Moody's Analytics*

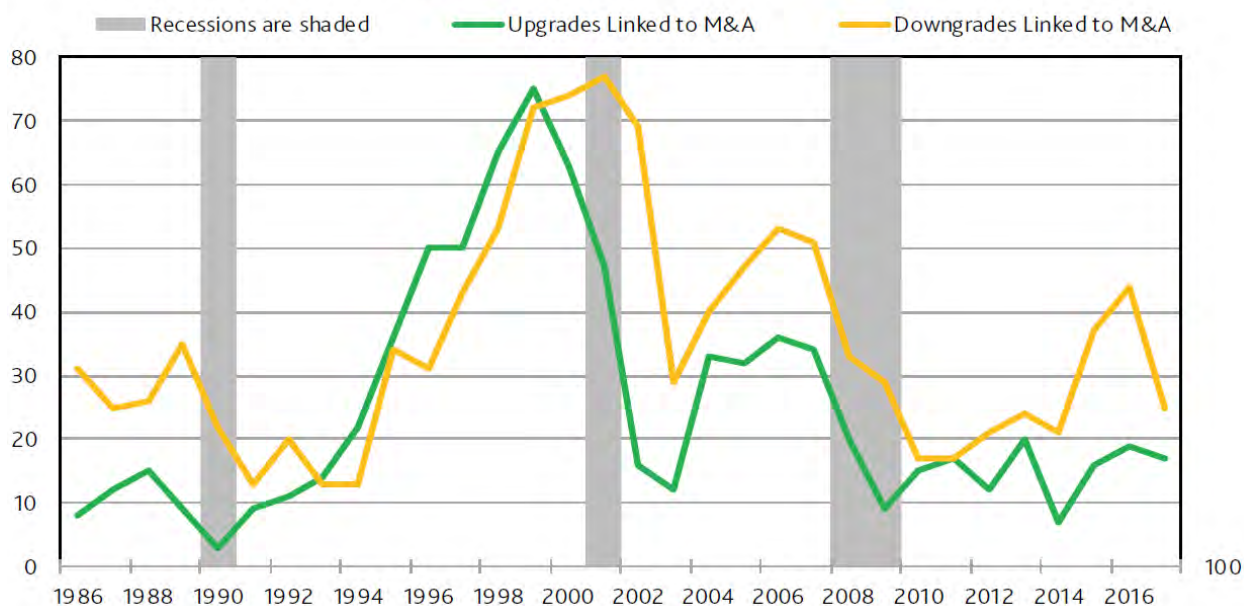


### M&A Was Less of a Net Drag on Investment-Grade Rating Changes in 2017

**Whenever mergers, acquisitions or divestitures (M&A) help to prompt a change in a U.S. investment grade credit rating, a downgrade is more likely than an upgrade.**

For each calendar year starting with 2000, M&A was linked to more downgrades than upgrades among investment-grade credit rating changes. Nevertheless, the number of investment-grade upgrades linked to M&A barely dipped from 2016's 19 to 2017's 17, while the number of investment-grade downgrades linked to M&A sank from 2016's 44 to 2017's 25. Also during 2017, M&A entered into six **"fallen-angel" downgrades from investment- to speculative-grade**, all of which occurred during the second half. The only span where M&A-linked upgrades outnumbered downgrades stretched from 1993 through 1999.

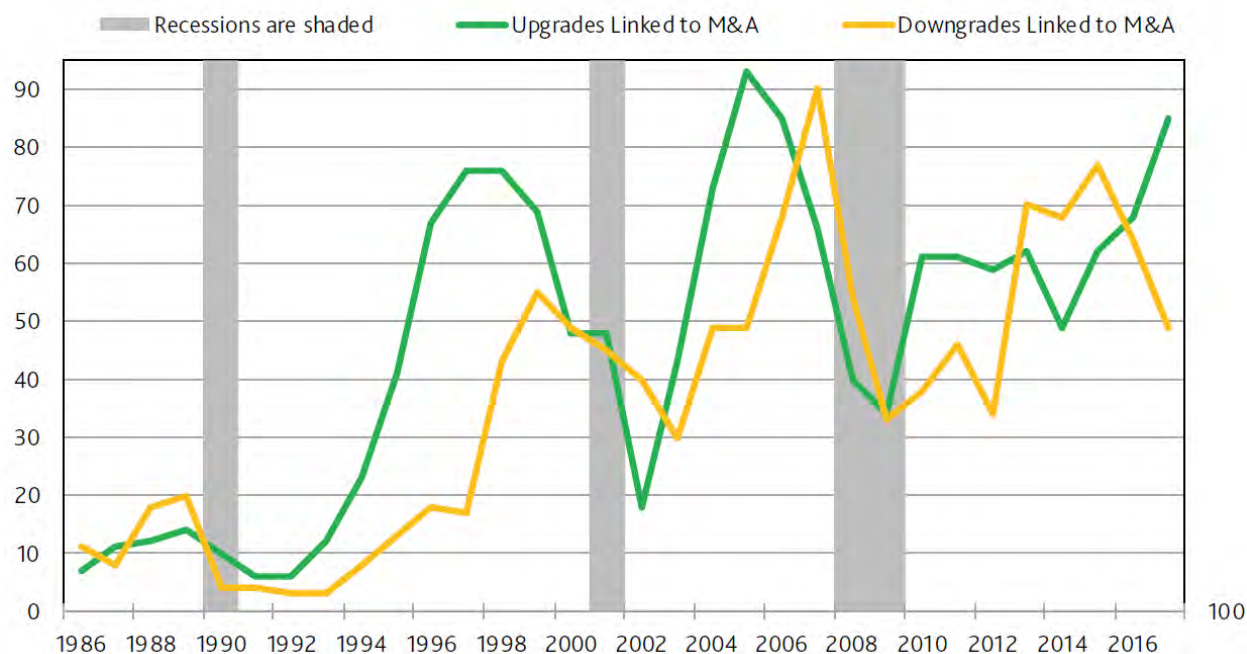
**Figure 2: Except for 1993-1999, M&A-Linked Rating Changes of US Investment-Grade Companies Show More Downgrades than Upgrades**  
*calendar-year count, investment-grade issuers*



**M&A Was More of a Net Benefit to 2017’s High-Yield Rating Revisions**

Far different from its typical impact on investment-grade credit ratings, M&A tends to be cited in more upgrades than downgrades among high-yield credit rating revisions. In 22 of the 32 years since 1985, M&A figured in more high-yield upgrades than downgrades. M&A was mentioned in 85 of 2017’s high yield upgrades, which was up considerably from 2016’s 68. At the same time, the number of M&A-linked high-yield downgrades plunged from 2016’s 64 to 49 in 2017. As recently as for each of the three years ended 2015, M&A figured in more high-yield downgrades than upgrades.

**Figure 3: M&A-Linked Rating Changes of US High-Yield Companies Showed More Upgrades than Downgrades in 22 of the 32 Years since 1985**  
*calendar-year count, high-yield issuers*



### Outstandings of High-Yield Corporate Bonds Shrank in 2017

After increasing by 2.9% year-to-year to Q4-2016's record \$1.344 trillion, Q4-2017's outstandings of U.S. high-yield corporate bonds shrank by 4.8% from a year earlier to \$1.280 trillion. In part, 2017's contraction by the outstandings of U.S. high-yield corporate bonds was the offshoot of 2017's 20 **“rising-star” upgrades from speculative- to investment-grade** that exceeded the accompanying 12 “fallen-angel” downgrades from investment- to speculative-grade. By contrast, 2016's 34 “fallen-angel” downgrades far surpassed the 14 “rising-star” upgrades.

However, returning to 2017, after first-half 2017's 14 “rising-star” upgrades topped the three “fallen-angel” downgrades, the nine “fallen-angel” downgrades of the second-half outnumbered the six “rising-star” upgrades. Nevertheless, a composite high-yield bond spread has narrowed from Q4-2017's 363 bp to the 338 bp of January-2018-to-date partly because the accompanying average high-yield expected default frequency metric fell from 3.91% to 3.41%, respectively.

A drop by the average VIX index from Q4-2017's 10.3 points to the 10.0 points of January-to-date also helped to narrow the high-yield bond spread. However, a recent VIX index of 12.1 points may be hinting of a rising trend for this important driver of high-yield and Baa credit spreads. An extended climb by the VIX index would probably eventually be joined by wider spreads for medium- and speculative-grade corporate bonds.

Not since Q4-2006's 6.3% yearly drop to \$843 billion have the outstandings of U.S. high-yield corporate bonds shrunk from a year earlier amid a mature business cycle

upturn. The combination of first-half 2007's reduction in high-yield default risk and 2006's contraction of outstanding high-yield corporate bonds would thin the high-yield bond spread considerably.

Of course, these positive developments did little to prevent the chaos that arrived by late 2007, which was much more the consequence of a deterioration of household-sector credit quality than an immediate worsening of high-yield credit worth.

Following a Q4-2006 average of 316 bp, a composite high-yield bond spread narrowed to very thin averages of 305 bp for Q1-2007 and 277 bp for Q2-2007. The thinning of the high-yield bond spread complemented a decline by the average high-yield EDF metric from Q4-2006's 2.39% to the 1.89% of Q1-2007 and the 1.62% of Q2-2007.

Nevertheless, markets committed a big mistake by downplaying the year-over-year declines by nonfinancial-corporate pretax operating profits of 3.1% for Q1-2007 and 1.3% for Q2-2007 that quickly deepened into annual setbacks of 20.0% for Q3-2007 and 14.2% for Q4-2007. For now, the good news is that early **January 2018's Blue Chip consensus expects** that the annual increase by pretax operating **profits will quicken from 2017's prospective 4.8% to 6.1% in 2018. However, in the event profits contract from a year earlier**, the high-yield bond spread should widen to at least 600 bp, while the **market value of U.S. common stock sinks by at least 10%.**

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## **Transmission Link between Michigan, Canada Could Be Too Costly** by Kelly Andrejasic – SNL Financial LC – Oct. 30, 2017

The **financial benefits** of **expanding transmission** from Michigan's Upper Peninsula are **not enough to justify** the **cost** of doing so, according to **preliminary results** of a study by the regional grid operator. **Michigan Gov. Rick Snyder in 2016 asked the Midcontinent ISO to look at options for expanding transmission between the Upper Peninsula and Sault Ste. Marie, Ontario, and between the Upper Peninsula and Lower Michigan.**

The grid operator agreed, and according to preliminary results of the study, **none of the electric transmission line tie-ins between Michigan and Canada** that were looked at **had financial benefits that exceeded the cost of construction. Building a 100-MW gas-fired power plant in the Upper Peninsula would likely be a better option**, the **study said.**

**Snyder asked MISO to find ways to lower energy costs and improve reliability on the Upper Peninsula**, an area the Michigan Agency for Energy said **pays some of the highest electricity costs in the country.**

The study evaluated the potential cost savings, reliability, and resource adequacy benefits of certain potential transmission grid improvements and proposed natural gas power plants. The agency, in a news release, said this type of modeling will enable the state to identify areas where additional generation might best be located with minimal transmission infrastructure upgrades.



Right now, no electricity transmission link exists between the Upper Peninsula and Ontario, and significant upgrades would have to be made to transmission systems in Michigan and Canada to establish that connection. Just as the benefits of linking Michigan's transmission system to Ontario's grid overseen by the Independent Electricity System Operator are outweighed by the expense, the **study found** that **expanding transmission capability between Michigan's Upper and Lower peninsulas** is projected to have **more costs than benefits**.

The study said a 100-MW power plant sited near Pine River in the eastern Upper Peninsula would be a reliable option for producing power with minimal infrastructure investment. Building that level of generation would likely cost the same or less than other options. The results of the study thus far are to be presented to MISO's economic planning users group on Nov. 1. A **final study** is **to be released in December**.

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## The Morningstar Mirage

by Kirsten Grind, Tom McGinty and Sarah Krouse – WSJ – Oct 25, 2017

**Investors everywhere think a 5-star rating from Morningstar means a mutual fund will be a top performer—it doesn't.**



Millions of people trust Morningstar Inc. to help them decide where to put their money.

From pension funds to endowments to financial advisers to individuals, investors rely on **Morningstar's star ratings** to help divide \$16 trillion among America's mutual funds, in much the way shoppers use Amazon's ratings to pick products. A lot of these investors, and the people paid to guide them, take for granted that the number of stars awarded to a mutual fund is a good guide to its future performance.

By and large, it isn't.

The Wall Street Journal tested Morningstar's ratings by examining the performance of thousands of funds dating back to 2003, shortly after the company began its current system. **Funds that earned high star ratings attracted the vast majority of investor dollars. Most of them failed to perform.**

**Of funds awarded a coveted five-star overall rating, only 12% did well enough over the next five years to earn a top rating for that period; 10% performed so poorly they were branded with a rock-bottom one-star rating.**

The falloff in performance was even more dramatic for domestic stock funds, the largest category of U.S. funds by assets.

Billions of investor dollars hang in the balance. Nearly every asset manager in the world pays Morningstar for data services. Some 250,000 financial advisers rely on Morningstar's data, services or ratings, according to the firm. That means Morningstar's analysis and ratings influence investment decisions for a vast landscape of retirement plans and brokerage accounts.



Morningstar's reach is so pervasive that the ecosystem for buying and selling mutual funds revolves around it. Fund companies heavily advertise their star ratings. Money typically pours into funds after they receive a five-star rating from Morningstar, the Journal found. It flows out if they lose stars.

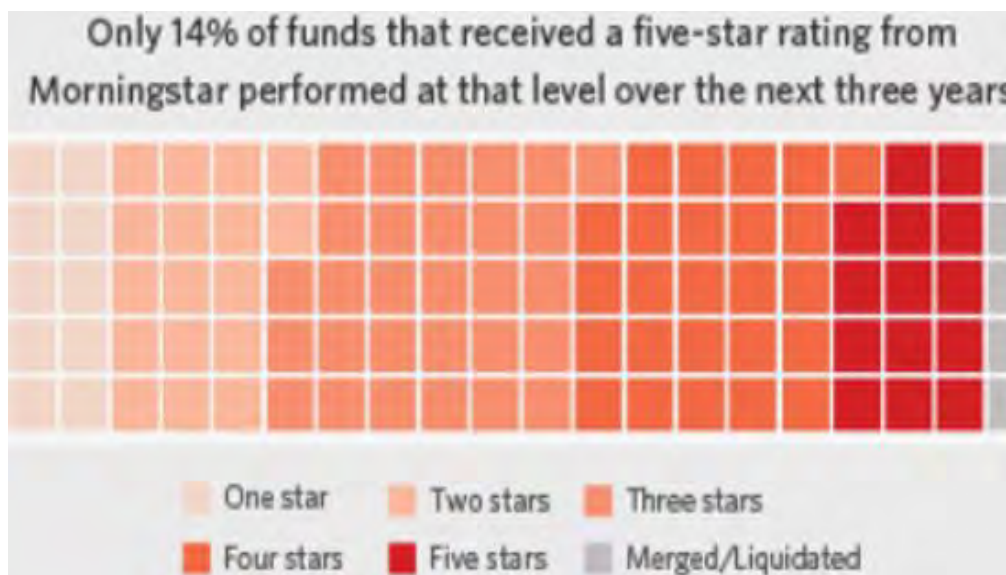
There is **no question** that **Morningstar has greatly improved the transparency and rigor of data on mutual funds' holdings and performance**, making it easier for individual investors to compare funds.

**Morningstar says it has never claimed its star ratings suggest how funds will perform in the future.** The **star system is strictly backward-looking**, assessing past performance, the firm says. "We have always been very clear that it's not intended to predict future performance," the company said in a written statement.

"The star rating works well when it's used as intended: as a first-stage screen that helps identify lower-cost, lower-risk funds with good long-term performance," Morningstar said. "It is not meant to be used in isolation or as a predictive measure. **Reversion to the mean is a powerful force** that can affect any investment vehicle."

### How Funds with Different Ratings Compare

Morningstar gives funds one to five stars for past performance, **with five the best**. Many investors treat the stars as a guide to future performance. But **over time, the performance of funds with different initial star ratings converges**.



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Morningstar gives funds one to five stars for past performance, **with five the best**. Many investors treat the stars as a guide to future performance. But over time, the performance of funds with different initial star ratings converges.

The **firm sends conflicting signals about the star ratings' predictiveness**. A study published by Morningstar last month said the stars point investors to funds "likelier to outperform in the future."

Morningstar founder Joe Mansueto said in an interview that the firm's analysis of past ratings found "some modest predictive value." Chief Executive Kunal Kapoor, in another interview, called the star system "a better predictor than it ever has been."

In its written statement to the Journal, Morningstar said its analysis has found "the Star Rating is moderately predictive," which "conforms to what we'd expect of a backward-looking, entirely quantitative measure."

The Journal's analysis found that most five-star funds perform somewhat better than lower-rated ones, yet on the average, **five-star funds eventually turn into merely ordinary performers.**

Inside Morningstar, some employees have expressed discomfort about how much investors rely on the ratings. Stephen Wendel, head of behavioral science at the Chicago-based firm, wrote in the June/July issue of Morningstar magazine that part of his job was "examining whether we are contributing to abuses in the industry," and said: "Morningstar's star ratings for funds are clearly used in the industry to imply that funds that performed well in the past will do so in the future."

He added, "That needs to change."

**Morningstar's Mr. Mansueto**, 61 years old, said the star rating system "is a way to whittle down a big universe into something more manageable." The firm said it has worked to make investors understand the star ratings should be just a starting point for their research.

Since 2011, **Morningstar has had a second rating system**, lesser known and of limited scope, that **includes analysts' opinions**. Unlike the star ratings, it is designed to be **forward-looking**, Morningstar says. **In this system, too, the Journal found the performance of funds rated high, low and in between tended to converge after several years.** In addition, the Journal found **Morningstar only rarely gave funds the lowest analyst rating, "negative."**

Mr. Mansueto, growing up in suburban Chicago, sold lemonade by the roadside before moving up to Christmas trees. At the **University of Chicago**, he and a roommate sold chips and soda and advertised by hanging posters for the "Room 607 Soda Service." He also made his first mutual-fund investment, with \$250 from a restaurant job.

After college, he and the ex-roommate, Kurt Hanson, started a business that provided market research for radio stations. It surveyed listeners and created a sheet of charts detailing their behavior. Mr. Mansueto then got a job as a financial analyst at Harris Associates LP, a Chicago money manager.

Mutual funds were proliferating, and a few fund managers were becoming stars, such as John Templeton and Peter Lynch. Funds didn't give much information about themselves, and what they provided was opaque to nonprofessionals. Mr. Mansueto told a colleague he wanted to start a **fund newsletter** in the mold of the radio-station fact sheets.

The **colleague, Ralph Wanger, cautioned that financial newsletters didn't have a record of success.** "That turned out to be the **dumbest...thing I ever said,**" he recalls. "What I meant to say was, 'Joe, that's the best idea I've ever heard — how about I quit and we go 50-50?'"



**"It's a way to whittle down a big universe into something more manageable"**

**Morningstar founder Joe Mansueto on the star ratings**

**Mr. Mansueto launched Morningstar from his one-bedroom apartment in 1984 with \$80,000,** taking the name from the ending of Thoreau's "Walden": "The sun is but a morning star."

**He later spent \$50,000 to hire Paul Rand, the noted designer of IBM's logo,** who created a **signature red font** consisting of **tall letters** with an **"O" looking like a rising sun.** With reports obtained from fund companies, Mr. Mansueto laid out data points so they were easy to read, and advertised his reports in Barron's.

When BusinessWeek later asked him to devise rankings for an issue devoted to mutual funds, Mr. Mansueto began work on what would become his five-star rating system. He toyed with using symbols suggesting little bags of gold before deciding on stars.

**Since then, assets invested in U.S.-based mutual funds have multiplied more than forty-fold. Morningstar rode the wave and went public in 2005.**

Today, investors descend on Chicago for Morningstar's annual conferences, a pilgrimage for money managers and financial advisers hoping to gather assets. At this year's event in April, shirtless male acrobats cartwheeled and stood on each other's shoulders while financiers sipped cocktails and mingled.

**Morningstar groups funds into categories based on their investing style or area,** more than 100 groups in all. It **compares funds** not to all other funds, nor to the overall market, but **to other funds with the same investment focus.** The **top 10% of funds in each group receive five stars,** the **bottom 10% get one,** and the rest get two, three or four stars.

The **ratings don't reflect raw performance, but performance adjusted for funds' degree of risk.** To make that calculation, Morningstar uses an algorithm Mr. Mansueto devised that reflects the variation in funds' month-to-month returns.

The firm **rates funds on how they did over three years — plus over five years and 10 years if they're old enough—**and assigns them an overall rating based on the others. **A fund thus could have as many as four ratings from Morningstar, though most investors see only the overall one. New star ratings come out each month.**

Most mutual funds have multiple "classes," each charging a different expense fee. Since varying expenses spell varying returns, Morningstar rates each class of each fund separately.

Its star ratings covered more than 10,800 mutual funds — and almost 39,000 share classes — during the 14 years studied by the Journal. The only qualification to be rated

is being in business three years. The ratings include index funds, which try to mimic the performance of markets.

(The Journal's analysis didn't include exchange-traded funds, or ETFs, which trade throughout the day like a stock and usually mirror an index. Morningstar began rating ETFs alongside ordinary mutual funds late last year, after the period covered by the Journal's analysis.)

Going back to 2003, the Journal examined the rating of every investment class of every fund, in every month, and how these changed over time — some three million records in all.

The Journal also reviewed retirement-plan data, fund ads and regulatory filings, and interviewed dozens of current and former Morningstar employees, fund officials, financial advisers and investors.

**For funds that had an overall five-star rating at any point, the Journal found that their average Morningstar rating for the following five years was three stars—** in other words, halfway between the top and the bottom.

When funds picked up a fifth star for the first time during the period included in the Journal's analysis, half of them held on to it for just three months before their performance and rating weakened.

The findings were especially stark among U.S.-based domestic equity funds. Of those that merited the five-star badge, a mere 10% earned five stars for their performance over the following three years. Only 7% merited five stars for the following five years, and 6% did for 10 years.

For all of the measured periods—three, five and 10 years — five-star domestic equity funds were more likely to turn in a one-star performance than a top one.

That means a **five-star rating for the equity funds was no more an omen of success than it was one of failure.**

Morningstar's ratings of taxable-bond funds, which include corporate bonds and Treasuries, proved a little more indicative of future performance. Of five-star bond funds, about 16% turned in a five-star performance over the next five years.

Still, 8% of the five-star taxable-bond funds performed poorly enough to merit only one star.

Hickory Hills, Ill., not far from Morningstar's Chicago headquarters, has a small pension fund for about 50 active and retired police officers. In 2011, it moved about \$2.1 million into the Nuveen Santa Barbara Dividend Growth Fund, which had a five-star Morningstar rating.

The pension board paid close heed to star ratings. "Our brokers thought it was one of the best measurements we had available to decide whether the fund is worth investing in," said board secretary Mary McDonald, referring to brokers from Morgan Stanley.

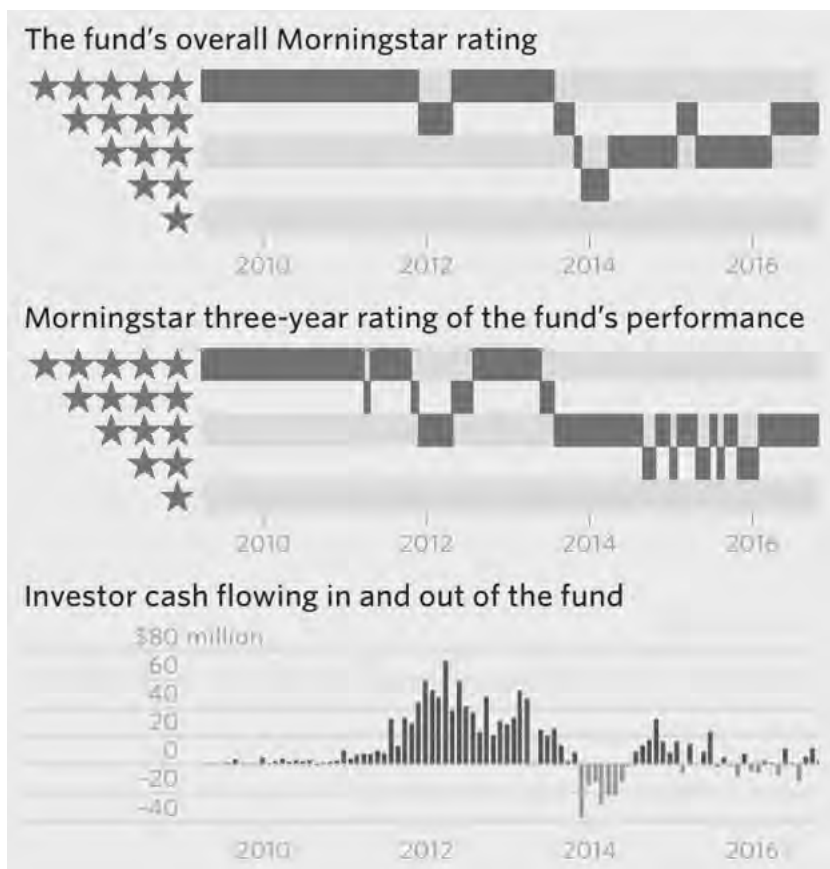
The fund had beaten 95% of others in Morningstar’s “large blend” category — funds that buy large-company stocks using a blend of what investors call a “value” strategy and a “growth” strategy.

The following year, the fund beat only 26% of similar funds, and in 2013 just 11%.

### Nuveen Santa Barbara – Dividend Growth Fund

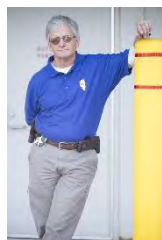
A pension fund moved \$2.1 million into the Nuveen Santa Barbara Dividend Growth Fund in November 2011, when the fund had a five-star rating.

Notes: Class I share class. Funds rated by Morningstar can have up to four ratings: a three-year rating, a five-year rating, a 10-year rating, and an overall rating that is based on a combination of the others.



The president of the Santa Barbara fund family, John Gomez, attributed the Dividend Growth fund's performance to its focus on stocks with growing dividends, not just the highest-yielding ones.

The Hickory Hills board pulled \$1.2 million from the fund in 2014, and in early 2016 it took out \$750,000 more. It has since switched to a local broker, in part because of **Morgan Stanley's reliance on Morningstar ratings**, said David Wetherald, a police officer who is also the pension



board's president.

The experience was frustrating because “we rely a lot on the financial people. We’re not completely blind and naive, but we’re smart enough to know that this is what they do,” Mr. Wetherald (left) said.

Morgan Stanley declined to comment.

Morningstar said its five-star rating of Nuveen Santa Barbara Dividend Growth in 2011 “was an accurate historical grade on the fund. It was not intended as or presented as a conclusion as to what they should do.”



Morningstar also said this type of fund generally did poorly after 2011. The example “presents an underperforming fund in a badly underperforming category as if it’s representative of the full rating set, which it’s not,” the firm said.

The Journal’s analysis found that investors put new money into five-star-rated funds in 69% of the months they held that rating, compared with 29% for one-star funds. The Hickory Hills investment was part of \$184 million investors put in the Santa Barbara fund in 2011 when it had five stars.

Morningstar acknowledged its ratings can influence demand, though Mr. Mansueto says he believes investors typically move money mainly based on a fund’s performance, not its star rating.

### **Money in Motion**

The Journal analyzed how much money flowed into or out of funds over three years based on the overall ratings investors saw and how well the funds actually performed.

**Investors pour money into** top-rated funds even if their performance declines.

Investors pull money from low-rated funds even if their performance improves

Net flows as a percentage of assets at start of three-year period

**Note:** Funds rated by Morningstar can have up to four ratings: a three-year rating, a five-year rating, a 10-year rating, and an overall rating that is based on a combination of the others.

The Journal found more than a dozen cases where well-performing funds attracted few investors until they won a fifth Morningstar star.

Tiny Buffalo Emerging Opportunities Fund saw little interest despite beating many similarly focused funds over three years, including gaining 24% in 2012. After it got a fifth star from Morningstar in spring 2013, hundreds of millions came in, quadrupling assets to above \$400 million in five months.

The small management team in Mission, Kan., closed the fund to new investors six months later, a step managers sometimes take when given more cash than they feel they can invest. The Journal found many instances of funds closing after an influx that followed a high star rating.

At Buffalo Emerging Opportunities Fund, fortunes soon reversed. In 2014 it lost more than 7% and trailed about 95% of other funds focused on growing small companies. Over the next two years its Morningstar rating fell to two stars and its assets plunged to less than \$100 million.

Buffalo Funds declined to comment.

### Buffalo Emerging Opportunities Fund

After Morningstar gave the tiny fund **five stars** in the spring of 2013, investors poured in hundreds of millions of dollars.

Over the next two years its ratings fell.

Inflows sparked by high star ratings are especially important for managers of actively managed funds now that more investors have migrated to passive ones that just try to match an index. On calls with securities analysts, fund-company chiefs often trumpet how much of their asset total is in four- and five-star funds, as a sign of the companies' ability to attract cash.



From his office park in Mechanicsburg, Pa., financial adviser Donald DeMuth starts each workday by logging onto Morningstar Office, which helps him organize client portfolios. He also uses Morningstar data to check on fund performance and details such as how rapidly a fund's portfolio turns over.

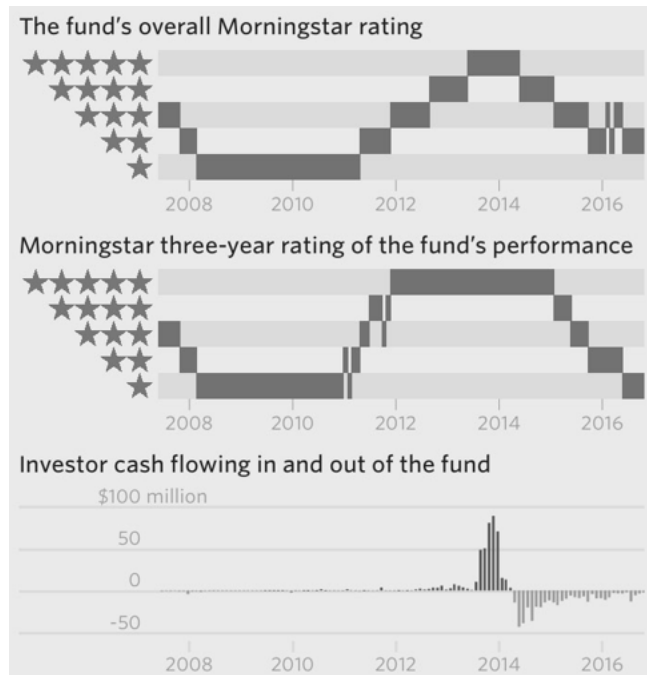
Mr. DeMuth, 66, has used Morningstar so long he can't remember when he started. "With rare exception, we would want a fund to have five stars," he said.

Left: Financial adviser **Donald DeMuth**

In early 2012 he put some of his clients' money in a fund called Permanent Portfolio when it had a five-star Morningstar rating. The fund invests across an array of assets, including gold and silver.

Its performance had already started to slip. By the end of 2012, it was 5 percentage points behind its Morningstar category benchmark, the "Morningstar Moderate Target Risk," which is a mix of global bonds and global stocks.

Mr. DeMuth moved his clients out in the fall of 2013, a year when the fund trailed that benchmark by 16 percentage points. At the end of 2013, Morningstar gave the fund a one-star rating for its performance over the prior three years.



### Permanent Portfolio

A financial adviser invested clients in Permanent Portfolio in early 2012 when it had five stars, but it quickly started underperforming.

Client David Peterseim, a 55-year-old retired surgeon in Charleston, S.C., said he was relieved the financial adviser got out. He was **disappointed** **“Morningstar didn’t have some semblance to reality,”** Dr. Peterseim said.

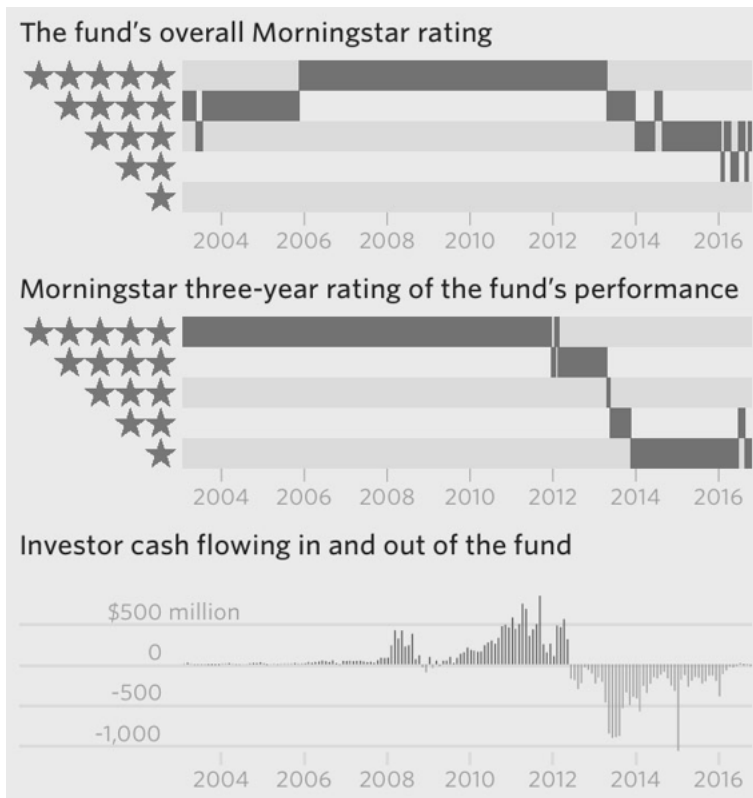
Michael Cuggino, president of the San Francisco-based family of Permanent funds, said Permanent Portfolio’s performance suffered as the price of gold and silver dropped.

Morningstar said Permanent Portfolio was an “outlier” that “was designed as an inflation hedge; when precious metals are in favor, it will score well, and when they’re not, this fund won’t do well.” Major rallies in gold and silver ended in 2011, shortly before Mr. DeMuth invested.

Other industry practices show how much Wall Street’s system for buying and selling mutual funds revolves around Morningstar ratings. Brokerage firms recommend high-stars funds to their networks of tens of thousands of financial advisers, and those brokers in turn put clients’ money in the funds. Large fund firms such as Fidelity Investments and [T. Rowe Price Group Inc.](#) allow investors to filter out funds with low star ratings on their websites.

Current and former Morningstar employees said some advisers use the ratings as a crutch.

**“It’s a cover-your-ass type of service,”** says Samuel Lee, a former strategist at Morningstar. **“An adviser can say, ‘I’m going to put you in this fund, it’s a 5-star fund,’ ...and if something goes wrong the adviser can shunt blame to Morningstar.”**





Left: Former Morgan Stanley financial adviser Scott Jennings, on advice he gave

Scott Jennings, a former Morgan Stanley financial adviser, recalled struggling last year to explain to a company's employees which funds they should choose in their retirement plans. He decided to keep it simple and told them,

You only have two funds rated by Morningstar — one's a two-star and one's a four-star. Go with the four-star.

At Morgan Stanley, "Advisers get in trouble when they go against the grain," Mr. Jennings said. "You isolate yourself more if you sell something else rather than just go with what research recommends."

**Morningstar said if advisers use the ratings this way, "this is a fault with the users of the ratings, not the ratings....** If an advisor wants to do proper due diligence, we provide a robust set of information." The firm's marketing cautions that "a high rating alone is not a sufficient basis for investment decisions."

Morgan Stanley declined to comment.

Fund firms often cite Morningstar ratings in their advertising — at times even out-of-date ones. Alliance Bernstein ran an ad for nine of its funds in a spring edition of Private Wealth magazine, citing star ratings from September 2016. Two of the funds' ratings had fallen by the time the ad ran. Alliance Bernstein ran a similar ad with the September ratings in a Morningstar handout at the research firm's April conference.

A spokesman for Alliance Bernstein said it made a "human error" in two instances out of "hundreds of digital and print ads running that quarter."

Dallas-based Hodges Small Cap Fund's retail share class beat 95% of similar funds in 2010 but had less than \$100 million in assets. Late in 2011 Morningstar gave it a fifth star, and everything changed, said Craig Hodges, who manages Hodges Capital Management. [Charles Schwab](#) put the fund on its "Schwab Select List." Mr. Hodges and his brother Clark decided to advertise the star rating on a billboard in Dallas/Fort Worth airport.

Hodges Capital paid more than \$10,000 to Morningstar for the right to advertise the stars, Craig Hodges said. By the end of 2014, assets in that fund reached about \$1.6 billion, according to Morningstar data.

### Hodges Small Cap Fund

The Hodges Small Cap Fund had trouble attracting investors until Morningstar gave it five stars.

Investment giants Vanguard Group and Fidelity Investments pay upward of \$1 million a year for licensing, data and other tools from Morningstar, said people familiar with the arrangements. It's unclear how much is just for advertising.

Michael Rawson, who was a Morningstar fund analyst for six years until spring 2016, said asset managers who pay to advertise their stars are misrepresenting their funds because the ratings are solely backward-looking.

"We know people misuse it. If we know people misuse it, why don't we do something about it?" Mr. Rawson said.

Morningstar said it publishes the ratings because it believes they have investment merit, not for financial gain. It said its intellectual-property licensing packages, which include the stars, contributed just 4% of revenue in 2016.

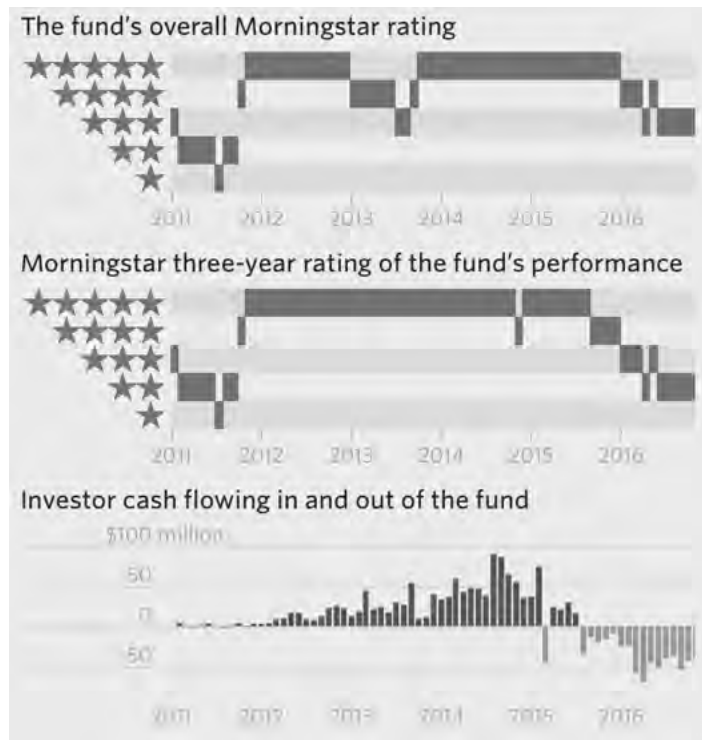
Mr. Mansueto said employees are encouraged to debate issues related to its products, but the efficacy of its star ratings no longer comes up internally. "This is not a hot topic or even a cold topic at Morningstar today," he said.

As for the Hodges Small Cap Fund, its performance has since turned down. Its rating has fallen to two stars from five, and assets that had soared after the top rating have dropped by more than half.

Aware of criticism of its star ratings, Morningstar in 2011 launched a second rating system, currently covering 26% of fund share classes, in which the firm's analysts do a more qualitative assessment. Unlike the star system, analysts' ratings often refer to likely future performance. The firm said analysts' ratings reflect its level of conviction that a fund will "outperform its peer group and/or relevant benchmark."

The **analysts** give funds one of three **medals** — **gold, silver or bronze** — or a "neutral" or "negative" rating.

The Journal examined how these funds performed in future years, as measured in their star ratings. It found that five years after having a gold-medal rating from Morningstar's analysts, funds had an average rating of 3.4 stars for that five-year period.





Silver-medal funds were rated 3.3 stars for their performance over the following five years. Bronze-medal funds had an average rating of 3 stars. In other words, while funds rated highly by the Morningstar analysts did better, the **differences** among the funds **weren't large**.

A Morningstar spokeswoman said there was a mismatch in how the Journal evaluated the performance of analyst-rated funds because it relied on star ratings. She said unlike analysts, the star ratings take into account a "load" — a sales fee — that some funds have.

The Journal analysis also found **Morningstar analysts' ratings of funds were overwhelmingly positive**. From November 2011 through August 2017, the firm gave analyst ratings to about 9,200 fund share classes. Just 421, or 5%, received negative reviews. At the end of August, only 1% did.

Mr. Mansueto said analysts tend to choose better funds to examine, since they can't review them all. "Investors want to know what funds they should be investing in," Mr. Mansueto said. "They don't care so much about what the terrible funds are."

Morningstar recently started a third "quantitative ratings" system that it says applies analyst screening to a broader universe of funds. This one is likely to include more negative ratings, executives said.

[J.P. Morgan Chase](#) & Co. is among asset managers that regularly send portfolio managers to talk to Morningstar analysts about the merits of their funds. [BlackRock](#) Inc. has a team that works to persuade Morningstar analysts of the merits of various funds, according to people familiar with the matter.

They added that BlackRock CEO Laurence Fink met with Morningstar analysts early this year to discuss the firm's ratings. In May, Morningstar upgraded to positive BlackRock's "parent pillar" rating, an evaluation in which analysts are looking for factors including an alignment of interests between fund shareholders and those who manage the funds.

A BlackRock spokesman said its team that works with research providers "is focused on providing transparency, education and information about our products to facilitate informed decisions."

Morningstar said BlackRock had changed how portfolio managers were paid in a way that led to their having more of their own money invested in BlackRock funds. "We followed the same process in evaluating BlackRock's standing as a parent that we do with any other firm," said a Morningstar spokeswoman.

Mr. Kapoor, the Morningstar CEO, said analysts operate independently from fund companies and without influence from management despite frequent angry calls executives must field. "We prize our independence," he said.

Morningstar's application to the Securities and Exchange Commission for permission to launch nine mutual funds of its own has led some critics to cry conflict of interest. The Morningstar spokeswoman said the firm is in a quiet period related to the

filing, restricting what it can say, but she said the firm's analysts sit "in a separate entity" from Morningstar Investment Management, which would oversee the company's funds.

The Journal spoke with more than three dozen executives at asset-management firms large and small about Morningstar. Few would go on the record.

Several years ago, some were unhappy when Morningstar changed the way it calculates its "stewardship grade," which is supposed to measure the corporate culture of each fund company. Executives from fund companies viewed the change as the latest example of Morningstar acting unilaterally and without explaining itself.

The money managers drafted a two-page letter to Morningstar that accused the company of "bullying" fund companies and running a monopoly, according to people familiar with the letter.

"The nature of what we do is going to end up alienating some portion of the industry," said Jeffrey Ptak, Morningstar's global director of manager research. "That's not something we relish but it's part of our job."

When the time came for the money-management firms to put their names to the letter, they balked. The letter was never sent.

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## **How The Wall Street Journal Did Its Analysis of Morningstar Ratings**

by Tom McGinty – WSJ – Oct. 25, 2017

Morningstar provided the Wall Street Journal with a list of all U.S. open-end mutual funds that operated at any time from 2003 through October 2016. The list included more than 10,800 funds that together had almost 39,000 share classes that were rated by Morningstar during the period. Share classes within a given fund are all invested in the same securities and differ only in the fees they charge to investors. The funds had been classified into more than 100 investment categories by Morningstar and they invested in a wide range of securities, including domestic and international stock and municipal, government and corporate bonds.

Using complimentary access to Morningstar's data and investment-analysis platform, Morningstar Direct, the Journal pulled monthly performance metrics for each share class for the period spanning from January 2003 through October 2016 (166 months). The metrics the Journal used in its analysis included:

- \* Overall star rating
- \* 3-, 5- and 10-year star ratings
- \* Morningstar analyst ratings
- \* Monthly net assets
- \* Estimated monthly net flow (the net of the dollars investors put into and pulled from the share class during the prior month)

## The Basics of Morningstar's Star Ratings

Morningstar's star ratings represent how well a given share class performed among all other share classes within its Morningstar-assigned category over a given period. The ratings do not take into account how the share class has performed against the general market in which it invests. To be rated, a share class must have a history of at least three years.

For each share class at the end of every month, Morningstar uses a proprietary algorithm to calculate the "**Morningstar Risk-Adjusted Return**" (**MRAR**) for the prior three years. The risk weighting is generally a measure of how radically the monthly returns moved up and down during the period being studied. For example, two share classes could have identical returns over a three-year period, but if one had large up-and-down swings in its monthly returns while the other saw only small month-to-month variations, the volatile share class would be penalized by the risk-weighting analysis and would earn a lower MRAR score for the three-year period.

Morningstar sorts the share classes within each category by their MRAR scores. The lowest 10% of share classes get a three-year rating of one star; the next 22.5% get two stars; the middle 35% get 3 stars; the next 22.5% get four stars; and the top 10% get five stars.

For share classes with five or more years of history, Morningstar calculates a five-year MRAR and assigns five-year star ratings based on the same percentile cutoffs as the three-year rating. For share classes with at least 10 years of data, the same process is followed to calculate the 10-year MRAR and star rating.

Morningstar's overall star rating — the one most frequently publicized by investment managers — is a weighted distillation of the three-, five- and 10-year ratings. The formula for calculating the overall rating varies depending on how long a share class has existed:

- \* For share classes with less than five years of history, the overall rating is equal to the three-star rating.
- \* For share classes with at least five years of history but less than 10 years, the overall rating is based 60% on the five-year rating and 40% on the three-year rating.
- \* For share classes with at least 10 years of history, the overall rating is based 50% on 10-year rating, 30% on the five-year rating and 20% on the three-year rating.

For example, this table shows the calculation of an overall rating for a share class with a 10-year rating of 4, a five-year rating of 3 and a three-year rating of 3:

Rating period	Stars	Weight	Weighted value (weight x stars)
Three years	3	20%	0.6
Five years	3	30%	0.9
10 years	4	50%	2
Sum of weighted values			3.5
Overall rating (rounded sum of weighted values)			4

With 50% of the overall Morningstar rating predicated on the 10-year performance of a share class, overall ratings tend to move more slowly than the three-year ratings. Put another way, the **overall rating puts more weight on the long-ago performance of a fund than what it has delivered in recent years.**

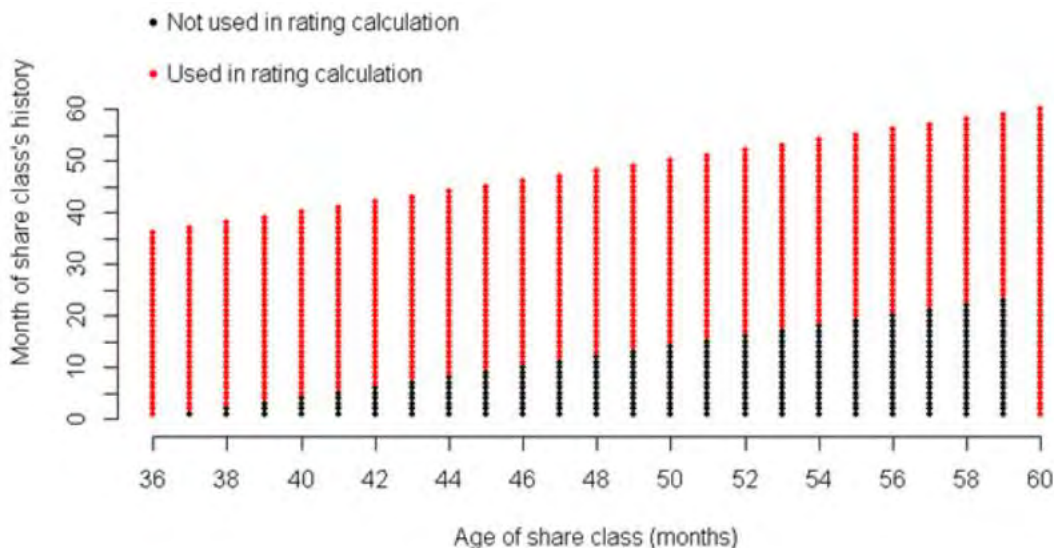
The effects of that weighting become evident when looking at how the overall and three-year ratings of a share class change over time. The Journal’s analysis found that the average share class with a five-star overall rating on a given date had an overall rating of 3.7 stars three years later, a decline of 1.3 stars. But those same share classes averaged three-year ratings over the same period of just 3.1, a decline of 1.9 stars.

Note: During the period studied by the Journal, Morningstar’s methodology included a provision for altering the weighting used for the overall score for funds that moved from one Morningstar category to another. The Journal found the adjustment affected less than 2% of the overall ratings in its data set. That **adjustment, which was meant to account for differences among categories, was discontinued in November 2016.**

**A quirk of Morningstar’s methodology for its overall rating:**

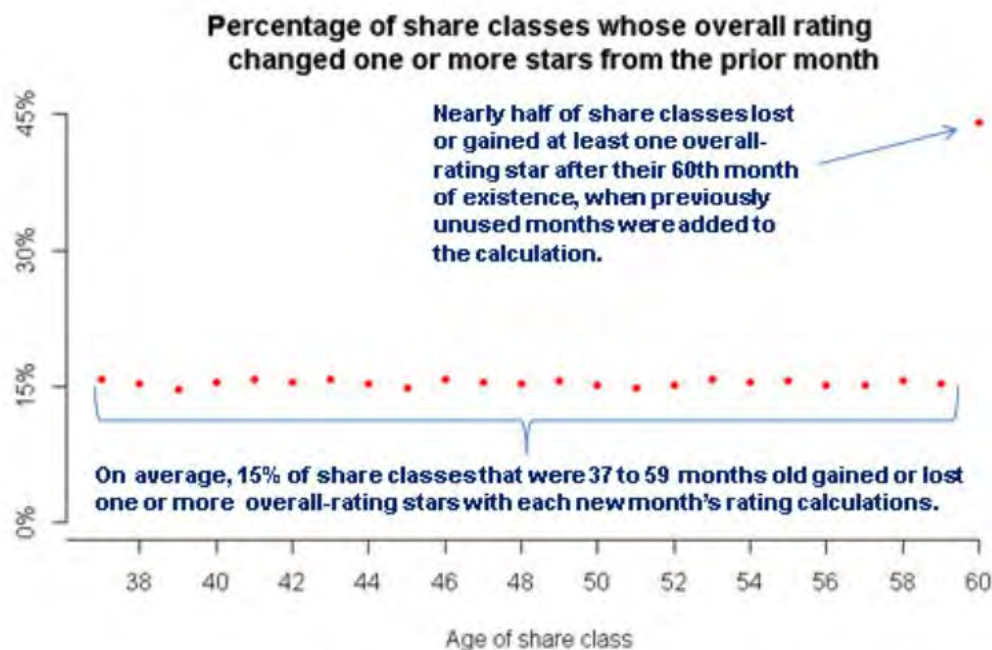
Because of the way the overall rating is calculated, there are many months during a share class’s life when its ratings are calculated using only part of the share class’s performance history. Later, when those months are added to the calculations, an unusual number of share classes are hit with sudden — sometimes large — changes in their overall ratings.

As noted above, a share class gets its first Morningstar rating after its 36<sup>th</sup> month of existence. From that point until its 60<sup>th</sup> month, its three-year rating is calculated using the most recent 36 months of data and its overall rating is equal to the three-year rating. As each new month is added to the three-year calculation, the 37<sup>th</sup> youngest month is dropped from the calculation. By the time a share class is 59 months old, the first 23 months of its history are left out of the ratings calculations.



After its 60th month, a share class gets a five-year rating for the first time. All 60 months of the share class's history are used to calculate the five-year rating and the most recent 36 months are used to calculate the three-year rating. The overall rating then is derived from those two ratings, with the five-year counting toward 60% of the overall rating and the three-year counting toward 40% of it.

Suddenly adding 23 months of history that were disregarded just one month earlier causes an unusually large number of share classes to see their overall rating change by one star or more.



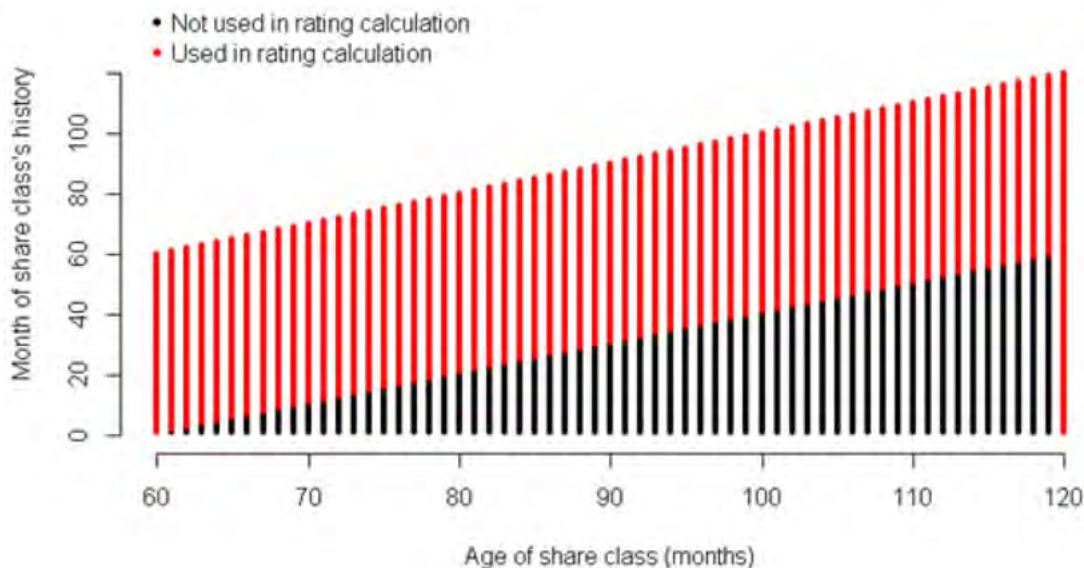
The sudden rating changes may have led to some unpleasant surprises for investors who relied on star ratings of share classes nearing 60 months of age when making investments. More than 800 share classes in the Journal's analysis that had a



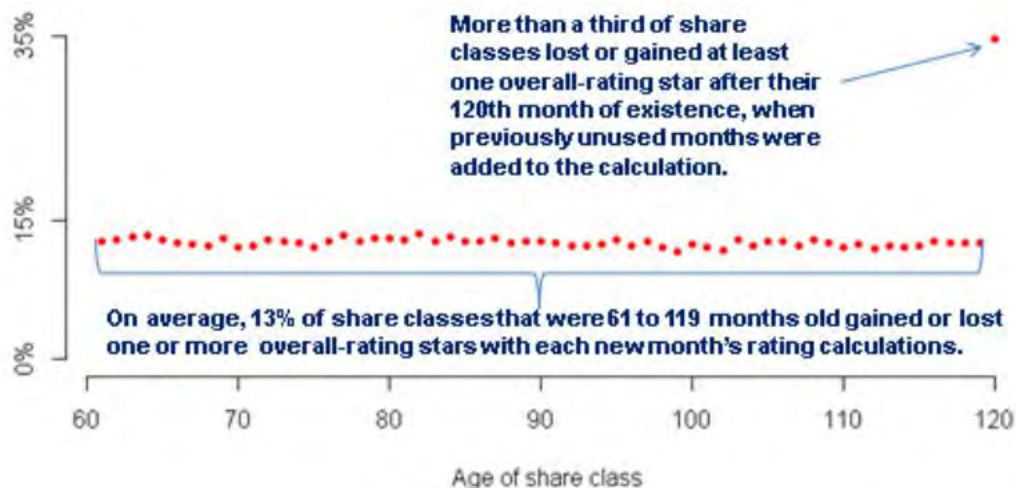
five-star rating after their 59th month saw a change in their overall rating of one or more stars after their 60th month. In 104 instances, share classes that had an overall rating of five stars after their 59th month fell all the way to three stars when the oldest 23 months of their history were added to the ratings calculations, the Journal's analysis found. In four instances, share classes hitting the 60-month milestone fell from a five-star overall rating to two stars.

### More unused months

From the 60th month of a share class's existence through the 119th month, only the most recent 60 months are used in the ratings calculations, with the most recent 60 going into the five-year rating and the most recent 36 used for the three-year rating. Throughout this time, the overall rating is composed 60% of the five-year rating and 40% of the three year. By the time the share class hits the age of 119 months, its oldest 59 months do not factor into the ratings calculations.



After its 120th month, a share class gets a 10-year rating for the first time. All 120 months of the share class's history are used to calculate the 10-year rating; five- and three-year ratings continue to be calculated with the most recent 60 and 36 months, respectively. The newly minted 10-year rating now counts for 50% of the overall rating, while the five-year rating counts for 30% and the three-year 20%.



As happened at the 60-month threshold, the addition of previously excluded months had a pronounced effect on the overall ratings.

After their 120th month, 287 share classes that had five-star overall ratings were downgraded to four stars and 33 were downgraded from five stars to three.

**Morningstar** said, “We are **aware of this phenomenon** and have explored using unique or rolling periods, but it exponentially increased the complexity of the ratings. The disclosure on thousands of unique peer groups that it would require was a daunting obstacle. It also in general led to very small differences in outcomes. To undermine the simplicity of a starting point — which is all we claimed the stars to be — for minor or nonexistent benefits in outcomes struck us as a poor tradeoff. If we were promoting the stars as a conclusion, we would have pursued such options. As we and our readers knew the stars to be a first-stage screen in the research process, we didn't incorporate this suggestion.”

Gauging the predictive powers of Morningstar ratings

**Morningstar says its star ratings are backward-looking and not meant to be an indicator of future performance, but** the company also has described the star ratings as “moderately predictive.”

To assess the predictive powers of Morningstar's ratings, the Journal started with the overall rating of each share class on each rating date and looked forward three, five and 10 years to see what ratings it had earned over those periods.

For example, say share class x had an overall rating of 5 stars on Jan. 31, 2003. The performance of the share class over the following three years, relative to all other share classes in its category, could be determined by looking forward 36 months, to Jan. 31, 2006, and examining the 3-year star rating Morningstar assigned to the fund on that date.

### How did ratings hold up over three years?

The table below shows the percentage of share classes that started out with a given overall rating and received a given three-year rating 36 months later. (The three-year rating ranks the performance of the fund over the prior three years.)

The overall rating that share classes started out with is labeled down the left side of the table; the 3-year rating they earned 36 months later is across the top of columns two through six. The last two columns contain the percentages of share classes that merged into other funds or liquidated before the three-year period was completed and thus didn't receive a three-year rating for the period.

For example, the table shows that, among share classes that started out with an overall rating of five stars, 14% delivered risk-weighted returns over the following three years that merited a five-star three-year rating, and 10% rated just one star. For funds that started out with a one-star overall rating, just 5% earned five stars after three years and 15% earned just one star.

Note: The Journal's data for its Morningstar analysis runs from January 2003 through October 2016, so the latest starting point for this table was October 2013 to allow for three years of future performance.

Starting Overall Rating	Morningstar rating of next three years of performance					Merged	Liquidated
	1	2	3	4	5		
1	15%	20%	17%	8%	5%	20%	14%
2	11%	24%	25%	12%	4%	15%	9%
3	7%	22%	33%	17%	6%	9%	6%
4	7%	18%	34%	24%	9%	5%	4%
5	10%	17%	29%	25%	14%	2%	3%

### How did ratings hold up over five years?

The table below shows the percentage of share classes that started out with a given rating and received a given five-year rating five years later.

Note: The latest starting point for this table was October 2011 to allow for five years of future performance.

Starting Overall Rating	Morningstar rating of next five years of performance					Merged	Liquidated
	1	2	3	4	5		
1	11%	16%	14%	8%	4%	30%	18%
2	9%	20%	22%	10%	4%	24%	13%
3	7%	19%	30%	15%	5%	15%	10%
4	7%	18%	31%	21%	8%	9%	7%
5	10%	18%	28%	22%	12%	5%	5%

**How did ratings hold up over 10 years?**

The table below shows the percentage of share classes that started out with a given rating and received a given 10-year rating five years later.

Note: The latest starting point for this table had to be October 2006 to allow for 10 years of future performance.

Starting overall rating	Morningstar rating of next 10 years of performance					Merged	Liquidated
	1	2	3	4	5		
1	8%	9%	9%	3%	2%	48%	21%
2	7%	14%	14%	7%	2%	41%	16%
3	6%	14%	22%	11%	3%	30%	14%
4	6%	14%	25%	17%	6%	21%	11%
5	8%	13%	22%	21%	14%	13%	9%

**Another way to look at how ratings hold up over time**

In addition to determining the percentages of share classes that wound up at each rating level over different periods of time, the Journal calculated the average future ratings of all share classes over three, five and 10 years.

One problem in calculating the average of those future ratings is what experts refer to as “**survivor bias**.” The **only share classes that will have ratings three years in the future are those that survived the entire period. Funds that merged into other funds or liquidated (shut down and returned money to investors) will not have ratings to include in the averages at the end of the period being studied.**

Morningstar records the dates when share classes disappear and notes whether the disappearance was due to a liquidation or a merger. **Funds that liquidate typically have performed poorly and suffered investor withdrawals**, so the Journal assumed that share classes that liquidated during the periods being studied performed at a one-star level.

**Mergers are not as cut and dried.** Some funds that merge into others are weak; others have good track records and large amounts of assets. For those reasons, the Journal decided to drop share classes that merged from the analysis rather attempting to classify their performance.

Morningstar’s experts said they disagreed with that approach. They would prefer that both merged and liquidated share classes be treated as one-star performers during the time frames in which they drop out of the data. The Journal ran the analysis both ways.

To create the tables below, the Journal examined the starting overall rating of each share class on each rating date and looked forward three, five and 10 years to see what rating Morningstar gave the share class for those periods. For each time frame, the Journal also calculated the average overall rating that share classes received.

Share classes that liquidated during the period being studied were treated as if they had been given a one-star rating for the period. In cases where a share class disappeared before the end of the period due to a merger, the Journal dropped it from the analysis for the article and the tables on the left below. The tables on the right below follow Morningstar’s preferred methodology, treating merged funds as if they had been given a one-star rating for the period.



Merged classes dropped from analysis				Merged classes given one star			
Starting overall rating	Three-year rating three years later	Overall rating three years later	Records	Starting overall rating	Three-year rating three years later	Overall rating three years later	Records
1	2.3	1.8	160,795	1	2.0	1.6	201,485
2	2.5	2.3	475,492	2	2.3	2.1	561,277
3	2.8	2.8	743,819	3	2.6	2.6	814,864
4	3.0	3.4	455,493	4	2.9	3.2	479,149
5	3.1	3.7	159,487	5	3.1	3.7	163,635
*Limited to rating dates of 2013-10-31 or earlier				*Limited to rating dates of 2013-10-31 or earlier			

Merged classes dropped from analysis				Merged classes given one star			
Starting overall rating	Five-year rating five years later	Overall rating five years later	Records	Starting overall rating	Five-year rating five years later	Overall rating five years later	Records
1	2.2	2.0	113,495	1	1.8	1.7	161,267
2	2.4	2.3	334,388	2	2.1	2.0	438,502
3	2.7	2.7	534,029	3	2.4	2.5	628,498
4	2.9	3.1	333,491	4	2.7	2.9	368,284
5	3.0	3.4	123,066	5	2.9	3.3	129,931
*Limited to rating dates of 2011-10-31 or earlier				*Limited to rating dates of 2011-10-31 or earlier			

Merged classes dropped from analysis				Merged classes given one star			
Starting overall rating	10-year rating 10 years later	Overall rating 10 years later	Records	Starting overall rating	10-year rating 10 years later	Overall rating 10 years later	Records
1	1.9	1.9	28,846	1	1.4	1.5	55,757
2	2.2	2.3	92,367	2	1.7	1.7	156,853
3	2.5	2.6	154,477	3	2.0	2.1	221,211
4	2.8	2.9	103,065	4	2.4	2.5	130,482
5	3.0	3.1	39,802	5	2.8	2.9	45,704
*Limited to rating dates of 2006-10-31 or earlier				*Limited to rating dates of 2006-10-31 or earlier			

### How do analyst ratings hold up in the future?

In **2011**, **Morningstar** introduced a **new rating system**, analyst ratings, in which the firm’s analysts provide a more qualitative analysis of funds. That system doesn’t have as long a track record to evaluate as the star ratings, but the Journal did look at how the analyst rating on a given date held up over the small number of three- and five-year time frames available, using the same methodology as when the overall star rating was used as the starting point for the tables above. The analysis includes analyst and star ratings from November 2011 through August 2017.

Morningstar’s experts object to the way the Journal conducted this analysis. They said they would prefer that the analysis be weighted by the assets of each share class or limited to a single representative share class, such as the oldest share class in a fund, because analysts give funds a single analyst rating rather than rating share classes separately, as star ratings do. Morningstar also said there’s a mismatch in how the Journal evaluated analyst ratings because star ratings take into account up-front fees known as loads while analysts’ evaluations do not.

The Journal decided to count all share classes equally in the analysis because investors looking at any share class in a given fund would see the same analyst rating and perhaps weigh that rating when deciding where to invest.

These tables show a breakdown of the three- and five-year ratings that analyst-rated share classes received. For example, three years after they had a Gold analyst rating, 14% of share classes received a five-star rating from Morningstar for the three-year period. Just 6% received a one-star rating.

Starting analyst rating	Three-year rating three years later						
	1	2	3	4	5	Merged	Liquidated
Gold	6%	20%	29%	28%	14%	3%	1%
Silver	8%	20%	28%	23%	16%	3%	2%
Bronze	10%	23%	34%	19%	7%	3%	3%
Neutral	8%	24%	37%	17%	6%	4%	3%
Under Review	12%	19%	25%	22%	14%	8%	0%
Negative	7%	23%	21%	15%	5%	2%	28%

analystRating	Five-year rating five years later						
	1	2	3	4	5	Merged	Liquidated
Gold	5%	17%	28%	28%	17%	3%	1%
Silver	8%	16%	27%	27%	18%	2%	2%
Bronze	8%	22%	33%	19%	11%	4%	3%
Neutral	4%	22%	37%	18%	9%	8%	3%
Under Review	16%	16%	22%	23%	14%	8%	2%
Negative	4%	10%	17%	18%	11%	5%	35%

**How do the ratings affect decisions of investors and their investment advisers?**

Investors and advisers interviewed by the Journal said they used Morningstar’s star ratings when deciding which funds to invest in and that they tended to favor funds rated with at least four stars. Morningstar researchers recently noted that “the rating has been used to identify funds that fund selectors expect to perform well in the future.” Investors also clearly pay attention to the past returns of funds when making their selections.

The Journal set out to examine the interplay between ratings and returns of funds as investors decided which funds to invest in or pull their money from. For each of the 130 months from January 2003 through October 2013, the Journal started out with all share classes that existed in the given month and survived for the ensuing three years. For each of those share classes, the Journal compiled the following metrics for the three-year period:

- ❖ The net of investor dollars put into or pulled from the share class (“net flow”).
- ❖ The net flow over three years divided by the assets of the share class at the beginning of the period (net flow percentage).
- ❖ The three-year rating Morningstar gave the share class at the end of the three years.
- ❖ The average overall rating of the share class during the three years, rounded to a whole number.

Average overall rating	Rounded rating value
1.0 - 1.49	1
1.5 - 2.49	2
2.5 - 3.49	3
3.5 - 4.49	4
4.5 - 5.0	5

The Journal then calculated the averages of those metrics across all 130 three-year periods for each combination of the average overall rating for the three years (rounded to the nearest whole number) and three-year rating share classes were given at the end of the three-year period.

This table shows the average net flow, as a percentage of starting assets, that each combination of average overall rating and three-year rating experienced over the three-year periods studied by the Journal.

For example, it shows that share classes that averaged an overall rating of five stars over the period and received a five-star rating from Morningstar at the end of the period saw average net flows of 107%. In other words, those funds had high overall ratings during the three years, delivered performance that ranked them at the top of the three-year ratings and, on average, they saw their assets more than double over the three years.

The table also shows that share classes that had an average overall rating of one star during the three years and were given a five-star three-year rating from Morningstar at the end of the three-year period saw their assets decline by about an average of 24% during the three-year periods studied by the Journal.

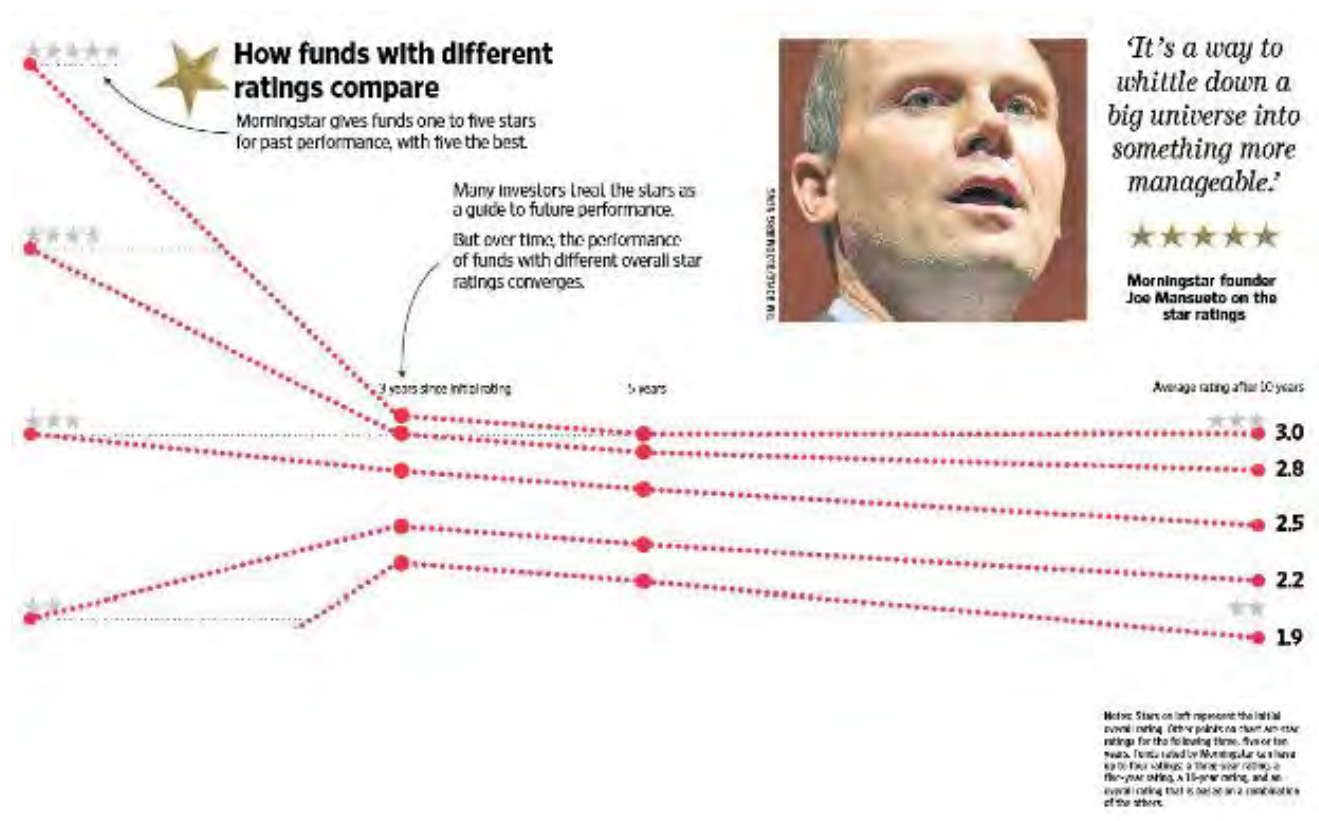


	Three-year star rating at end of three years				
Average overall rating over three years	1	2	3	4	5
1	-46%	-43%	-42%	-40%	-24%
2	-42%	-37%	-32%	-29%	-16%
3	-34%	-26%	-16%	-10%	5%
4	-16%	-6%	5%	14%	42%
5	26%	39%	50%	58%	107%

This table shows the average percentage of share classes in each grouping that saw net outflows of investor dollars during the three-year periods studied by the Journal. For example, an average of just 20% of share classes that had an average overall rating of five stars during the three-year periods and earned an overall rating of five stars three years later saw investors pull more money from the fund than they put into it during the three year periods studied by Journal.

The table also shows that, on average, 77% of share classes that averaged an overall one-star rating during the three years saw net outflows of investor dollars even though they had performed at a five-star level over the three-year periods.

	Three-year star rating at end of three years				
Average overall rating over three years	1	2	3	4	5
1	85%	81%	78%	78%	77%
2	83%	79%	73%	69%	60%
3	76%	71%	62%	56%	48%
4	61%	54%	47%	41%	34%
5	45%	38%	31%	27%	20%



## The Ontario Energy Board Releases Its Decision on Hydro One's 2017-2018 Transmission Revenue Requirement Application

Co. Press Release – SNL Financial LC – Sep. 29, 2017

Hydro One Networks Inc. (Hydro One) announced today that the **Ontario Energy Board (OEB)** issued a **decision** regarding **Hydro One's 2017/2018 Transmission Revenue Requirement and Rate Settlement** application (Board File No.: **EB-2016-0160**).

As Hydro One's customers requested during extensive consultations, the application reflected the precise cost and detailed analytics to maintain **performance** in the transmission infrastructure, the need to improve power quality and maintain reliability for industry and local electricity providers across the province.

### Highlights of the Decision

- **Capital spending** is approved at **\$950 million for 2017** and **\$1 billion for 2018**, reflecting a **reduction of \$126.1 million in 2017** and **\$122.2 million in 2018**.
- Operating, Maintenance & Administrative (OM&A) expenses are approved at \$397.7 million for 2017 and \$394.3 million for 2018, reflecting a reduction of \$15 million/year related to compensation.

- Estimated tax expenses are approved at \$58.1 million for 2017 and \$63.6 million in 2018, an estimated reduction of \$23.8 million in 2017 and \$26 million in 2018, related to **tax savings as a consequence of Hydro One's IPO**
- **Rates effective January 1, 2017**

Hydro One is reviewing the decision in detail and will determine the appropriate next steps. A copy of the decision is available on the OEB's website.

#### Forward-Looking Statements and Information:

This press release and the decision to which it refers may contain "forward-looking information" within the meaning of applicable securities laws. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "can", "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required bylaw.

#### About Hydro One Inc.:

Hydro One Inc. is a fully owned subsidiary of Hydro One Limited, Ontario's largest electricity transmission and distribution provider with more than 1.3million valued customers, \$25 billion in assets and annual revenues of over \$6.5billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives Energy Company designation from the Canadian Electricity Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fibre optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H). For more information about everything Hydro One, please visit [www.HydroOne.com](http://www.HydroOne.com).

For further information:

Media: Natalie Poole-Moffatt, Corporate Communications, [media.relations@hydroone.com](mailto:media.relations@hydroone.com), 416-345-6868

Investors: Omar Javed, Director, Investor Relations, [investor.relations@hydroone.com](mailto:investor.relations@hydroone.com), 416-345-5943

## **Oncor Counting on \$250M EQUITY INFUSION FOR SEMPRA DEAL, CEO Says** by Colby Bermel – SNL Financial LC – Oct. 31, 2017

**Oncor** Electric Delivery Co. LLC is **counting on** a **\$250 million equity infusion to reach its debt-to-equity ratio set by Texas regulators, CEO and Executive Director Bob Shapard said** on an Oct. 31 earnings call.

The **Public Utility Commission of Texas** on Oct. 13 issued a rate case order that **set**, among other provisions, an **authorized regulatory capital structure of 57.5% long-term debt and 42.5% equity**. This ratio comes into effect Nov. 27.

But **Oncor's current regulatory capitalization ratio is 59.1% debt to 40.9% equity**. The company thus needs to make up that 2.5 percentage point debt difference. "If we don't receive an equity infusion, we won't be there by the end of the year," Shapard told analysts.

Sempra Energy's proposed acquisition of Oncor rests in part upon the infusion being made on or before the merger agreement's closing date, the Texas company said in a Form 10-Q released Oct. 27.

In a Form 8-K, Oncor confirmed its \$8.4 billion capital expenditures plan for 2018 through 2022 that Sempra executives discussed on their Oct. 30 earnings call. The Texas company will spend \$3.5 billion on transmission expansion, \$700 million on transmission maintenance, \$1.7 billion on distribution expansion, \$1.5 billion on distribution maintenance, \$400 million on automation and \$600 million on information technology.

Sempra executives have defended the company's Oncor deal structure after a PUC member raised concerns on how Sempra will finance the acquisition. Shapard agreed with Sempra's CEO and said his utility is holding up its end of the bargain as well.

"As has always been the case, Oncor continues to satisfy all of its duties and cooperate with its stakeholders, including shareholders, regulators and Texas market participants," he said. "Sempra has modified its original acquisition structure to provide a conservative, straightforward financing plan designed to address any concerns parties in Texas have regarding the financing."

Shapard said that if the bankruptcy case of Energy Future Holdings Corp., Oncor's parent company, is not settled, it would likely go to hearings in the February timeframe. The CEO added that Oncor's operations are "unaffected" by the bankruptcy process.

Those third-quarter operations were affected, however, by unfavorable weather and increased pension funding, Oncor Senior Vice President and CFO David Davis said.

Residential deliveries were down 4.1% compared to those during the third quarter of 2016, he said, and cooling degree days were down in each of the three months of this year's third quarter compared to the same time last year. Oncor's operating cash flow in the third quarter of 2017 was down \$76 million, or 15.6%, primarily related to a more than \$100 million increase in pension funding quarter-to-quarter.

Davis also said Oncor will not use commercial and industrial gigawatt-hour volumes for base revenue billing purposes, which were flat compared to the third quarter of 2016. But after adjusting for weather, Oncor "continues to show solid growth," he added.

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## **Ontario Budget Watchdog Says Power Rate-Cut Impacts Obscured** by Gene Laverty – SNL Financial LC – Oct. 17, 2017

The **Ontario government's rate-mitigation programs designed to lower electric bills immediately could cost taxpayers as much as C\$4 billion in hidden interest costs over the next 30 years**, the province's auditor general said.

The **province plans to account for the cost of the programs under processes that do not conform to established policies for preparing financial statements**, Auditor General Bonnie Lysyk said in an **Oct. 17** statement. The auditor is a government-appointed watchdog over provincial programs. The **government's system of accounting would hide the real financial impact of the rate-mitigation programs by understating provincial annual deficits and net debt.**

According to the **Financial Accountability Office of Ontario**, the **total cost** of the electricity rate reduction from the program, called the **Fair Hydro Plan**, is estimated to be **C\$39.4 billion over 30 years, including about C\$4 billion in additional interest charges**. These charges are extra because the **province does not plan to borrow all the money directly**, Lysyk said. **Instead**, the financial structure the **government designed has other government entities, including Ontario Power Generation Inc., borrowing at higher interest rates.**

"The **accounting proposed** by the government **is wrong** and **if used** would **make the province's budgets** and future consolidated **financial statements unreliable**," Lysyk said in the statement. "We're **not questioning** the government's **policy decision to give Ontarians a discount on their electricity rates**. What we are **questioning** is **how** the government is going **to report the effects of that decision** to the people of Ontario. There's **still time to fix it**, and we're **encouraging** the **government to do so.**"

The **province unveiled its Fair Hydro Plan in May**, proposing to **cut consumer electricity rates by an average of 25%** by **moving some** of the costs of its **renewable energy programs to government expenses** and **spreading the cost** of those **investments over a longer period**. The **program went into effect this summer**.

**Lysyk**, who has previously **questioned** the financial impacts of the provincial government's renewable energy policies, issued a report that examines what her office calls the **"needlessly complex" financing structure** the **government used to achieve the desired accounting results**. The report was compiled with advice from other current and former provincial auditors general as well as accounting standards professionals.

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## Ontario Groups Offer Guidelines for Energy Policy Planning to Government

by Gene Laverty – S&P Global Market Intelligence – Nov. 17, 2017

A **coalition of 19 business and civic groups known as the Ontario Electricity Stakeholders Alliance** is offering the government of Canada's most-populous province guidelines for long-term electricity planning.

Among the suggestions the group is offering are **improved transparency** in long-term planning, **competitive processes** to support **lower costs for consumers**, and **greater independence for provincial agencies and regulators**. The group is committed to working with private and public shareholders to advance its plans, according to a Nov. 16 statement.

Ontario's electricity markets have been roiled by the government's aggressive climate change-mitigation agenda, which has led to shutting large coal-fired plants operated by province-owned Ontario Power Generation Inc., refurbishing nuclear plants and adding renewables to the power grid. The programs have contributed to **energy costs in the province** that are **among the highest in Canada** and prompted the government to institute changes to lower consumer bills. Critics have said the government has not allowed full participation in its long-term power plans.

"The Ontario Chamber of Commerce has long advocated that future energy policies reflect the principles of competitiveness, transparency and flexibility," **Ontario Chamber of Commerce** interim CEO Richard Koroscil said in the statement. "The **power framework and its eight recommendations** presented by the **Ontario Electricity Stakeholders Alliance builds on the advocacy of OCC** and provides a **collective voice** poised to tackle the energy challenge currently faced by Ontario businesses."

The **alliance includes eight regional chambers of commerce and boards of trade** as well as **manufacturing, business, real estate and agriculture organizations**. **Consumers** are **represented** by the **Consumer Policy Institute**, and **workers** are **represented by the Society of Energy Professionals**, a **power industry union**.

"All Ontarians stand to benefit from smart electricity decisions," the statement said. "The breadth of members of the Ontario Electricity Stakeholders Alliance speaks to the far-reaching impact of electricity policy, and the importance of enacting this framework."

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## Ontario Completes Sale of Hydro One Shares to First Nations

Co. Press Release – S&P Global Market Intelligence – Jan. 2, 2017

The **Province** announces that it has now **completed the sale of 14,391,012 common shares of Hydro One Limited**, representing approximately **2.4% of the outstanding common shares, to OFN Power Holdings LP**, a limited partnership **wholly-owned by Ontario First Nations Sovereign Wealth LP**, which is **in turn owned by 129 First Nations in Ontario at a purchase price of \$18 per share** for a

**total** purchase price of **\$259,038,216**. This transaction fulfills the Province's commitment in its agreement-in-principle with the Chiefs-in-Assembly on behalf of the First Nations in Ontario, which was previously announced on July 12, 2016.

This transaction demonstrates the goodwill envisioned by the Political Accord to promote stronger economic relations and is one of many steps on Ontario's journey of healing and reconciliation with Indigenous peoples. It will provide meaningful opportunities to First Nations for collective wealth creation and to advance economic development initiatives.

The **purchase is financed through a 25-year term loan from the Province** with a principal amount of \$259,038,216. The **interest rate** for the term loan is at the **Province's relevant borrowing rate, plus 15 basis points**. The **shares** sold in the transaction have been **pledged as security for the term loan** provided by the Province. The Province has also provided seed capital of approximately \$29 million in cash to a new investment fund wholly-owned by Ontario First Nations Sovereign Wealth LP.

Immediately prior to closing of the transaction, the Province owned 296,803,660 common shares of Hydro One Limited, representing approximately 49.9% of the common shares of Hydro One Limited. After completing the transaction, the Province owns 282,412,648 common shares of Hydro One Limited, representing approximately 47.4% of the common shares of Hydro One Limited.

The Province holds common shares of Hydro One Limited for investment purposes. As announced on May 17, 2017, the **Province has completed its initiative to broaden the ownership of Hydro One Limited and does not anticipate any further offerings of common shares of the Hydro One Limited by the Province**. The Province continually reviews its investment alternatives and may purchase or sell securities of Hydro One Limited from time to time in accordance with applicable laws and the governance agreement dated as of November 5, 2015 between the Province and Hydro One Limited (the "Governance Agreement") and the registration rights agreement dated as of November 5, 2015 between the Province and Hydro One Limited (the "Registration Rights Agreement"). A **copy of the Province's share ownership report**, which includes additional information about the Governance Agreement and the Registration Rights Agreement referred to above, may be found on Hydro One Limited's SEDAR profile, at **[www.sedar.com](http://www.sedar.com)**.

The Province is the beneficial and registered owner of the shares referred to above.

The Province has obtained a decision dated June 6, 2017 from the Canadian securities regulatory authorities (the "Decision") that permits it to file reports in connection with the early warning reporting requirements that "disaggregate" the Hydro One Limited common shares held on behalf of the Province by the Minister of Energy from other Hydro One Limited securities that may be owned or controlled by other entities under the direct or indirect control of the Province (the "Non-Aggregated Holders"), subject to certain conditions. Hydro One Limited securities owned or

controlled by such other Non-Aggregated Holders have not been, or may not have been, disclosed in this press release, in reliance on the Decision. This press release discloses only the Hydro One Limited common shares held on behalf of the Province by the Minister of Energy, as permitted by the Decision.

Her Majesty the Queen in Right of Ontario (the "Province"),  
as represented by the Minister of Energy  
c/o Ministry of Energy  
900 Bay Street, 4th Floor  
Hearst Block  
Toronto, ON M7A 2E1

ontario.ca/energy

Disponible en français

SOURCE Ontario Ministry of Energy

Colin Nikolaichuk, Minister's Office, Ministry of Energy, Colin.Nikolaichuk@ontario.ca, 416-325-2690; Natasha Demetriades, Ministry of Energy, Natasha.Demetriades@ontario.ca, 416-327-3855

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## **Ontario Joins Quebec/Calif. Carbon Pact**

by Gene Laverty – SNL Financial LC – Sep. 22, 2017

**Ontario will become the third member of the Western Carbon Initiative on Jan. 1, 2018, after Premier Kathleen Wynne signed an agreement to integrate and harmonize emissions-cap programs.**

**California** Gov. Jerry Brown and **Quebec** Premier Philippe Couillard, who represent the **other two jurisdictions** involved in the **cap-and-trade** scheme, were in Quebec City to ratify the pact on Sept. 22. The agreement will allow the three governments to hold **joint auctions** under the program. **Ontario** has **already raised** about **C\$1.5 billion** through emissions-credit **auctions** as part of the program.

"Climate change, if left unchecked, will profoundly disrupt the economies of the world and cause untold human suffering," Brown said in a statement announcing the signing. "That's the reason why California and Quebec are joining with Ontario to create an expanded and dynamic carbon market, which will drive down greenhouse gas emissions."

The addition of Ontario to the program, known as **WCI**, will raise the number of people covered by the initiative to more than 60 million, the statement said. In addition to the auction process the **agreement will harmonize regulations and reporting**.

Ontario raised C\$525.7 million in a Sept. 6 auction, the third of four it plans for this year. Those auctions were run by the WCI. During the WCI's most recent quarterly auction, held in August, allowances sold at their highest price ever, US\$14.75/tonne, nearly a dollar higher than the May auction.

## Ontario Power Grid Operator Expects Flat Demand through Winter Months

by Gene Laverty – S&P Global Intelligence – Dec. 13, 2017

**Ontario's** electricity consumption is forecast to be flat through the winter of 2018 and edge downward in 2019 as **conservation** programs and **embedded generation** **pare growth**.

Electricity demand during **normal winter weather** in **2017** is expected to **peak** at **21,619 MW** and could rise to 22,785 MW in extreme situations, according to the **Independent Electricity System Operator**, or **IESO**, which **runs** the **power grid** in Canada's most-populous province. Extreme heat in the summer of 2018 could drive demand to 24,500 MW, the IESO said, while the normal-weather peak would be 22,176 MW, according to the grid operator's latest 18-month forecast.

**Ontario's climate change-mitigation policy** has focused on **decreasing power consumption while boosting** the use of **renewables**. The supply and demand forecast, which is updated every six months, was released Dec. 12 and anticipates the province's power grid will have adequate resources to meet consumer needs. Energy demand showed a significant decline in 2017, the report said, attributing much of the drop to consumer and industrial conservation programs, and a jump in embedded generation on its grid.

"Continuing the trend of the last few years, we're **forecasting** that **Ontario** will continue to experience **flat growth in electricity demand**," **IESO COO Leonard Kula said** in a statement that accompanied the forecast. "We attribute this mainly to Ontarians' conservation efforts, generation on local distribution networks and the Industrial Conservation Initiative, which all work to reduce demand on the provincial power system and offset any expected growth we might see from increased population and economic expansion."

The IESO expects embedded generation within its grid to increase by more than 200 MW through the **addition of solar** power projects, bringing total generation on local networks to 3,300 MW. The **IESO ended feed-in tariff programs** as "a result of the province's robust supply situation and flat yearly demand for electricity," the statement said.

About **1,335 MW** of **new supply** is expected to be added to the grid in the forecast period. About **1,000 MW** of the total will come from **natural gas-fired plants**, specifically TransCanada Corp.'s Napanee Generating Station (Oakville) expected in service in the second quarter of 2018, **275 MW** will be **wind** power, **50 MW** is to come from **solar** and **10 MW** will be **hydroelectric**. By the end of the forecast period the IESO expects to have about 4,500 MW of grid-connected wind power and about 434 MW of solar.

The **province's transmission network** is **forecast** to be **reliable under most circumstances**, the report said. Analysis revealed one week in the normal-weather

scenario where transmission outages could impact reliability. Transmission constraints could be a problem in northwestern Ontario, and the IESO has recommended expanding the East West Tie line system to boost reliability. That project would come into service in the fourth quarter of 2020. **Distribution companies, including Hydro One Ltd., have a number of projects underway to reduce congestion on the grid, the IESO said.**

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## OPG Employees to be Paid in Hydro One Stock

by Robert Benzie – Queen’s Park Bureau Chief – Toronto Star – Apr. 30, 2015

<https://www.thestar.com/news/queenspark/2015/04/30/opg-employees-to-be-paid-in-hydro-one-stock.html>



Left: **Energy Minister Bob Chiarelli** called the **plan to give about 5,500 unionized Ontario Power Generation employees a portion of their pay in Hydro One stock** as part a new contract settlement "a win-win for both sides".

The “for sale” sign is barely up at Hydro One, but the Liberal government is already giving away shares. About 5,500 unionized Ontario Power Generation employees will receive a portion of their pay in Hydro One stock as part a new contract settlement, the Star has learned.

It’s an unusual arrangement that **comes in the wake of Premier Kathleen Wynne’s privatization czar Ed Clark’s recommendation to sell 60 percent of the transmission utility to bankroll transit infrastructure.**

Sources say members of the Power Workers Union employed by **OPG** — the province’s electricity generator — are being offered the shares in exchange making concessions to their lucrative pension plan.

**Starting in 2017**, the electrical workers will receive **2.75 percent** of their **base salaries** in **Hydro One shares** being sold as part of an initial public offering.

The **shares** will be **paid out over the subsequent 16 years** — even **though the union accord is a three-year deal.**

Power Workers Union officials would not discuss the settlement on Wednesday because it has yet to be formally ratified by members.

Ontario Power Generation brass also refused comment, directing inquires to the Ministry of Energy. Energy Minister Bob Chiarelli stressed “it’s a win-win for both sides.”

“It’s a tentative ‘net zero’ contract. It’s compliant with our policies,” Chiarelli said, pointing to the government’s across-the-board wage freeze for public-sector workers.

“We’re very, very pleased that when we rolled out the initiative last week the leadership of the Power Workers Union was very supportive of the initiative,” he said of the Hydro One IPO proposed by Clark, the former TD Bank CEO.

Chiarelli insisted the pact should not adversely affect the amount of money the cash-strapped Liberals hope to make off the **Hydro One sale.**



“We expected the **\$9 billion to be realized — \$5 billion is going to** (Hydro One’s) **debt** and the **balance is going into the Trillium Trust,**” he said, referring to the **\$4 billion earmarked for transit infrastructure.**

“We have a business plan for the IPO and it’s a work in progress in the sense that it is being implemented at the present time.”

But Chiarelli wouldn’t say if the accord tackles OPG’s pension plan, which auditor general Bonnie Lysyk blasted in 2013 for being too lucrative because it’s funded at an employer-employee ratio of four or five to one.

“The tentative settlement . . . is very broad-based and deals with all of the important issues that we need to accommodate on both sides,” Chiarelli said.

In her December 2013 annual report, Lysyk complained “OPG’s pension plan is generous by any standard” so “human resource costs . . . have a financial impact on the cost of electricity.”

Clark, in his recent report urging the Hydro One sell-off (as well as allowing beer sales in 450 Ontario supermarkets), warned that “it is becoming increasingly unsustainable that this sector has pension arrangements that do not align with the public sector.”

**Progressive Conservative** MPP John Yakabuski (Renfrew — Nipissing — Pembroke) said the Hydro One share giveaway to OPG employees appears contradictory to the government’s line on the sale.

“You’re putting an asset up for tender and in the meantime you’re giving parts of it away as part of contract negotiations in the collective bargaining process?” said Yakabuski.

“It’s like putting a car up for sale, but in the meantime you’re selling the hubcaps and the wheels,” he said.

“It will be interesting to see what this means for Ontario electricity ratepayers.”

In the legislature on Wednesday, Wynne’s **Liberals** were under fire about the Hydro One privatization from both the **Tories** and the **New Democrats**.

“This premier has no mandate to sell Hydro One — that’s not stopping her,” said NDP MPP Peter Tabuns (Toronto — Danforth).

“It’s the wrong plan and Ontarians are going to pay the price,” said Tabuns.

**Wynne** defended her moves. “Why are we doing this? We’re doing it because we **need to invest in the infrastructure** that is needed in the 21<sup>st</sup> century,” said the premier.

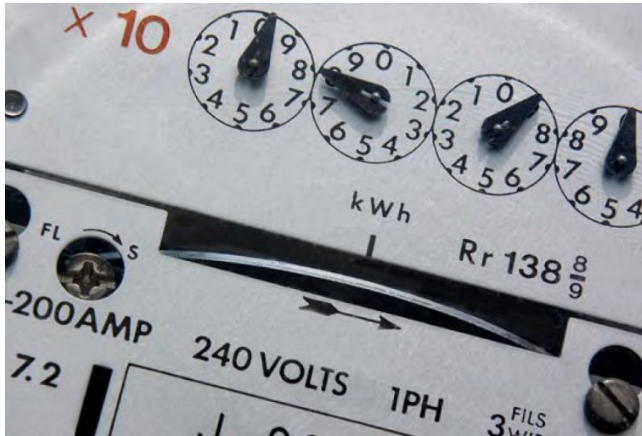
“That’s the **roads**, the **bridges**, the **transit projects** — all of that will not be done if we don’t make these choices.”

**Summary:****60%** – of the **transmission utility will be sold****\$9 billion** — target proceeds from Hydro One IPO**\$5 billion** — of proceeds will go toward **paying down Hydro One's** stranded **debt****\$4 billion** — of proceeds will go to the **Trillium Trust transit infrastructure fund****2.75%** — portion of **OPG employee's pay** to be **in Hydro One shares**

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**Province Offers First Nations piece of Hydro One Action**

timmonstoday.com – Village media – Jul. 12, 2016

<https://www.timminstoday.com/local-news/province-offers-first-nations-piece-of-hydro-one-action-335344>

Today the Province and First Nations in Ontario, as represented by the Chiefs-in-Assembly, announced an agreement-in-principle for the Province to sell to First Nations for their collective benefit, up to approximately 15 million shares of Hydro One Limited (2.5 per cent of the total current outstanding common shares), depending on the level of First Nation participation.

This agreement-in-principle demonstrates the goodwill envisioned by

the Political Accord to promote stronger economic relations and is one of many steps on Ontario's journey of healing and reconciliation with Indigenous peoples.

If ratified, this new arrangement will provide meaningful opportunities to First Nations for collective wealth creation and to advance economic development initiatives.

Each First Nation will have up to two years from signing of binding agreements to decide whether to participate in this arrangement. All First Nations in Ontario are invited to participate. A minimum threshold of 80 per cent First Nation participation by the end of 2017 is required for this transaction to close.

If the agreement is ratified, Ontario would sell the shares to a new investment vehicle owned collectively by First Nations. This purchase would be financed with a 25-year loan from the Province of up to approximately \$268 million, depending on the level of First Nation participation.

The interest rate for the loan would be at the Province's relevant borrowing rate, plus 15 basis points. The shares would be sold at \$18 per share, which is above the Province's book value for the shares. Ontario would also provide seed capital to a new First Nation investment fund of up to \$45 million in cash, depending on the level of First Nation participation, over the initial three years.

Ontario and the Chiefs Committee on Energy, on behalf of First Nations, began engaging in discussions regarding potential equity ownership as part of the initial stages of the Initial Public Offering (IPO), as described in the October 2015 Hydro One Limited Supplemented PREP Prospectus.

### Quick Facts

- The **Chiefs-in-Assembly** established a **Chiefs Committee on Energy** to undertake this initiative on behalf of the **133 First Nation communities in Ontario**.
- As the Province and the Chiefs Committee on Energy work towards definitive agreements, The **Ontario government will remain the largest shareholder of Hydro One Limited**, and by law **no other shareholder or group of shareholders is permitted to own more than 10 per cent**.
- Hydro One rates will continue to be set by the independent regulator, the Ontario Energy Board.
- **Net revenue gains from the Province's public sales of Hydro One Limited common shares** will be **dedicated to the Trillium Trust to help fund infrastructure** projects that will create jobs and strengthen the economy.
- **Ontario** is making the largest **investment in public infrastructure** in the province's history – about **\$160 billion over 12 years** for projects such as **roads, bridges, transit systems, schools and hospitals**. This investment is supporting 110,000 jobs every year across the province. In 2015, the government announced support for more than 325 projects that will keep people and goods moving, connect communities and improve quality of life.

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### Quanta Services Wins Contract to Build 230-kV Transmission Line in Ontario

by Nephele Kirong – Dec. 12, 2017

Quanta Services Inc. won a contract from NextBridge Infrastructure to construct the Ontario East-West Tie Line transmission project in northwestern Ontario.

**Quanta**, through its **subsidiary Valard** Construction, said Dec. 12 that it will provide comprehensive construction services, including the installation of approximately **290 miles** (about 450 kilometers) of **230-kV transmission line connecting Hydro One Ltd.'s Wawa, Marathon and Lakehead transformer stations**.

The award of the construction contract comes not long after the **Ontario Independent Electricity System Operator, or IESO**, issued an updated assessment reaffirming that the transmission line is the most cost-effective solution for increasing electricity transfer capability into northwestern Ontario, **recommending a 2020 in-service date**.

**Ontario Minister of Energy Glenn Thibeault** said in a Dec. 4 letter acknowledging the IESO's updated assessment, "The **government of Ontario** continues to **support** this **project** to **ensure long-term supply stability** in the Northwest. ... The IESO's updated needs assessment affirms that the [East-West Tie] is an appropriate transmission priority."

NextBridge Infrastructure, known legally as Upper Canada Transmission Inc., was selected as the project developer in 2013 and earlier this year revised the overall estimated cost of the project upward, to **C\$777 million**. The revised estimate also **includes upgrades by Hydro One** to the **existing transformer stations**.

**NextBridge** and **Hydro One** have **filed separate applications for leave** to **construct** the **project** with the Ontario Energy Board. NextBridge's application (Docket No. EB-2017-0182) is for the transmission line segments while **Hydro One's application is for the transformer station work**. (Docket No. EB-2017-0194)

**NextBridge Infrastructure** is a partnership between affiliates of NextEra Energy Canada LP, Enbridge Inc. and OMERs Infrastructure Management Inc., **established to participate in the Ontario transmission market**. NextEra Energy Canada is a subsidiary of NextEra Energy Inc.

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## **Former Ontario Official**

### **Guilty of Deleting Power Plant Data**

by Gene Laverty – S&P Global Market Intelligence – Jan. 19, 2019

A **court in Ontario found a former premier's chief of staff guilty** of **erasing from government computers records related** to a **pair of natural gas-fired power plants** that were **scrapped by the province**.

**David Livingston**, a **top aide to former Premier Dalton McGuinty**, was found **guilty** on **reduced charges** of **attempted mischief** and unauthorized **use** of a **computer** in Toronto on Jan. 19, according to a report by the **Canadian Broadcasting Corp.** Co-accused Laura Miller, who was Livingston's deputy, was found not guilty of all charges by Ontario Justice Timothy Lipson, the **CBC said**.

Livingston and Miller were **initially accused of criminal breach of trust, mischief in relation to data and misuse of a computer system to commit the offense of mischief**. Lipson said there was "compelling circumstantial evidence" that both Livingston and Miller believed that there were files on the computers that should have been kept, the CBC said on its website. The judge said the evidence did not prove beyond a reasonable doubt that Miller intended to wipe such data from the hard drives. **Livingston's sentencing is set for Feb. 26**.

The charges stemmed from the alleged deletion of data related to a **pair of natural gas-fired power plants** that were **commissioned by the Ontario Power Authority, now part of the province's Independent Electricity System Operator**, that were **canceled amid the concerns of nearby residents in 2010 and 2011**, though they were **later relocated**. It was **alleged** that Miller and Livingston oversaw the **illegal**

**deletion of information** related to the power plants **during the transition of power from McGuinty to incoming Premier Kathleen Wynne in 2013.**

An investigation began after **opposition politicians raised concerns about the integrity of the data** to police. **Ontario's auditor general** and other investigators have **estimated the cost of canceling plants at more than C\$585 million.** Those costs include **increased transmission costs** for **electricity and compensation for power plant developers TransCanada Corp. and Eastern Power Ltd.**

**Eastern Power Ltd.'s 289-MW Green Electron Power Project** (Greenfield South), **moved** from the Toronto suburb of Mississauga to Sarnia in western Ontario, was completed in 2017 and is **now in service, supplying power to the IESO.** **TransCanada's Napanee Generating Station** (Oakville) was **relocated** from Oakville, Ontario, also in the Greater Toronto Area, **to the site** of a now-retired coal-fired plant in eastern Ontario. **Nearly 1,000 MW,** it is **expected to begin operation** in the **second quarter** and will also **provide its output to the IESO.**

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## **SCANA Stock Plunges on Fears of Repeal of State Cost Recovery Law**

by Darren Sweeney – SNL Financial LC – Jan 23, 2018

**Shares of SCANA Corp. stock fell more than 5% on Jan. 23** as investors reacted to fears that South Carolina lawmakers will eliminate cost recovery for the V.C. Summer nuclear abandonment. SCANA stock closed at \$41.16, down \$2.20.

**Gov. Henry McMaster sent a letter to the South Carolina General Assembly urging lawmakers to send him a bill that "ensures SCANA ratepayers will not pay a single additional dollar towards the failed V.C. Summer reactors."** McMaster also tweeted: **"Send me a bill that replaces the [Base Load Review Act, or BLRA] and prevents ratepayers from being charged** in the future for the abandoned reactors at V.C. Summer **and I will sign it. Send me a bill that continues to place the financial burden** of this corporate failure **on SC ratepayers and I will veto it."**

McMaster also referenced a study from the South Carolina Office of Regulatory Staff that calls into question SCANA's claims of a potential bankruptcy if lawmakers strip cost recovery for the scrapped reactors. **If the BLRA is repealed, it could terminate Dominion Energy Inc.'s offer to buy the struggling utility.**

**Dominion** announced Jan. 3 that it **had agreed to acquire SCANA** in a **\$7.9 billion stock-for-stock deal** designed to provide a lifeline to the Cayce, S.C.-headquartered company reeling from the failure of the more than \$9 billion V.C. Summer nuclear expansion project. SCANA utility South Carolina Electric & Gas Co. owns 55% of the unfinished units and faces the potential loss of nearly \$450 million in annual cost recovery for the project, depending on the actions of the South Carolina General Assembly or state regulators.



The **merger agreement states SCE&G must be allowed to include \$3.3 billion tied to nuclear investment in retail rates, as allowed under the BLRA, during a 20-year amortization period**

## Portland Finances Get an 'F' Grade for Hidden Debt

by Jessica Floum – The Oregonian – Jan 24, 2018



Left: Portland City Hall and the Portland Building (right), which houses the Portland Bureau of Transportation

**Portland is among the seven major U.S. cities with the most staggering loads of debt per capita**, according to a report issued Wednesday by a Chicago-based government finance think tank, Truth in Accounting.

The Rose City received an 'F' grade for its **\$4.4 billion worth of debt**, most of it for **capital projects** and unfunded employee **pensions**. Authors of Wednesday's report divided cities' debt by the count of taxpayers and found **Portlander's would each have to pay \$21,400 to retire the city's debt**.

**By that metric, Portland ranked 70<sup>th</sup> among 75 cities.**

Portland Debt Manager Eric Johansen told The Oregonian/OregonLive in an email that the report failed to consider Portland's unique voter-approved pay-as-you go tax levy that covers its Portland Fire and Disability Fund. An independent analysis of the levy in June 2016 found that it fully covers future benefits under "a wide range of most likely scenarios."

"As a result, the Truth in Accounting 'report' is highly misleading and does not fairly present the city's financial position," Johansen said.

Portland ranked above Dallas, San Francisco, Philadelphia, Chicago and New York City and one notch below Oakland. Each of the seven cities received F grades from the firm.

The **top grades** went to Irvine, Calif; Stockton, Calif.; Lincoln, Neb.; Charlotte, and Aurora, Colo. The study called them "sunshine cities" for **spending within their means**.

**Stockton's** low debt level has a novel cause: The city filed for **Chapter 9 bankruptcy protection in 2013**. The Northern California city faced a "**staggering debt burden**," the study says. But because **creditors agreed to debt relief**, "Stockton now has more than enough assets to pay its bills."

Truth in Accounting advocates for local and state governments to disclose more than what generally accepted accounting principles require and to estimate more conservatively how much they will earn on their pension investments.

The think tank's study analyzed 75 cities' comprehensive annual financial reports from 2016 for its Financial State of the Cities report and determined that 64 of them did not have enough money to pay all of their bills.

Almost all of the cities, the report argues, have financial problems "driven by runaway entitlement obligations in the form of pension benefits." It asserts that city officials have hidden "significant amounts of that retirement debt from its balance sheets."

"This means that to balance the budget, elected officials have not included the true costs of the government in their budget calculations and have pushed costs onto future taxpayers," the report says.

Portland frequently gets questions about a **mismatch between its assets and liabilities** and city finance officials are able to explain it to anyone interested in understanding it, city debt manager Johansen said. The think tank never reached out to the city, he said.

Johansen said rating agencies regularly review Portland's financial policies. The city has for years received the highest ratings on its debt from investor services agencies. Moody's Investors Services gave the city the highest Aaa rating on \$471 million of outstanding limited tax bonds. Its unlimited tax general obligation bonds and lien water revenue bonds already had the Aaa rating.

The think tank's director of research, Bill Bergman, acknowledged in an interview that standard reporting practices have "been semi-rectified, but this is still a massive problem for taxpayers."

"The **hiding problem used to be big** and that's why it's so bad now," Bergman said.

"Portland is one of many municipalities that have chosen to follow the rules when they could've provided **supplemental information** and should've," he said.

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## **Alaska Hydro Dam is Focus of Protests over Hydro One Bid for Avista**

by Jeff Stanfield – S&P Global Market Intelligence – Jan. 24, 2018

**Alaska regulators** are **weighing** the **objections** of numerous parties to **Hydro One Ltd.'s proposed acquisition** of **Avista Corp.** because the deal would put the **Canadian company** in **position** to **acquire** a **state-owned, 78-MW hydro facility for \$1.**

Among the opponents, **U.S. Rep. Don Young, R-Alaska**, wrote the Regulatory Commission of Alaska to protest the "**hijack**" of **Alaska's public asset** at the **expense**

of **taxpayers and ratepayers**. Pointing to the provincial government of Ontario's ownership of nearly half of Hydro One, Young said, "I can insure you that it was never Congress' intent that this asset be transferred for the potential profiteering by Canadian government interests."

Avista in 2014 acquired the parent company of Alaska Electric Light and Power Co., which serves the isolated state capital of Juneau and its surrounding borough. The protests of Young, power producers and other parties prompted **Hydro One** President and CEO **Mayo Schmidt** and **Avista** Chairman, President and CEO **Scott Morris** to join AEL&P officers in Juneau on Jan. 18 for a public meeting at which Schmidt **said the province of Ontario is merely a shareholder of Hydro One, holding 47%, and is not involved with managing the company**. Company officials said the Regulatory Commission of Alaska would have to approve any sale of the hydro complex.

**Congress in 1962 authorized the U.S. Department of Energy and Alaska Power Administration to sell the Snettisham Hydroelectric Project, substations and a 44-mile, 138-kV transmission line to the state at a bargain price. The Alaska Industrial Development and Export Authority used \$100 million in tax-exempt bond financing for the purchase to serve customers of Juneau, according to comments the Alaska Independent Power Producers Association submitted to the state regulators. AEL&P has operated and maintained the facilities for more than 40 years under federal and state contracts.**

Under **AEL&P's** current contract with the authority, Alaska's oldest regulated electric utility has an **option to make a nominal purchase of the Snettisham assets once the bonds are paid**. The current schedule calls for the bond repayment to be completed by 2034. The power producers said that if Hydro One acquires Avista the Ontario government could transfer, monetize or refinance the Snettisham assets without concern for the impact on the local Juneau community.

Young urged state regulators to ensure the hydro assets remain under state or local ownership as a condition for approving Hydro One's acquisition of Avista. "I urge the Commission to consider using its authority to protect the public's interest and require the divestiture of the Snettisham asset option as a condition of the sale's approval," Young wrote.

In reply, Hydro One and Avista told regulators Alaska statute and prior commission orders already ensure protection of the public interest regarding Snettisham, and the merger will leave local control in place. **Avista spokesman Casey Fielder said** the proposed acquisition has no impact on the existing rights and obligations regarding Snettisham.

"The **benefits of the Snettisham hydroelectric facility will remain in Alaska,**" Fielder said. "There are regulatory and contractual protections in place regarding Snettisham that ensure the public interest will be protected if the purchase option is ever exercised."

Another hydro project's fate may be in the balance

**Juneau Hydropower** Inc., which has **acquired permits** to **build** the **proposed 19.8-MW Sweetheart Lake Hydroelectric Project**, also **filed comments opposing the deal**, saying, "Applicants chose not to refine their application to respond to concerns expressed by numerous Juneau residents and businesses who demonstrated on the record that transfer [of Avista's controlling interest in AEL&P] is not in the public interest."

**Juneau Hydropower** is an **independent power producer** and Public Utility Regulatory Policies Act qualifying facility developer that has a 50-year FERC license to construct and operate the Sweetheart Lake facility in the Tongass National Forest. It **wants state regulators to make AEL&P establish reasonable procedures to allow interconnection of the project with the Snettisham transmission line.**

Despite assurances from Avista at the time of the AEL&P acquisition, Avista and AEL&P have been unwilling to develop an interconnection agreement for Sweetheart Lake, according to the power producers group. The regulators should make a nondiscriminatory interconnection tariff for renewable energy generators a condition for the regulatory approval of the Hydro One acquisition, the group said.

FERC approved the \$5.3 billion **Hydro One** all-cash acquisition of Avista on Jan. 16. The companies jointly filed their initial requests for approval in Alaska, Idaho, Montana, Oregon and Washington on Sept. 14, 2017, but **had to refile in Alaska on Nov. 21, 2017**, after that **state's regulators told Hydro One** it first **needed to obtain an Alaska business license to operate in the state.** (Regulatory Commission of Alaska Docket No. U-17-097)

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## How to Invest in an Overpriced World

by Burton G. Malkiel – WSJ OPINION – Jan 23, 2018

Mr. **Malkiel** is **author** of "**A Random Walk Down Wall Street**" and **chief investment officer** of **Wealthfront**.



**What should an investor do when all asset classes appear overpriced?** The **10-year U.S. Treasury bond** currently yields about **2.6%**, much lower than the **5% historical average** and only slightly higher than the **Federal Reserve's 2% inflation target.**

Yields of lower-quality bonds are unusually meager compared with those of traditionally safe Treasuries.

For equities, the **cycle-adjusted price/earnings ratio**, or **CAPE**—the valuation metric that does the best job in predicting future 10-year rates of return—is about **34**. That's **one of the highest valuations ever**, **exceeded only** by the readings in 1929 and early 2000, **prior to crashes**. Today's CAPE suggests that the 10-year equity rate of return will be barely positive. Investors have reason to worry, but they need to be aware of two basic facts. First, **no valuation metric can dependably forecast the future**. CAPEs were unusually high in the mid-1990s, and **Alan Greenspan gave his famous "irrational exuberance" speech in late 1996**. **An investor who bought equities then and held on would have enjoyed a generous 8.5% annual return despite the punishing bear market of the early 2000s**. CAPEs were close to 30 at the start of 2017, prompting many market gurus to say stocks were overvalued. The **S& P 500 index returned 19% in 2017**.

A corollary is that **no one can consistently time the market**. Proper market-timing involves making two decisions – **when to get out** and **when to get back in**. **Timing both correctly is virtually impossible**. As **Jack Bogle, founder of the Vanguard Group**, has written, "**After nearly 50 years in this business, I do not know of anybody who has [timed the market] successfully and consistently. I don't even know of anybody who knows anybody who has done it successfully and consistently.**" Investors who try to outsmart the market more often get it wrong than right.

What, then, can an investor do to control risk? The **two strategies that work** are broad **diversification and rebalancing**.

**Broad diversification** is rightly known as "the **only free lunch**" offered by financial markets. By holding a wide variety of asset classes, investors have historically enjoyed **smoother gains** during bull markets and **gentler losses** during bear markets. In a diversified portfolio, **declines in stocks** are often **partially offset by stability** in **fixed-income** markets. Real estate equities, available through real estate investment trusts, or REITs, have also tended to stabilize portfolio returns.

Most investors fail to realize the benefits of **broad international diversification**. The **world is currently enjoying a synchronized expansion, but economic conditions and stock performance are not perfectly correlated across nations**. **Internationally diversified portfolios** tend to see **less volatile returns over time** and **better risk adjusted performance**.

Most stock investors suffer from a "**home country**" bias. They **concentrate their holdings in domestic equities**. While U.S. companies do business all over the



world, many leading companies are based abroad. The **U.S. accounts for well under half of the world's economic activity. Much of the world** – particularly emerging markets, with their **younger populations** – is **growing faster than the American economy.**

**Another reason to consider** greater international diversification is that **foreign stocks are more attractively valued.** The CAPE ratio for emerging market stocks is less than half the equivalent valuation in the U.S. The emerging-market CAPE is still below its historical averages, despite 2017's superior market performance. All investors should **hold at least 10% of their stocks in emerging-market equities,** and **allocations up to 25% would not be imprudent** today.

A final technique to control risk is **rebalancing.** It's a good idea to examine your portfolio **periodically** to ensure your asset allocation has not strayed far from your desired levels. If the strong U.S. stock-market performance over the past year lifted the proportion of domestic stocks in your portfolio to levels that are riskier than desired, it would be appropriate to reduce your equity share. Often capital-gains taxes can be avoided by directing new cash investments (including dividends and interest payments) into asset classes whose portfolio shares have declined.

In general, **staying the course in a broadly diversified portfolio** is the **best strategy when all asset classes appear overpriced.** If rebalancing is required to constrain portfolio risk, consider REITs and preferred stock. Good-quality preferred stocks yield about 5%, and many have yields that float with interest rates, so that they offer some protection if rates rise in the future. Mid-single-digit returns may seem unattractive relative to recent asset returns, but **with valuations at current levels, low-single digit returns could end up looking good.**

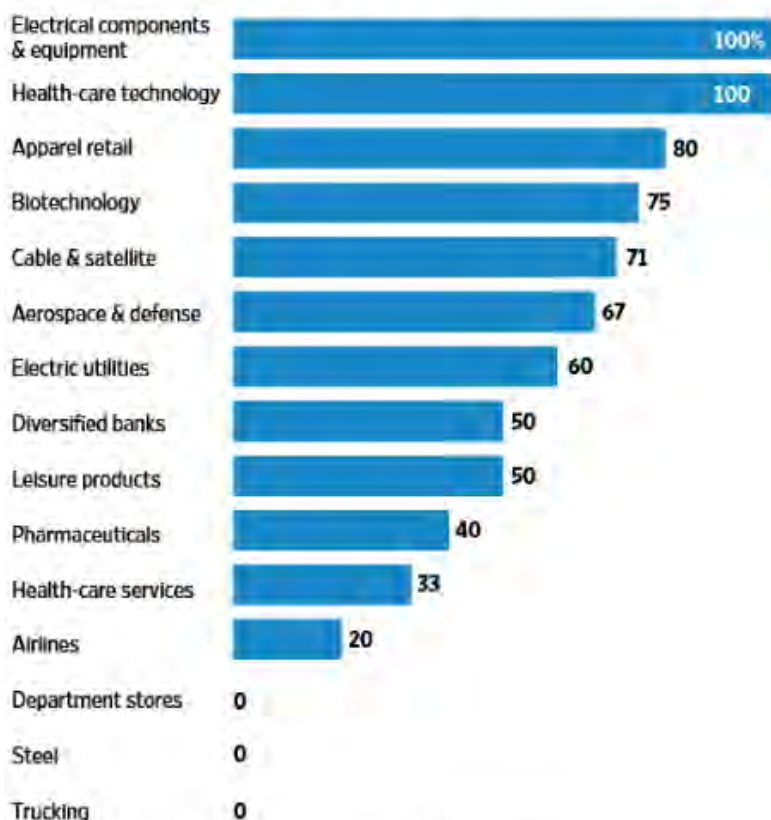
Perhaps the best advice for investors is to **examine your costs.** If you are **paying an investment adviser 1%** and your **mutual funds have a 1% annual expense ratio, then fees will eat up a large part** of that **low-single digit return.** The **one thing I'm certain** of is that **minimizing costs is a winning strategy.** The **less I pay** to the purveyor of an investment service, the **more** there will be **for me.** Thus I continue to recommend passive index funds and exchange-traded funds, now available at virtually zero expense ratios, as the best investment vehicles for all investors.

## For CEOs, Strong Growth—and Turmoil

by Sharon Terlep – WSJ – Jan. 22, 2018

### The Challenge of Change

Amid a variety of upheavals, many large companies are having trouble achieving economies of scale that make them more efficiently profitable. The percentage of companies in selected industries whose cumulative annual growth rate in operating income has been greater than their CAGR in revenue:



Note: Based on a study of most S&P 500 companies for 2007-16.  
Source: Andrei Perumal and Stephen A. Wilson, "Growth in the Age of Complexity"  
THE WALL STREET JOURNAL.

After a decade of slow growth, corporate chieftains have good reason to feel buoyant.

In the U.S., the economy grew 3% in the third quarter and Federal Reserve officials in December increased their forecast for 2018 growth to 2.5%, up from 2.1% in September. Bulls on Wall Street boosted the market cap for S&P 500 companies last year by 18%, unemployment stood at a 17-year low, and a big tax cut and regulatory rollbacks portend more gains.

Europe, meanwhile, is also bouncing back after an all-but-lost decade. Asia's continued growth makes it a rare moment — after the extended hangover of the downturn — when **the world's major economies are all pointing up.**

Yet plenty of **anxiety lingers** — also with good reason. CEOs continue to

grapple with the ever-accelerating pace of technology change. Meanwhile, they face growing pressure from investors and boards, and greater scrutiny from customers and even their own employees in the age of social media. Consumer habits and tastes continue to shift drastically. While a GOP-led Washington has been generally more favorable to business, political turmoil, and the risks it brings, has only increased, at times drawing executives into debates they'd just as soon avoid.

### Change all around

"In my 37 years at General Motors, the amount of technology is changing more than ever," Chief Executive Mary Barra says, discussing GM's efforts to bring to market fully electric vehicles and cars that drive themselves. "We've made **cultural changes,**

**we've changed where we do business**, we're developing **transformative technologies**," says Ms. Barra.



Left: GE Wind Turbine Plant in France.

Whether it's GM trying to take the **shape** of a tech **company**, **General Electric Co. considering a breakup**, or PepsiCo Inc. struggling to sell soda, corporate mainstays are trying to right themselves after

becoming vulnerable to market forces they once ably navigated. **CEOs are overhauling business models, forging unexpected alliances and giving concessions to activist shareholders who criticize how their companies are being run.**

CVS Health Corp., the largest U.S. drugstore chain, will spend much of this year trying to cement its acquisition of insurance giant Aetna Inc, a deal that creates an almost unprecedented health-care enterprise. **Procter & Gamble Co.**, the maker of Tide and Pampers, has said it **will admit activist investor Nelson Peltz to the board in March after spending at least \$60 million trying to stop him and his strategy for overhauling the company.** P & G agreed to add Mr. **Peltz** to the board after **winning a shareholder vote by a historically narrow margin.**

AT& T Inc. and Time Warner Inc. are prepared to fight at least until June a Justice Department lawsuit trying to stop a merger that would turn the phone company into a media giant. Big food companies, meanwhile, continue to grapple with dramatic shifts in what people eat and where they shop, as retailers scramble to reinvent a business model decimated by Amazon.com Inc.

"Some say that it's **more change in the last three years than in the last 10 or 20 years,**" Home Depot CEO Craig Menear says of the changing retail landscape and his company's plans to upend an online- sales strategy laid out just five years ago. "It's imperative that we address these evolving needs with increased speed," says Mr. Menear.

Kurt Simon, JPMorgan Chase & Co. global chairman of mergers and acquisitions, worked on deals last year including Walt Disney Co.'s agreement to acquire most of 21st Century Fox Inc. for \$52 billion. "How and who companies compete with are rapidly changing in a number of industries due to technology and the emergence of disruptive new entrants," Mr. Simon says. "For incumbents, you have the opportunity to either be disrupted or go on the offensive."

**No longer is size synonymous with growth and profitability. Some of the world's biggest corporations are hemmed in by their own size, incapable of**

**moving quickly** enough to adapt to fast changing markets and consumer tastes. **GE**, which last year **saw** its **shares drop by one-third** amid a reset of long-term financial projections, **embodies the dilemma**. The industrial giant is refocusing on three core business lines — the aviation, power and health-care divisions — while exiting most of its other business. CEO John Flannery, who took over last summer, this month said that GE is evaluating carving out its major divisions into separately traded units.

**About 40% of companies in the S& P 500 are becoming less profitable as they grow**, says Stephen Wilson, managing partner of advisory firm Wilson Perumal & Co., whose analysis measured revenue growth and operating income at the top companies. **A company whose operating income grew more slowly than its revenue, according to the analysis, experienced so-called diseconomies of scale, as opposed to leveraging desirable economies of scale.**

**“In the industrial age, the biggest company was the most competitive,”** Mr. Wilson says. “Today, companies are trying to get bigger to get economies of scale, but to get bigger they are becoming more fractured, and that means less economies of scale. Companies are realizing that they can’t just add new products and grow, that they can’t just go into more countries and grow.”

### **Crossing industry lines**

Adding to all of this turbulence, companies are increasingly transparent, giving investors and consumers greater ability to look under the hood and compare operations, even as new technologies continue to transform such economic fundamentals as how people get around and shop.

This changing business landscape in turn is altering the nature of how companies produce goods and deliver services, and is **affecting everything from human-resources departments to the supply chain.**

A need for radical action will likely lead to more deals that cross industry lines, like the CVS-Aetna deal or Amazon’s \$13.7 billion deal in June to acquire Whole Foods Market Inc.

**“Earlier rounds of M&A were simply competitors buying each other and getting the synergies out of a deal,”** says Frank Aquila, a partner at law firm Sullivan & Cromwell LLP. “While that’s **still** an **important** part of M&A, we’re going to see many more combinations going forward that may not be what people expect.”

Despite a recognition that change — **often radical change**—is **needed**, perhaps the **trickiest part** will be **where to be radical** and **where** to be more **cautious**.

“The hardest thing for chief executives is to figure out where to make changes and how radical to be in different parts of the business,” says Andy Eversbusch, a managing director at consulting firm AlixPartners LLP. Ideally, Mr. Eversbusch says, a company can pull off a “healthy turnaround” in which it overhauls itself before crisis strikes.

“The **leaders** that I see who are very **good at this**,” he says, “are ones who routinely invest themselves in **questioning every aspect of their business.**”



## As Easy Money Ends, Uncertainty Rises

by Tom Fairless – WSj – Jan 22, 2018



Strong economic indicators allow officials to pull back from stimulus policies of recent years

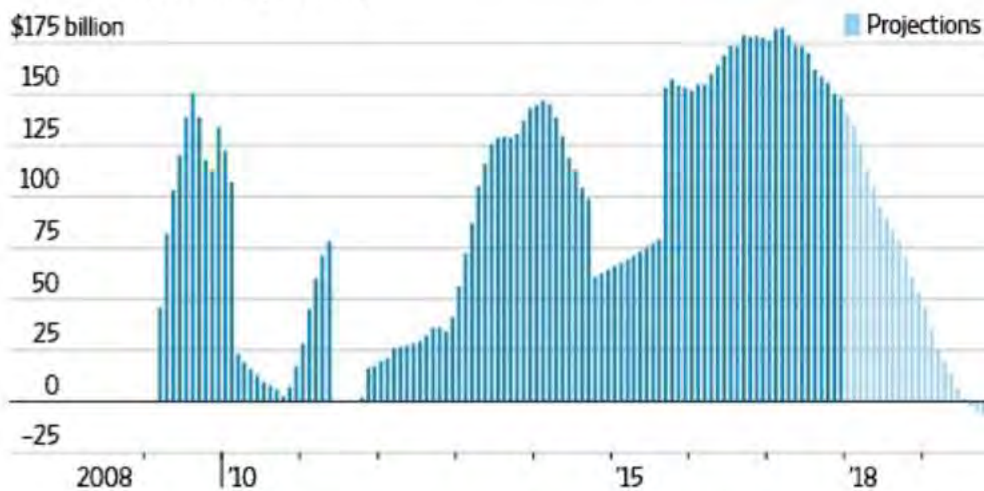
The **tide of easy money** that lifted advanced economies out of recession **will recede** in earnest in 2018, opening a new phase in the global economic expansion.

From Frankfurt to Tokyo, central-bank officials are seizing on stronger economic indicators, including tentative signs of higher inflation, to signal an **exit from stimulus policies that were rolled out after the financial crisis**. **Asset purchases by the four major central banks — the Federal Reserve, European Central Bank, Bank of Japan and Bank of England — will shrink by more than 70% by the end of 2018**, to around \$50 billion a month, after peaking at \$182 billion in March 2017, **according to Deutsche Bank**. And some banks are planning or signaling possible **interest-rate increases** this year.

The coordinated retreat by some of the biggest buyers in global financial markets raises the **prospect of increased volatility** and a **possible correction in asset prices**. Adding to the uncertainty, the generation of central bankers who handled the crisis is stepping aside, and it's unclear if their successors will share their desire to continue with aggressive monetary stimulus to support global growth.

### End of an Era

Major central banks' net asset purchases to stimulate economic growth will fall rapidly this year and are expected to hit negative territory by summer 2019. Total asset purchases, monthly



Note: Total purchases include the Bank of England, U.S. Federal Reserve, Bank of Japan and European Central Bank. January 2008-February 2009 and June-September 2011, amounts were between 0 and -\$0.05 billion.  
Source: Deutsche Bank

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Some central-bank officials worry that investors are failing to price in the new policy course, and may get hit hard. Meanwhile, there **may be tougher times ahead** for **business** and consumers, who are currently **benefiting from ultralow borrowing costs**.



“It is indeed surprising that long-term interest rates are now lower than they were in the summer, although growth has surprised very positively and growth and inflation forecasts have been adjusted upwards,” Yves Mersch, a member of the ECB’s six-member executive board, told German reporters in an interview published on the ECB’s website in late December. “It doesn’t really follow.”

### **Are Times Too Good?**

The reversal from major central banks comes as economic growth accelerates and inflation starts to approach targets after years of staying below projections.

**Growth accelerated in about three-quarters of all countries last year**, the highest share since 2010, the International Monetary Fund said in December. In the U.S., growth recently hit a three-year high of 3.3%, while the Fed’s preferred inflation measure climbed 1.5% on the year in November, up from a 1.4% rate over the previous two months.

**Higher U.S. inflation is a key risk** for stock markets, because the Fed would likely raise rates more quickly than expected to cool the economy. Outgoing Fed Chairwoman Janet Yellen has suggested that the period of weak inflation is likely to prove temporary.

The Fed has projected another trio of quarter-point rate rises this year and two more in 2019, but some investors think it might act more aggressively given strong growth and the likely economic boost from recent tax cuts.

In the Euro-Zone, the ECB signaled on Jan. 11 it might move sooner than expected to phase out its giant bond-buying program, surprising investors and sending the euro higher. The change of course comes amid a rebound in the Euro-Zone economy, where business and consumer confidence are at their highest levels in more than 17 years. Average inflation, at 1.4% in December, remains too weak for the ECB to raise rates, but it is expected to edge up over the coming months and recently hit a five-year high in Germany.

German 10-year government bond yields have started to edge up since mid-December, a possible harbinger of higher market interest rates.

In the U.K., the Bank of England raised rates in November for the first time in 10 years in response to higher inflation, and officials have signaled more rate increases could be coming.

In Japan, too, inflation is edging up. Core consumer prices, excluding volatile fresh-food prices, rose 0.9% in November from a year earlier, up from 0.8% in October. Bank of Japan Governor Haruhiko Kuroda has said he expects companies will soon start passing the higher labor costs that stem from worker shortages on to consumers.

While **major central banks** have done all they could to push up consumer-price growth, which has lingered below target in recent years, a **sudden increase in inflation** would **force them to change course**, which could prove destabilizing for financial markets and the world economy.

“What is unthinkable today is [higher] inflation [in the U.S. and Europe], that’s what scares me the most,” says one top ECB official. “Markets would react incredibly.”

## Easing Up

Another concern is the debt market. In response to record-low bond yields, global debt issuance by companies and governments reached a high in 2017, with U.S. and European companies particularly active.

But on the demand side, purchases by the ECB under its giant bond-buying program fell by half this month, and that flow of money could dry up entirely by October. Meanwhile, the **Fed** is **gradually reducing its \$4.5 trillion balance sheet**, and the Bank of Japan has slowed its asset purchases and is hinting at an exit from easy money.

All of which raises the **prospect** of an “**enormous mismatch between supply and demand**” in **global debt markets this year**, according to Torsten Slok, an economist with Deutsche Bank in New York.

Central-bank officials hope their large stock of assets means market interest rates will rise only gradually. But some investors worry about a sharp correction given the mismatch between supply and demand of bonds, particularly as markets have so far been slow to adjust to the new direction of central-bank policies.

“There is a **regime change in what central banks are trying to tell us**,” says Mr. Slok. “**Investor sentiment could change suddenly**.”

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## After Years of Investing Magic, What’s Next

by James Mackintosh – WSJ Streetwise Column – Jan 22, 2018

The perfect investment is one that only goes up. Almost as good is an investment that does well when the rest of your portfolio hits a rough patch, but over time still makes money.

Such a perfect investment shouldn’t exist. Yet, for the past two decades, government bonds have offered exactly this free insurance, moving in the opposite direction of shares in the short run but producing gains almost as good as equities in the long run.

The scale of the magic is stunning: From the start of 2000 to the end of last year, holding the latest 10-year Treasury and reinvesting coupons returned 155%, the S& P 500 with dividends 158%, while a 60-40 equity bond portfolio beat both.

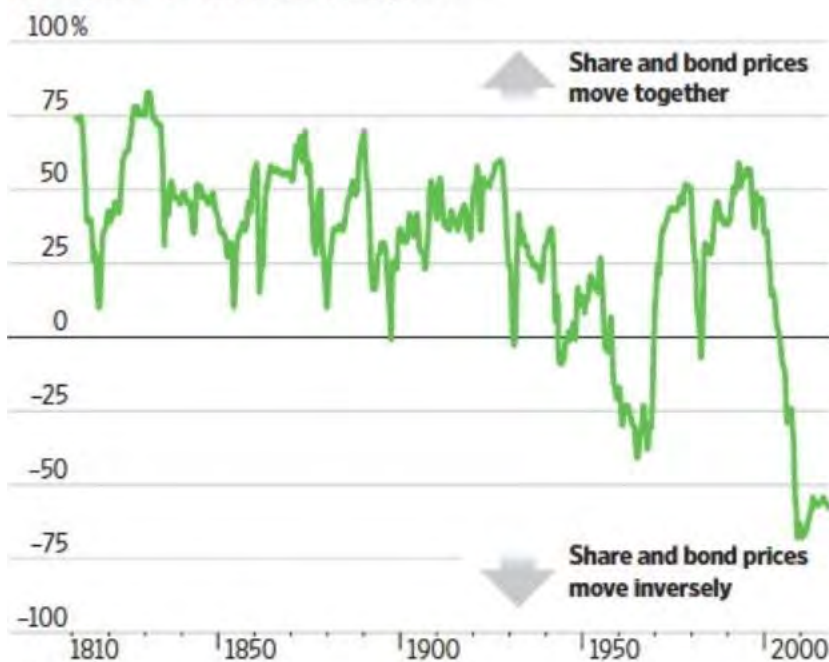
But the magic can’t continue forever. If **the link between equity and bond prices were to return to what once counted as normal, the magic disappears** — and there are **good reasons to fear that could happen soon**.

The danger is that bond yields rise without any corresponding strength in the real economy to protect profits and stock prices. The two most obvious reasons would be the **return of inflation or a shift of stance by the Federal Reserve to stop protecting investors from losses.**

## Correlation Breakdown

Since the late 1990s, U.S. bond prices and share prices have tended to move in opposite directions. For most of America's history, they moved the same way.

### Correlation\* of stock and bond prices



\*Correlation of 12-month price moves over 10 years.

Source: Absolute Strategy Research

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late 1950s and early 1960s had a similar stock-bond relationship to the past few years, and were also the last time inflation was quiescent.

The **stock-bond link** is complex, but **depends to a large extent on inflation, uncertainty about inflation and** more recently the **central bank.**

**When** investors are **confident that inflation is under control**, they **focus** instead **on the real economy**, and **economic news pushes bonds and equities in different directions.** A **strong economy** generally means **bond yields rise** (and so **bond prices fall**) in anticipation of higher inflation and higher interest rates, while **share prices rise** in anticipation of higher profits. **When** there are fears of slowing growth, investors **dump stocks and buy bonds.**

**Fear of inflation alone usually has the same upward effect on bond yields** (and so downward effect on bond prices) **as economic growth.** **But inflation doesn't help corporate profits much**, while higher yields mean a higher discount rate applied to future profits, which — in theory at least — should **push down stock prices.**

Both of those possibilities are worth worrying about.

## Unnatural Order

Start with **how shares and bonds behave.** Prices of the two biggest asset classes have **tended to move in opposite directions since the late 1990s**, measured as a **strong negative correlation.**

This pattern is so well-established it seems like the natural order of things. **But** since the start of the 19th century, there has been only one other significant period where stocks and bonds behaved this way, according to Ian Harnett of Absolute Strategy Research. The

It's too soon to be sure that inflation is awake again after lying dormant for a decade, but there are signs that the **tight U.S. jobs market** is leading to higher wages. Technological advances such as online shopping still weigh on prices, but with **little spare capacity, inflation should pick up. If investors switch focus from the economy to inflation,** the nightmare would be **higher bond yields** and **lower share prices.**

### **Dangerous Belief**

**Inflation itself isn't the only concern.** Alongside low inflation has come a belief that inflation has been conquered. The **extra yield on Treasurys that investors demand to compensate them for inflation uncertainty, known as the term premium, is extremely low.**

Inflation options are pricing the lowest chance of inflation being badly behaved over the next five years — that is, inflation being above 3% or below 1% — since at least 2009, according to Minneapolis Fed calculations.

It's hard to see how investors could be much less concerned about inflation, so the risk is that anxiety returns, bringing with it higher bond yields and arriving with enough force to pummel share prices.

The **final risk is the Fed.** Almost everyone thinks that the Fed's multitrillion-dollar bond purchases succeeded in lowering yields and pushing up stock prices. **Quantitative** easing has **only just** been **put into reverse,** and the Fed's **\$4 trillion balance sheet ended last year only \$3 billion smaller than it started.**

**As the balance sheet shrinks** this year, the **effects the Fed had on stocks and bonds should also go into reverse, creating upward pressure on bond yields and downward pressure on stock prices.**

Worse would be if the Fed's new leadership decided that investors have had it too easy. The late-1990s switch in the stock-bond relationship came as investors realized the Fed would bail out the market with rate cuts in bad times, while letting the good times roll. This asymmetric "Greenspan put" has continued, and will probably become the "Powell put" when Jerome Powell takes over this year. However, **if Mr. Powell** wanted to **take a hawkish tone,** he could make clear that the **Fed will no longer mollycoddle the markets.**

**None of these dangers is sure to materialize in 2018. Inflation can stay low for longer.** The **economy can improve even further.** The **Fed can keep feeding** its friends on **Wall Street.** Or correlations might be overwhelmed by a new market mania; after all, the S&P 500 managed a near-20% gain in 2017 even as bond yields ended the year where they began. But **high on the list of things to worry about** is that higher bond yields will finally arrive in 2018, and bring with them not even more new stock-market highs but a **correlation crisis.**

The **recent inverse link between stock and bond prices is a historical anomaly.**

## GE Faces an SEC Probe of Accounts

by Thomas Gyrta – WSJ – Jan. 25, 2018

Michael Rapoport contributed to this article.



Left: The SEC is investigating how GE reported revenue.

General Electric Co. said **securities regulators have opened a probe into the company's accounting practices**, a new challenge to the conglomerate's efforts to untangle its problems and turn around its struggling business.

The Securities and Exchange Commission is investigating **how the company recognized revenue from long-term service contracts**

**for projects like power-plant repairs and jet-engine maintenance**, GE said. The Boston based giant, which reported revenue of \$122 billion for 2017, has about \$15 billion of such service contracts on its books.

The SEC first inquired about the contract accounting in late November after the company sharply revised its financial projections, according to a person familiar with the matter. Last week, the agency sought additional information about GE's review of its insurance business after the company disclosed a massive charge, this person said.

The U.S. investigation brings more uncertainty to an industrial powerhouse that has fallen on hard times, and adds to the obstacles that new CEO John Flannery must overcome. It also provides fuel for analysts and investors who have long regarded GE's accounting and some of its holdings as a "black box."

**"If you were concerned about black box issues in the past, aren't you much more concerned about it today?"** said John Inch, an analyst at **Deutsche Bank**.

GE's finance chief, Jamie Miller, who disclosed the probe on an earnings call with investors Wednesday, said the company is cooperating with the SEC. She said the probe was in "very early stages." In an interview, Ms. Miller said she has been conducting a "deep review" of GE finances and that she hasn't seen indications of accounting problems.

The disclosure came after GE reported declines in fourth quarter revenue and profit. Shares of **GE** had rallied as much as 5% in premarket trading, but surrendered those gains after the SEC probe was announced. **Shares have tumbled 45% over the past 12 months.**

Ms. Miller played down the specter of additional unexpected charges at GE, noting that she is "pretty well through" her review of the company's balance sheet. She said she continues to review GE's financial processes, systems and past decisions.



GE's accounting has long been a subject of scrutiny. The company regularly beat Wall Street's estimates under former CEO Jack Welch. The precision with which it did so, though, led critics to question the results.

In 2009, GE paid \$50 million to settle SEC allegations that it had used improper accounting methods to boost earnings and revenue in 2002 and 2003. The company didn't admit or deny the SEC's allegations in agreeing to the settlement.

Under former CEO Jeff Immelt, the company wound down much of its lending business in the wake of the financial crisis and made big acquisitions to expand its power and oil businesses. But the industrial units struggled in recent years to generate enough cash to pay the company's dividend, prompting the company's move in November to cut the investor payout by half.

GE has a growing portfolio of "**contract assets**" coming mostly from its core power and aviation businesses. These are assets **based on revenues GE books on multiyear contracts before it has the cash in hand**, for things such as servicing power plants and **building complex equipment like gas-power systems**. The company has said it would eventually realize all the cash related to those contracts.

GE's contract assets on its balance sheet were \$28.9 billion at the end of December, down slightly from September but up \$3.7 billion from a year ago. A spokesperson said about \$15.2 billion of the balance is from long-term service agreements, with the remainder related to equipment contracts. The service contracts are generally 10 to 30 years long.

The **level of contract assets relies in part on GE's own estimates and assumptions about how much profit it will reap from those contracts**, and **analysts** have said they **have little visibility into those estimates**. In the first nine months of 2017, earnings stemming from the increase in contract assets amounted to \$1.93 billion, according to GE, more than half the company's pretax earnings from continuing operations.

**Last week, GE surprised investors** when it disclosed it would book a \$6.2 billion charge in its fourth quarter related to its insurance operations and **needed to set aside \$15 billion over seven years to bolster insurance reserves at its GE Capital unit**

Mr. Flannery, who took over last summer and slashed GE's financial projections, has promised to simplify the company's business. Last week, he put the possibility on the table of breaking apart the company.

**"There will be a GE in the future, but it will look different than it does today,"** Mr. Flannery said Wednesday. "We have a long way to go but the mission is clear."

GE already is exploring ways to shed its majority stake in Baker Hughes, which includes GE's former oil business, as well as sell its century-old Lighting business. The company also is looking to sell its Transportation unit, which builds locomotives, according to people familiar with the matter.

On Wednesday, the company said it is working on more than 20 deals to rearrange its portfolio. It aims to shed \$20 billion in assets. It expects to cut costs by more than \$2 billion in 2018.

The latest results show continued **woes in GE's Power business**, where revenue **fell 15%** and **profit tumbled 88% from a year ago**.

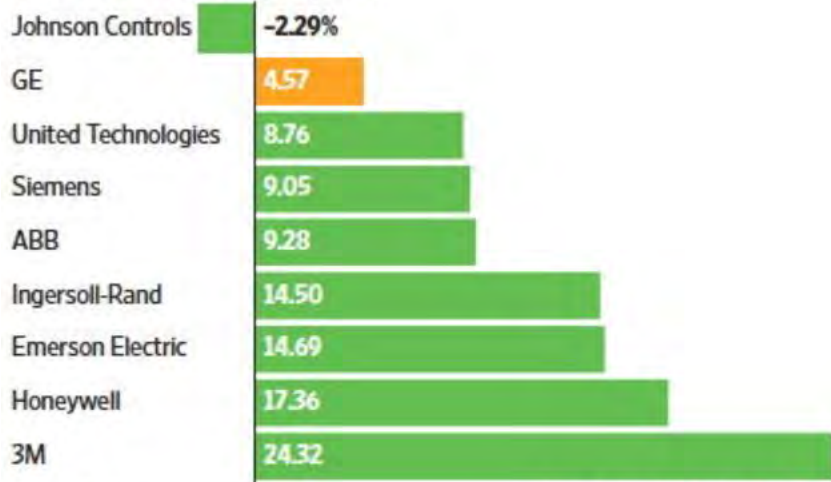
For the **fourth quarter**, **GE** reported a **loss of \$9.64 billion**, or \$1.13 a share, down from a profit of \$3.67 billion, or 39 cents a share, last year. The results were weighed down by the insurance-related charge as well as costs tied to U.S. tax overhaul. Revenue fell 5.1% from a year ago to \$31.4 billion

## GE's Bad News Shows Ugly Truth

by Spencer Jakab – WSJ – Jan. 25, 2018

### Industrial Waste

Return on invested capital, 2016



Source: FactSet

THE WALL STREET JOURNAL.

Sunlight may be the best disinfectant, but General Electric is learning that it can leave some nasty burns — particularly for those who have spent too much time in the shade.

Investors, who have grown numb to bad news at GE, actually celebrated the company's weak earnings on Wednesday and sold off shares only after the disclosure of a Securities and Exchange Commission probe into

GE's accounting. What has become **increasingly clear** as the bad news mounts at GE is that the **company's business is pretty weak**.

The **SEC review concerns not only the recent bombshell** about the **\$7.5 billion charge for a legacy insurance business**, but also **revenue recognition** in its industrial business. That latter item, including so-called **contract assets**, **may lead to restatements of past financials**.

While GE is a serial tweaker of financial disclosure, the company is doing the right thing by shifting its focus to more transparent free cash flow. Unfortunately, it paints an unflattering picture. **Even after its shares fell 44% in the past year**, and even using 2016 financial figures from before the recent collapse in earnings in its power unit, a **comparison with industrial competitors hardly suggests a screaming bargain**.

**GE's ratio of enterprise value to free cash flow is 31% dearer than the median of eight peers.**

GE ended the year with net cash of a little more than \$11 billion in its industrial units. Cutting its dividend in half will preserve a little more than \$4 billion this year, but **suspending dividends from its GE Capital unit** for the foreseeable future as it plugs its insurance hole will offset those savings. And while GE sees its cash balance excluding 62.5%-owned Baker Hughes climbing to about \$15 billion by the end of 2018, that includes an anticipated \$4 billion to \$5 billion in proceeds from disposals. In other words, the **actual business of selling and servicing stuff probably won't generate any net cash this year.**

In addition to the uncertainty about how much contract assets flattered past earnings, even cash flow may have been boosted. GE Capital often buys receivables from its industrial units so cash is received more promptly. As the finance business conserves cash to make statutory insurance contributions, that could create a short-term hiccup. GE Capital also may be less willing to underwrite riskier deals for industrial equipment, sapping revenue.

It says something about GE that horrific earnings and an SEC probe knocked only 3% off the share price. Wednesday's news could have been worse. It **speaks volumes** that **bargain hunters** have **avoided this wounded blue chip**. There clearly was a lot less there than met the eye.

—

## **Massachusetts Picks Quebec Hydro on NH Transmission Line in Supply Request.**

by Andrew Coffman Smith – SNL Financial LC – Jan. 25, 2018

**Massachusetts** officials **named** a **proposal** that includes a **transmission line through New Hampshire carrying hydroelectric-generated power from Quebec** as their **preferred provider** out of proposals submitted for a long-term supply of "clean" energy.

In March 2017, **Massachusetts** issued a **request for proposals for 9.45 terawatt-hours per year of electricity**, equal to about **17% of the state's total annual electric load**. It received **46 bids that included** combinations of long-distance transmission projects, hydroelectric supply and land-based and **offshore wind** projects.

The **selected project** was one of two offered by New England utility **Eversource Energy** and **provincial government-owned utility Hydro-Québec**, the **Northern Pass Hydro project**, consisting of the **192-mile high-voltage, direct-current Northern Pass transmission line** and **1,090 MW of firm energy from hydroelectric generating sources in Quebec**.

"By utilizing **clean energy** sources of power generation, Massachusetts will continue to lead the nation in embracing economic and environmentally friendly

methods to generate electricity to meet the needs of our communities," **Lt. Gov. Karyn Polito** said in a joint announcement with **Gov. Charlie Baker** and **other Massachusetts officials**.

"The **clean, affordable power** flowing over Northern Pass into the New England grid in 2020 will provide customers in the Commonwealth and throughout the region with much-needed **energy price stability and emissions reductions** and will deliver significant **economic and environmental benefits** to the region for years to come," Lee Olivier, Eversource's executive vice president of enterprise strategy and business development, said in a news release.

"This is a **major milestone** in the energy transition underway in the Northeast," **Hydro-Québec** President and CEO Éric Martel said. "We are pleased and proud to be a part of it."

The **New England Power Generators Association**, which represents competitive generators in ISO New England's regional market, in a statement **criticized** the selection as disappointing but unsurprising and accused Eversource of undermining 20 years of competitive markets.

"Eversource and Hydro-Québec are asking for Massachusetts consumers to guarantee them revenue through an above-market contract for electricity for the next two decades," association President Dan Dolan said. "Eversource wrote the RFP, and by picking their own project as the winner, have made consumers the losers."

In a news release, the **Sierra Club condemned** the selection of foreign and construction-intensive hydropower resources. "By choosing Canadian hydro, we will be shipping more of our energy dollars out of the country to purchase destructive Canadian hydro," said Emily Norton, director of the Massachusetts chapter of the environmental group. "Not only will we be contributing to ecological destruction on a massive scale, we will be furthering the exploitation of the indigenous people of Canada."

**Northern Pass expects to receive all state and federal permits shortly, with construction of the \$1.6 billion transmission line to begin by mid-2018 and operations starting by the end of 2020.** With **60 miles slated to be buried underground to preserve scenic mountain views**, the **320-kV HVDC line** will initially run **158 miles** from the **Canada-U.S. border** to a **proposed converter terminal** in **Franklin, N.H.**, where a **345-kV alternating current line** will continue another **34 miles** to a **substation** in **Deerfield, N.H.**

In **Canada, Hydro-Québec** is awaiting final approval from the country's **National Energy Board** on a roughly **80-kilometer 320-kV HVDC line**, the **Quebec-New Hampshire Interconnection**, from its **Des Cantons substation** to the **border**, at a projected cost of **C\$680 million**.

The **selection** concludes a **review conducted** by an **evaluation team** consisting of the **Massachusetts Department of Energy Resources** and **Massachusetts' three electric distribution companies**, **Eversource**, **National Grid USA** and **Unitil Corp**. The process was closely **monitored** by an **independent evaluator** chosen by the

**Department of Energy Resources** and the **state attorney general** to ensure the **evaluation of the proposals** was **conducted fairly**.

The **award of contract** is still **conditional** upon **successful contract negotiations between the parties** and **regulatory approval** from the **Massachusetts Department of Public Utilities**. A public report detailing the evaluation process will be released by the soliciting parties. A separate report will be prepared by the independent evaluator. Massachusetts officials anticipate **final project selection by April 25**

## **Infrastructure – For Eversource, Massachusetts’ Selection of Subsidiary to Deliver Clean Energy is Credit Positive**

by Jeffrey Cassella, VP & Senior Analyst – Moody’s – Jan. 29, 2018

Last Thursday, a group of representatives from the **Massachusetts Department of Energy Resources and utilities** in the state **selected** a joint clean energy proposal submitted by **Eversource Energy** (Baa1 stable) and **Hydro-Québec** (Aa2 stable) in response to a Massachusetts Clean Energy request for proposal issued on 31 March 2017. The proposal involves **Eversource subsidiary Northern Pass Transmission LLC (NPT)** developing a **192-mile, 1,090-megawatt electric transmission line** that will **run through New Hampshire** and **transport carbon-free hydropower supplied by Hydro-Québec’s dams and reservoirs**. Although Eversource will incur debt as it develops and constructs the transmission line, the project is credit positive because NPT will add to Eversource’s higher-earning transmission business, which accounted for 36% of the company’s rate base in 2016 and we expect will grow to 42% by 2020.

We expect Eversource to finance the approximately \$1.6 billion project with a balance mix of debt and equity. **Financial metrics** will experience **modest negative pressure during the construction** phase because there will be increases in debt without the benefit of cash flow. But, **once the line is in service**, which the companies **expect** will occur in **late 2020**, **Eversource** will add a **low-risk, higher-return transmission business regulated by the US Federal Energy Regulatory Commission**.

The joint bid was in response to **Massachusetts’ request for proposal**, which required utilities in the state to procure approximately **9.45 million megawatt-hours of either wind, solar, hydro or energy storage on an annual basis by 2020**. The state initiated the request for proposal in response to legislation that Massachusetts Governor Charlie Baker signed in August 2016 that called for the procurement of new sources of clean energy to meet the state’s clean energy goals.

Now that the **state** has **selected NPT**, it has the ability to negotiate power contracts with utilities in the state that will **ultimately require approval** by the **Massachusetts Department of Public Utilities**. **NPT** has obtained **major permits from the US government**, but **awaits approval** from the **New Hampshire Site Evaluation Committee**, which we **expect early this year**. The **Province of Québec** has **granted Hydro-Quebec** a **permit to construct the Canadian portion** of the



**transmission line** that will **connect** with Northern Pass **at** the **US border**. **Eversource expects to start construction of the transmission line by mid-2018.**

For the 12 months that ended 30 September 2017, **Eversource's ratio of cash flow from operations pre-working capital changes to debt was 16.7%**. Even **during the construction of the transmission line, we expect Eversource's ratio of cash flow from operations pre-working-capital changes to debt to be in the 15%-16% range over the next two years.**

**Eversource is a public utility holding company of predominantly regulated utilities** and is the **largest utility system in the New England** region serving approximately **4 million electric, natural gas and water customers**. With headquarters in Hartford, Connecticut, and Boston, Eversource has a **total rate base of about \$15.7 billion.**

—

## **New Hampshire Rejects Northern Pass Transmission, Throwing Project into Doubt**

by Robert Dalton – UtilityDive – Feb 2, 2018

<https://www.utilitydive.com/news/new-hampshire-rejects-northern-pass-transmission-throwing-project-into-doubt/516201/>



The **New Hampshire Site Evaluation Committee (SEC)** yesterday **unanimously rejected the Northern Pass transmission project**, throwing the project's future into doubt.

Owned by **Eversource Energy**, the **192-mile transmission line** would **move power from Hydro-Quebec dams in Canada to**

a substation in **Deerfield, N.H.** **Just last week, Massachusetts selected the project to help achieve the state's clean energy goals.**

**Once a final report is issued, project developers can appeal the decision** and then potentially **take the case to the state's Supreme Court**. Northern Pass officials previously said an appeal was possible if the project was rejected; local media reports the company is "shocked and outraged" by the SEC's decision.

## Hydro One Announces Appointment of Chief Financial Officer

Co. Press Release – S&P Global Market Intelligence – Jan 28, 2019

**Hydro One** Limited (Hydro One) is pleased to announce the **appointment** of **Paul Dobson** as **Chief Financial Officer (CFO)** **effective March 1, 2018**.

Mr. Dobson was **most recently CFO** for **Direct Energy** Ltd. (Direct Energy), Houston, Texas, where he was responsible for overall financial leadership of a \$15 billion revenue business with three million customers in Canada and the U.S. Since 2003, Mr. Dobson has held leadership positions in finance, operations and customer service across the Centrica Group, the parent company of Direct Energy. He also has considerable experience pursuing acquisitions and integrating acquired companies across North America and in the United Kingdom.

"I am very pleased that through our extensive North American search, we have attracted a high calibre leader with significant financial expertise and deep experience in the utility sector to join Hydro One," said Mayo Schmidt, President and CEO, Hydro One Limited. "Paul's strong track record of proven success in leading teams to deliver financial success as well as leading productivity programs and improved customer satisfaction will build on our progress towards becoming North America's leading utility."

**Mr. Dobson** is recognized as a measured and well-rounded finance executive. At Hydro One, he **will assume responsibility for finance, treasury, controller, audit, technology and regulation**.

"I am excited to join Hydro One as it transforms into a performance-driven utility that is well-positioned for the future," said Mr. Dobson. "I am excited to come home to Ontario and I look forward to **delivering value for Hydro One's customers, employees, shareholders and communities**."

**Mr. Dobson is a dual Canadian-U.S. citizen** who holds an honors bachelor's degree from the University of Waterloo as well as an MBA from the University of Western Ontario and is a CPA, CMA.

About Hydro One Limited:

We are Ontario's largest electricity transmission and distribution provider with more than 1.3 million valued customers, \$25 billion in assets and annual revenues of over \$6.5 billion. Our team of 5,500 skilled and dedicated employees proudly and safely serves suburban, rural and remote communities across Ontario through our 30,000 circuit km high-voltage transmission and 123,000 circuit km primary distribution networks. Hydro One is committed to the communities we serve, and has been rated as the top utility in Canada for its corporate citizenship, sustainability, and diversity initiatives. We are one of only five utility companies in Canada to achieve the Sustainable Electricity Company designation from the Canadian Electricity Association. We also provide advanced broadband telecommunications services on a wholesale basis utilizing our extensive fiber optic network. Hydro One Limited's common shares are listed on the Toronto Stock Exchange (TSX: H).

**Forward-Looking Statements and Information:**

This press release may contain "forward-looking information" within the meaning of applicable securities laws. Words such as "expect," "anticipate," "intend," "attempt," "may," "plan," "will", "can", "believe," "seek," "estimate," and variations of such words and similar expressions are intended to identify such forward-looking information. These statements are not guarantees of future performance or actions and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecasted in such forward-looking information. Some of the factors that could cause actual results or outcomes to differ materially from the results expressed, implied or forecasted by such forward-looking information, including some of the assumptions used in making such statements, are discussed more fully in Hydro One's filings with the securities regulatory authorities in Canada, which are available on **SEDAR** at [www.sedar.com](http://www.sedar.com). Hydro One does not intend, and it disclaims any obligation, to update any forward-looking information, except as required by law.

**Source Hydro One Limited:**

For more information, contact Hydro One Media Relations 24 hours a day at 1-877-506-7584 (toll-free in Ontario only) or 416-345-6868. Our website is [www.HydroOne.com](http://www.HydroOne.com). Follow us on [facebook.com/hydrooneofficial](https://www.facebook.com/hydrooneofficial), [twitter.com/hydroone](https://twitter.com/hydroone) and [instagram.com/hydrooneofficial](https://www.instagram.com/hydrooneofficial).

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**Utility Dividends Grow Over 6% in 2017**

by Tom Serzan – Regulatory Resesearch Associates (RRA)

An Offering of S&P Global Market Intelligence – Jan. 29, 2019

The **average dividend growth rate** for the **full year 2017** by the **60 RRA-covered utilities that increased their dividends, including the nine publicly traded water utilities**, was **6.6%**. That rate was **up from the 5.9% growth rate in 2016**.

\* **During 2017, 33 electric utilities increased dividends** by an **average of 5.8%**; two electrics kept their dividends **unchanged**. **All 16 gas utilities increased dividends** by an **average of 6.4%**, while **all nine water utilities** each **increased dividends** by **8.6% on average**.

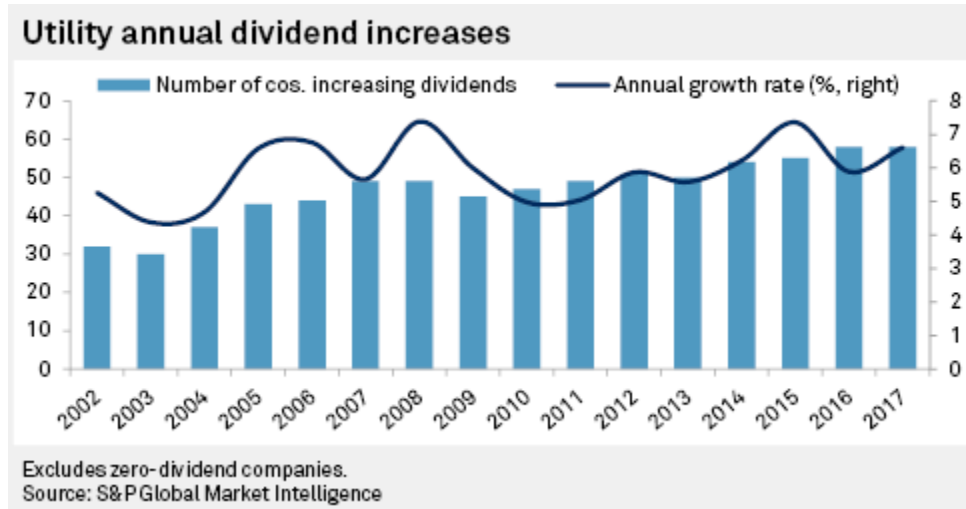
\* The **average utility dividend payout ratio**, based on S&P Capital IQ 2017 consensus earnings and dividend estimates, was **61.6%, up from a 60% average payout level** that had existed **for both 2015 and 2016**. Industry payout ratios are projected to continue trending up marginally over the next couple of years.

\* Consensus earnings estimates suggest that profits will grow by about 5% over the next three years, with this level toward the upper end of the level we have generally observed from many mainstream utility managements — in the 4% to 5% range.

\* Variations in growth among the electric, gas, and water sectors is expected in 2018. Electric companies are expected to grow dividends by 6.6% on average this year,

while growth in the gas sector is forecast at 4.8% rate, with that lower number due mostly to forecasts for a reduction in SCANA's dividend. Average growth in the smaller water sector in 2018 is projected at 5.2% in 2018.

\* We expect that profit forecasts across all utility sectors may be changed as managements disclose their interpretations of recently changed tax laws. Cash flow implications may well impact corporate uses of cash across the spectrum of capital spending, merger activity and dividend expansion.



### Avista Raises Quarterly Dividend by 4.2%

by Sania Khan – S&P Global Market Intelligence – Feb. 2, 2018

**Avista Corp. raised its quarterly dividend by 4.2%, to 37.25 cents per common share**, or \$1.49 per share on an annualized basis.

The dividend is payable March 15 to shareholders of record Feb. 23.

CASE: UM 1897  
WITNESS: MARIANNE GARDNER

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 300**

**Reply Testimony**

**February 12, 2018**



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**I. QUALIFICATIONS & EXECUTIVE SUMMARY**

**A. Qualifications**

**Q. Please state your name, occupation, and business address.**

A. My name is Marianne Gardner. I am a senior revenue requirement analyst for the Public Utility Commission of Oregon (Commission or OPUC). My business address is 201 High Street SE, Salem, OR 97301.

**Q. Please describe your educational background and employment experience.**

A. My educational background and employment experience are set forth in my Witness Qualification Statement, which is provided as Exhibit Staff/301.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to review and discuss the impact that Hydro One LTD's (Hydro One or Applicant) proposed acquisition of Avista Corporation (Avista or Company) will have on the Commission's access to information, accounting records at Avista, corporate overheads and cost allocation between Hydro One and Avista (the Companies), affiliated interest concerns, any tax implications, and the value of Hydro One's commitments (Commitments or Conditions) related to the aforementioned topics.

**Q. Did you prepare exhibits in support of your reply testimony?**

A. Yes. I prepared the following exhibits:  
Exhibit Staff/301 – Witness Qualification Statement  
Exhibit Staff/302 – Company Responses to Staff Data Requests

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**B. Executive Summary**

**Q. Please provide a summary of the conclusions from your review, including any concerns identified.**

A. I reviewed the impact of the proposed transaction on the Commission's access to information, accounting records at Avista, corporate overheads and cost allocation between Hydro One and Avista, affiliated interest concerns, any tax implications, and the value of Hydro One's commitments (Commitments or Conditions). I have identified concerns with all topical areas, which I have summarized below:

1. Access to information – Staff has concerns that the language in the Applicant's Commitment No. 22<sup>1</sup> may attempt to circumscribe the Commission's access to information necessary to review records of Hydro One and its affiliates.
2. Accounting – Staff is concerned that Commitment No. 21<sup>2</sup> is entirely too vague and does not explain if Avista will keep and maintain a separate accounting system and the location(s) where Staff may access the records post-merger.
3. Corporate overheads – The Applicant did not include this topic in any of its commitments. This is very concerning as the Companies have clearly not yet decided allocation of corporate overhead costs. More importantly, the Companies are also unable to articulate overhead synergies that the

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<sup>1</sup> Application of Hydro One (hereinafter Hydro One Application)/Appendix 8/5-6 at No. 22. (filed Sept. 9, 2018).

<sup>2</sup> Ibid, 5 at No.21.

1 Companies plan to realize post-merger, which is one critical component in  
2 demonstrating that the benefits of the merger will outweigh the harms to  
3 Oregon ratepayers.

4 4. Cost allocations and affiliated interests – These topics were minimally  
5 addressed in Hydro One’s proposed commitments, and the Companies’  
6 testimony and data responses added no information of substance that  
7 Staff would expect based on standard practices. Understanding cost  
8 allocations and affiliated interests is essential because Staff has a duty to  
9 ensure that Oregon ratepayers are not burdened with costs that are  
10 unrelated to the services provided to them.

11 5. Taxes were not commented on in the Commitments. While the Merger  
12 Agreement does discuss taxes and liabilities that exist at the time of the  
13 merger, it did not provide assurance that the appropriate amount of taxes  
14 would be included in rates post-merger. Moreover, the application  
15 (Application), Companies’ testimony, and data responses do not establish  
16 the basis by which the taxes in rates will be calculated or speak to  
17 customer protections from subsidizing Hydro One’s, or its affiliates’, tax  
18 expense post-merger.

19 **Q. Based on Staff’s analysis, does Staff recommend the Commission**  
20 **approve the merger?**

21 A. No. The evidence presented by Hydro One is insufficient to support the  
22 Oregon legal requirement that the merger result in a net benefit to Avista’s  
23 ratepayers and cause no harm to the public as a whole.

1 **II. ANALYSIS**

2 **A. Access to Information**

3 **Q. When Staff evaluates the change in access to information that may**  
4 **occur post-merger, what is Staff generally focused on?**

5 A. When Staff discusses access to information, Staff is referring to access to  
6 accounting books, records, budgets, financial information, management  
7 and other employees, and other records that may directly or indirectly  
8 affect the Oregon-regulated utility, in this case, Avista. The concern is that  
9 in a complex corporate structure, especially like the one in this case, with  
10 an international parent and six intermediate subsidiary companies between  
11 Hydro One and Avista, the OPUC will be restricted in its ability to obtain  
12 the information it needs to ensure that Avista customers are paying just  
13 and reasonable rates.

14 **Q. Does the Commission have the right to determine the books,**  
15 **accounts, memoranda, and other records of the parent and its**  
16 **affiliates that are relevant to Avista?**

17 A. Yes. In Order No. 06-082, the Commission explained that its access to  
18 information pursuant to both federal law and ORS 757.495 “provides the  
19 ability to thoroughly review the activities of utilities and their affiliates.”<sup>3</sup>

20 However, the Commission still required the Applicant, MidAmerican Energy

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<sup>3</sup> *In the Matter of MidAmerican Energy Holdings Company and PacifiCorp Application for Authorization to Acquire Pacific Power & Light, dba PacifiCorp*, Docket No. UM 1209, Order No. 06-082 at 9 (Feb. 24, 2006). See also ORS 757.070-105 for additional information on the scope of the Commission’s powers to investigate and obtain information and records.



1 Holding Company, to mitigate transparency concerns by “allowing access to  
2 documents at MEHC and Berkshire Hathaway, by seeking approval of its cost  
3 allocation method and any transfer of funds between PacifiCorp, MEHC, and  
4 Berkshire Hathaway, and by seeking approval of future mergers between  
5 PacifiCorp and any other utility.”<sup>4</sup> Further, the Commission expressed that, in  
6 all future applications, it would “continue to carefully evaluate similar  
7 provisions to ensure continued transparency into the activities of regulated  
8 utilities and their affiliates.”<sup>5</sup>

9 **Q. In its Application, how does Hydro One commit to provide access to**  
10 **information to the Commission post-merger?**

11 A. In Appendix 8 to its Application, Commitment No. 22 entitled “Access to and  
12 Maintenance of Books and Records,” Hydro One describes the access that  
13 will be available post-merger.

14 **Q. What statements in Commitment No. 22 or language do you find**  
15 **objectionable?**

16 A. Staff considers the phrase “that pertains to” vague and ambiguous as to who  
17 would determine whether certain information, books, and records are  
18 pertinent and available to the Commission for inspection. Staff has listed the  
19 following statements below in the order that they appear in Commitment  
20 No. 22 as examples.

21 Nothing in the Proposed Transaction will limit or affect the  
22 Commission’s rights with respect to inspection of Olympus  
23 Holding Corp.’s accounts, books, papers and documents

---

<sup>4</sup> *Id.* at 8-9.

<sup>5</sup> *Id.* at 9.

1 pursuant to all applicable laws; provided, that such ***right***  
2 ***to inspection shall be limited*** to Olympus Holding  
3 Corp.'s accounts, books, papers and documents ***that***  
4 ***pertain solely to transactions affecting Avista's***  
5 ***regulated utility operations.***  
6

7 Olympus Holding Corp. and its subsidiaries, including  
8 Avista, will provide the Commission with access to written  
9 information provided by and to credit rating agencies that  
10 ***pertains to Avista.***  
11

12 Olympus Holding Corp. and each of its subsidiaries will  
13 also provide the Commission with access to written  
14 information provided by and to credit rating agencies ***that***  
15 ***pertains*** to Olympus Holding Corp.'s subsidiaries ***to the***  
16 ***extent such information may affect Avista.***<sup>6</sup>  
17

18 **Q. Why does Staff find this language concerning?**

19 A. Staff has several concerns. First, it becomes difficult to obtain information  
20 from a parent company with numerous affiliates that is continuing to grow.  
21 Consequently, it is essential to impose conditions (or commitments) in this  
22 proceeding that make the Commission's expectations regarding access to  
23 information clear because if the merger is approved, the Commission will not  
24 have subsequent opportunities to add new conditions that apply to Hydro  
25 One. In past merger cases, commitments adopted by the Commission that  
26 relate to access to records, information, and people allow access to  
27 information ***that may lead to*** relevant evidence as determined by the  
28 Commission, not as determined by the Parent or regulated utility.<sup>7</sup>

---

<sup>6</sup> Hydro One Application/Appendix 8/5.

<sup>7</sup> See e.g., Docket No. UM 1209, Order No. 06-082, Exhibit 1, and Docket No. UM 1804, Order No. 17-526, Attachment A to Stipulation.

1           Second, Hydro One, a foreign electric company, may direct less  
2 attention toward its gas operations, especially the small Oregon-segment of  
3 Avista customers, as the gas industry is out of Hydro One's area of expertise.  
4 Similarly, as Hydro One shareholder value is derived from a greater set of  
5 companies, Hydro One executive management may be less responsive to  
6 Oregon-regulatory requests as Oregon gas operations will comprise a small  
7 segment of its total operations. This increases the importance of the  
8 Commission's access to books and records to ensure proper accounting, cost  
9 allocations, and affiliate transactions are occurring.

10 **Q. What concerns do you have with this Commitment?**

11 A. Staff is concerned because Commitment No. 22 attempts to limit the  
12 Commission's rights to access information of Olympus Holding Corp.<sup>8</sup> and the  
13 holding company's subsidiaries that could impact Avista's regulated  
14 operations. Therefore, conditions may not be binding upon Hydro One.  
15 Further, Staff may not have transparent understanding of financial and other  
16 activity at the Special Purpose Entity (SPE)<sup>9</sup> that may directly or indirectly  
17 affect Avista and the proposed bankruptcy remote SPE directly owning  
18 Avista. Additionally, the Commitment does not specify or recommend  
19 retention requirements applicable to Hydro One, its affiliated interests, and  
20 Avista. As an example, MEHC and PacifiCorp agreed to the following in the

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<sup>8</sup> See Staff's discussion in Staff/200, Muldoon.

<sup>9</sup> Ibid.

1 UM 1209 merger docket in the commitment covering access to books and  
2 records.

3 This commitment is also applicable to the books and  
4 records of Berkshire Hathaway, which shall retain its  
5 books and records relevant to the business of PacifiCorp  
6 consistent with the manner and time periods of the Federal  
7 Energy Regulatory Commission's record retention  
8 requirements that are applicable to PacifiCorp's books and  
9 records.<sup>10</sup>

10

11 **Q. Do any of Hydro One's Commitments adequately mitigate your**  
12 **concerns?**

13 A. No. The Application as filed fails to offer concrete material controls. In past  
14 Commission approvals of mergers and acquisitions (M&A), controls were both  
15 clear and binding on the proposed new parent company, the Commission  
16 jurisdictional utility proposed to be acquired, and all intervening companies in  
17 the aggregated post-merger corporate structure. That transparency to the  
18 Commission is what allowed parent Companies from as far away as Scotland  
19 to offer reassurance to the Commission that the Commission would continue  
20 to have adequate access to information after execution of the proposed M&A.

21

**B. Accounting**

22 **Q. Will Avista keep separate accounting books post-merger?**

23 A. Yes. Commitment No. 21 states that Avista will maintain separate books and  
24 records.

25 **Q. Do you have any concerns with this Commitment?**

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<sup>10</sup> See Order No. 06-082, Appendix A, 23 at No. 4.

1 A. Yes. My concern is that the commitment is not specific enough. For  
2 instance, in MEHC's acquisition of PacifiCorp, Docket UM 1209, an important  
3 ring-fencing commitment regarding accounting records required that the  
4 accounting system be maintained by PacifiCorp and be separate from  
5 MEHC's accounting system. It also addressed the locations where the  
6 records would be made available to the Commission.<sup>11</sup>

7 **C. Corporate Overheads**

8 **Q. Please summarize Avista's and Hydro One's position on corporate**  
9 **overhead costs.**

10 A. Neither Company provided a position in its Application nor in its testimony on  
11 the corporate services that may be shared. However, Staff initiated a number  
12 of data requests regarding shared corporate services. According to Avista's  
13 response to Staff DR No. 49, "Hydro and Avista have not identified any areas  
14 where there will be shared corporate services."<sup>12</sup> However, Avista noted that  
15 high-level conversations have been initiated between the companies to  
16 identify areas where economies of scale *could* deliver cost savings. These  
17 areas could possibly be sharing "general supply chain information, metrics  
18 and practices, as well as information technology and computer systems."<sup>13</sup>

19 **Q. What concerns do you have with the fact that to-date neither**  
20 **Company has provided information quantifying post-merger**  
21 **corporate overhead costs savings or detailing merger synergies?**

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<sup>11</sup> Ibid, at No. 3.

<sup>12</sup> Exhibit Staff/302, Gardner/55 (Avista response to Staff DR No. 49).

<sup>13</sup> Ibid.



1 A. Staff is concerned because the Companies have clearly not decided  
2 allocation of corporate overhead costs, which Staff needs to know prior to  
3 approving a merger. With regard to the areas of possible cost sharing, in the  
4 absence of any evidence to the contrary, it appears that only Avista's  
5 Washington *electric* operations will benefit from the sharing of general supply  
6 chain information, metrics and practices, whereas Avista's Oregon gas  
7 operations will not, due in part to the fact Hydro One is solely an electric  
8 utility. Also, in recent Oregon rate cases, Avista has requested and received  
9 increases in base rates due to technological initiatives that have replaced  
10 legacy information systems.<sup>14</sup> It is not clear from the Application, testimony,  
11 or responses to data requests whether Oregon customers will benefit from  
12 sharing Avista's improved computerized systems with Hydro One, and really it  
13 should be other way around—Hydro One's systems should be improving  
14 service for and reducing costs to Avista customers.

15 **Q. Did Staff inquire about potential duplicative services post-merger?**

16 A. Yes. Staff, in its DR No. 55, asked Avista how duplicative services will be  
17 avoided and corporate overhead reduced if there are no reductions in Avista  
18 workforce as both companies have promised. Avista pointed to its  
19 testimony<sup>15</sup> that states the merger would reduce Avista corporate overhead  
20 costs by avoiding costs arising from the elimination of SEC filings, publically

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<sup>14</sup> See, e.g., *In the Matter of Avista Corporation*, Docket No. UG 288, Avista/600, Schuh/13 at 22-31 (May 1, 2015) and Order No. 16-109 at 13 (allowing full recovery of Avista's capital costs related to plant additions.).

<sup>15</sup> Avista/100, Morris/19 at 11-20.

1 traded stock, and a few non-employee board of directors. Additionally, Avista  
2 explains, "Because Avista will continue to operate as an independent stand-  
3 alone utility, there will not be duplicative services until such time as future  
4 opportunities for shared service can be identified and implemented."<sup>16</sup>

5 **Q. Does Staff observe an incongruity in Avista's statement?**

6 A. Yes. Staff believes the elimination of SEC filings and publically traded stock  
7 would also result in a reduction in Avista FTE assigned to those corporate  
8 duties. Also, Avista's assertion that duplicative services are not duplicative  
9 until shared services are identified and implemented is illogical. Just because  
10 a redundancy is not acknowledged does not mean it does not exist. Staff is  
11 concerned that Avista cannot articulate or clearly detail any planned post-  
12 merger cost synergies<sup>17</sup> although Staff is convinced that such synergies may  
13 exist and could result in ratepayer benefits. This is a significant concern  
14 given that experts on post-merger implementation continually state that  
15 realizing synergies is most often the fundamental purpose of mergers and  
16 acquisitions:

17 Cost synergies are the main event because there will always  
18 be some duplication / redundancy of effort which can be  
19 reduced. This can take the form of consolidated processes,  
20 reduced investment, vendor rationalization, consolidated  
21 manufacturing and personnel layoffs. *These savings are*  
22 *estimated long before the deal takes place and tracked*  
23 *rigorously throughout the 'marriage.'*<sup>18</sup>  
24

<sup>16</sup> Exhibit Staff/302, Gardner/61 (Avista response to Staff DR No. 55).

<sup>17</sup> Ibid./58 (Avista response to Staff DR. No. 52).

<sup>18</sup> Kim, John, "What is Post-Merger Integration," *Consultant's Mind*, available at <http://www.consultantsmind.com/2017/11/05/what-is-post-merger-integration/>, 30 Jan. 2018 (emphasis added).

1           Moreover, “In virtually every *successful* case, leaders pursue synergies  
2           with speed, rigor, and pragmatism, doing as much analysis, planning,  
3           preparation, and fine-tuning as possible before the close.”<sup>19</sup>  
4

5           Avista has not been able to describe in *any* detail the post-merger cost  
6           savings to Avista.<sup>20</sup> The same is true for Hydro One.<sup>21</sup> In fact, Hydro One  
7           states in its response to Staff DR. No. 230 (H1) that “Antitrust laws (e.g.,  
8           Section 1 of the Sherman Act and Hart-Scott-Rodino Act) permit such  
9           integration planning, but restricts certain non-public commercially sensitive  
10          information from being shared until after the transaction closes. Thus,  
11          specific opportunities for synergies and efficiencies will be determined at that  
12          time (i.e., after the transaction closes).”<sup>22</sup>

13       **Q. Do the Companies’ positions hinder Staff in its evaluation of whether**  
14       **the merger will not harm, and in fact, benefit Oregon customers?**

15       A. Yes. First of all, utilities routinely share non-public, commercially sensitive  
16       information in OPUC contested case proceedings under the cover of a  
17       protective order, or a modified protective order for highly confidential  
18       information if such a high-level of confidentiality is necessary to inform the  
19       Commission’s decision. In fact, the Companies’ reticence to describe  
20       potential benefits and synergies is alarming in the light of the fact that the pre-

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<sup>19</sup> Friedman, Reinaud, Staudacher, Barrett, Chris, and Dawson Niamh, “Six Essentials for Achieving Postmerger Synergies,” *BCG The Boston Consulting Group*, 17 March 2017. <https://www.bcg.com/publications/2017/postmerger-integration-six-essentials-for-achieving-postmerger-synergies.aspx>. (emphasis added) Accessed 30 Jan. 2018.

<sup>20</sup> Exhibit Staff/302, Gardner/55, 59, and 631-2 and 52-53 (Avista responses to Staff DR Nos. 49, 53, and 61).

<sup>21</sup> Exhibit Staff/302, Gardner/1-2 and 52-53, (Hydro One responses to Staff DR Nos. 156, 159, 230, and 234).

<sup>22</sup> *Ibid.*/52 (Hydro One response to Staff DR No. 230).

1 merger costs to Avista alone, meaning costs that Avista would not incur but  
2 for the merger, are estimated to be approximately \$89 million with \$33 million  
3 of the total designated for change of control and retention.<sup>23</sup> It is probable, in  
4 Staff's opinion, this may include incentives on separation for Avista  
5 executives.<sup>24</sup> The \$89 million does not consider merger costs incurred post-  
6 merger close date. As of December 31, 2017, Avista has accumulated  
7 \$15 million of costs related to the merger transaction. Additionally, as of  
8 September 30, 2017, Hydro One has incurred \$19 million of pre-closing  
9 merger related costs.<sup>25</sup> The magnitude of the costs will require Staff, if the  
10 merger is approved, to review costs in a general rate case diligently to ensure  
11 pre-merger and post-merger costs related to the merger transaction itself are  
12 not included in Avista customer rates.

13 **Q. Does Staff understand why both Companies are building up these types**  
14 **of costs but are not defining the benefits?**

15 A. No. From Staff's perspective, the Companies are working against their own  
16 best interests by not reducing the gap between costs and benefits.

17 **Q. Do any of Hydro One's Commitments adequately mitigate your**  
18 **concerns?**

19 A. No.  
20  
21

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<sup>23</sup> Ibid./64 (Avista response to Staff DR No. 58).

<sup>24</sup> Staff Exhibit/202, Muldoon/11.

<sup>25</sup> Ibid/51 (Hydro One response to Staff DR No. 211).

1 **D. Cost Allocations and Affiliated Interests**

2 **Q. In Hydro One's Application to exercise substantial influence over**  
3 **Avista, how has Avista proposed to treat pre-merger transaction**  
4 **costs?**

5 A. Appendix 7 in the Application consists of an Avista memo directing  
6 employees to continue to charge all costs associated with due diligence and  
7 other related costs below the line to non-utility account, FERC Account  
8 No. 426500.<sup>26</sup> This is reiterated in the opening testimony of Avista witness  
9 Mr. Ehrbar.<sup>27</sup>

10 **Q. In its Application, how has Hydro One proposed to treat pre-merger**  
11 **transaction costs?**

12 A. Hydro One did not address its pre-merger transaction costs in testimony.  
13 Staff inquired in DR No. 211 (H1) regarding Hydro One's accounting for the  
14 pre-merger costs. Hydro One replied that pre-merger costs will not be  
15 allocated or assigned to Avista and that all of these costs will be absorbed by  
16 Hydro One. As mentioned above, as of September 30, 2017, Hydro One had  
17 incurred \$19 million of pre-closing costs for its proposal to acquire Avista.<sup>28</sup>

18 **Q. What concerns do you have with the Companies' proposals?**

19 A. Staff agrees that Hydro One's pre-merger costs should be funded solely by  
20 Hydro One. Staff also agrees that Avista's costs resulting from pre-merger  
21 activities related to the transaction must be charged below the line. Staff's

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<sup>26</sup> Hydro One Application/Appendix 7/1.

<sup>27</sup> UM 1897, Avista/700, Ehrbar/11 -12 and 13 at 1-3.

<sup>28</sup> Exhibit Staff/302, Gardner/51 (Hydro One response to Staff DR No. 211).

1 concern is that Avista employees properly track their time and resources  
2 dedicated to pre-merger activities given that current amounts in rates reflect  
3 an understanding that 100 percent of their time is dedicated to the  
4 management of Avista, and not engaging in merger activities. Further, Staff  
5 emphasizes its earlier points, that without strong conditions requiring access  
6 to Hydro One accounts and records, in addition to clear cost allocation  
7 metrics established pre-merger, Staff cannot ensure that Hydro One's  
8 \$19 million in pre-merger transaction costs (actual incurred as of September,  
9 2017) and Avista's forecasted \$89 million pre-merger transactions costs and  
10 any post-merger transaction costs do not end up being borne in part by Avista  
11 customers.

12 **Q. In the Application, does Hydro One or Avista discuss cost allocations**  
13 **and affiliated interests?**

14 A. Yes. In Commitment No. 23, this issue is discussed.

15 **Q. Will you please summarize the Companies' proposal in Commitment**  
16 **No. 23?**

17 A. Yes. In Commitment No. 23 Avista agrees to provide generic cost allocation  
18 methodologies used to allocate costs to Hydro One or its affiliates.

19 Commitment No. 23 states that Avista will have the burden of proof in a  
20 general rate case and that its chosen allocation methodologies are  
21 reasonable. Regarding affiliate transactions, the Commitment states that  
22 Avista will comply with the Commission's then-existing practice and will notify



1 the Commission of any corporate structure changes that affect its cost  
2 allocations.<sup>29</sup>

3 **Q. Does Commitment No. 23 provide Avista's Oregon customers any**  
4 **additional benefits or assurances outside what is currently required**  
5 **by the Commission?**

6 A. No. Current Oregon Revised Statutes (ORS) and Oregon Administrative  
7 Rules (OAR) already address cost allocation and affiliated interest  
8 requirements. ORS 757.015 defines an affiliated interest. ORS 757.495  
9 requires a public utility to seek approval of contracts with affiliated interests  
10 within 90 days after execution of the contract. OAR 860-027-0040 sets forth  
11 the filing requirements for applications for approval of transactions between  
12 affiliated interests. OAR 860-027-0048 specifies the filing requirements for  
13 allocation of costs by an energy utility.

14 **Q. Do any other Commitments discuss cost allocations or affiliated**  
15 **interests?**

16 A. Yes. Commitment No. 43, part d, promises that Avista will inform the  
17 Commission within thirty (30) days of an affiliate or subsidiary of Avista  
18 becoming a subsidiary of Hydro One or one of its affiliates. At the same time,  
19 Avista will file a document that contains Avista's proposed corporate and  
20 affiliate cost allocation methodologies.<sup>30</sup> However, it does not discuss the

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<sup>29</sup> Hydro One Application/Appendix 8/6.

<sup>30</sup> Ibid./12 at part d.

1 treatment of cost allocations or affiliated interests immediately after the  
2 merger, and Staff expects clarification on this important point.

3 **Q. Do any Commitments discuss Hydro One's method of allocating**  
4 **costs down to Avista?**

5 A. No. In a series of data requests, Staff asked Hydro One to explain its  
6 transfer pricing and the allocation of shared costs between its jurisdictions  
7 and its affiliates. In response, Hydro One provided various allocation  
8 policies and procedures that are in accordance with the Ontario Energy  
9 Board (OEB) codes and policies.<sup>31</sup> Staff inquired further, requesting Hydro  
10 One to explain how the anticipated allocation of shared costs, transfer  
11 pricing of services etc., between Hydro One, its affiliates, and Avista will  
12 differ or be consistent with the current promulgated OEB codes and  
13 policies. Hydro One was perplexingly silent on this and instead replied that  
14 any allocation to Avista "will be in accordance with the OEB's *Affiliate*  
15 *Relationships code for Electricity Distributors and Transmitters* and any  
16 other applicable US laws, regulations and regulatory instruments that apply  
17 to Avista."<sup>32</sup>

18 **Q. Did Staff inquire how each Company will account for costs arising from**  
19 **a regulators' disallowance?**

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<sup>31</sup> Exhibit Staff/302, Gardner/4, 49 (Hydro One response to Staff DR Nos. 208-209).

<sup>32</sup> Ibid./50 (Hydro One response to Staff DR. No. 210).

1 A. Yes. Staff inquired posing a few scenarios. Similar to other responses,  
2 Staff was directed back to other responses and testimony that discuss the  
3 direct allocation protocol but not the question asked.<sup>33</sup>

4 **Q. Does Staff find Hydro One's and Avista's responses deficient?**

5 A. Yes. Staff believes it is crucial to have an understanding of what costs  
6 Avista and Hydro One will share post-merger and the basis of any  
7 allocations. One reason is that Hydro One may pass costs via Avista to  
8 Oregon ratepayers that are inconsistent with the Commission practice.  
9 Moreover, Hydro One may refuse certain shared costs from Avista,  
10 creating stranded costs for Avista's regulated operations. Consequently,  
11 Staff believes Hydro One and Avista should provide draft documents that  
12 clearly demonstrate the allocation methodologies and policies they intend  
13 to implement post-merger.

14 **Q. Would you point to an example in a previous merger docket that**  
15 **demonstrates what should have been delivered based on general**  
16 **good practices?**

17 A. Yes. In docket UM 1209, PacifiCorp (PAC or PPL) and MidAmerican Energy  
18 Holdings Company (MEHC) sought Commission approval of a merger  
19 between the companies. PPL's opening testimony covering shared services,  
20 affiliate transactions, and allocations was much more robust than Hydro  
21 One's and Avista's. PPL's Witness, Mr. Specketer, provided an overview of  
22 the process by which shared services costs would be distributed to PacifiCorp

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<sup>33</sup> Ibid./81-82 (Avista response to Staff DR Nos. 77-78).

1 and other MEHC subsidiaries after completion of the proposed  
2 transactions.”<sup>34</sup> His testimony dealt with allocation methodologies, the  
3 anticipated service contract covering shared services, expected costs to PAC  
4 from MEHC related to shared services, and other accounting issues.<sup>35</sup>  
5 Specketer also included as an Exhibit to his testimony the MEHC’s current  
6 Intercompany Administrative Service Agreement (IASA) that would pertain to  
7 PAC pending approval of the merger. This enabled assigned Commission  
8 staff to preview the anticipated agreement as part of its due diligence in  
9 UM 1209.<sup>36</sup> After merger approval was granted, pursuant to Order  
10 No. 06-121 issued March 14, 2006, PacifiCorp filed an application of its IASA  
11 with the Commission for approval. The application filing was docketed as  
12 UI 249.

13 **Q. What did the IASA include and when was it filed?**

14 A. Consistent with Order No. 06-121 and the amended Consolidated List of  
15 Commitments, PacifiCorp’s filed IASA included the corporate and affiliate cost  
16 allocation methodologies. It also was filed as soon as possible. Order  
17 No. 06-082, approving the merger application, was issued February 24, 2016  
18 and PacifiCorp’s IASA application was filed March 31, 2016.

19 **Q. Has Avista or Hydro provided Staff a draft IASA?**

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<sup>34</sup> UM 1209/PPL/500, Specketer/1 at 22-23 and 2 at 1-9.

<sup>35</sup> Ibid./2-14.

<sup>36</sup> Ibid./Appendix (“First Amendment to Intercompany Administrative Service Agreement”).

1 A. No. A draft IASA was not included in the Application or filed with the  
2 testimony.<sup>37</sup>

3 **Q. Does Avista state a date when a draft IASA will be completed?**

4 A. No. Avista does not expect to file a draft IASA pre-merger or an IASA for  
5 approval post-merger as neither Hydro One nor Avista have identified any  
6 corporate cost sharing opportunities.<sup>38</sup>

7 **Q. Is Staff concerned with the lack of information provided in the**  
8 **Application and testimony regarding shared services, cost savings,**  
9 **cost allocation methodologies, and transactions with affiliates?**

10 A. Yes. Staff issued many data requests seeking additional information from  
11 both companies. In DR No. 208 (H1),<sup>39</sup> Staff asked Hydro One to explain  
12 how it allocates shared costs to the jurisdictions in which it operates and  
13 provides electric services. Hydro One responded by explaining that Hydro  
14 One allocates shared costs between its utilities and their affiliates in  
15 accordance with the Ontario Energy Board's (OEB) Affiliate Relationships  
16 Code for Electricity Distributors and Transmitters. Hydro One uses a  
17 spreadsheet based methodology for allocating said costs, and provided  
18 attachments that cover policies enforced by the OEB.<sup>40</sup>

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<sup>37</sup> Exhibit Staff/302, Gardner/80, 83 (Avista response to Staff DR Nos. 71, 94).

<sup>38</sup> Ibid.

<sup>39</sup> Exhibit Staff/302, Gardner/4 (Hydro One response to Staff DR No. 208).

<sup>40</sup> Ibid./5-20 (Hydro One response to Staff DR No. 208).

1 **Q. Is Avista contemplating structuring an affiliate or subsidiary to**  
2 **undertake any new business activities of any Hydro One affiliates after**  
3 **completion of the merger transaction?**

4 A. No.<sup>41</sup>

5 **Q. Is Avista contemplating structuring an affiliate or subsidiary to**  
6 **undertake any new business activities or business venture not**  
7 **presently being performed by a current affiliate or subsidiary after**  
8 **completion of the transaction?**

9 A. No.<sup>42</sup>

10 **Q. Does anything in the OEB's allocation policies between affiliates**  
11 **conflict with any Commission policies or Avista's current Cost**  
12 **Allocation Manual (CAM) filed with the Commission, along with its**  
13 **Annual Affiliated Interests report?**

14 A. Staff noted the following areas in OEB's policies that may not align with either  
15 Commission policy or Avista's filed CAM.<sup>43</sup> The below is not all  
16 encompassing, but indicates initial areas of possible incongruence.

17 1. Common Corporate Costs – “are generally allocated to the receiving  
18 Utility or Affiliate using activity drivers and using a Fully Allocated  
19 Costs Model.”<sup>44</sup>

20  
21 2. “The Cost Driver to derive the allocation rate shall be selected based  
22 on the principle of cost Causality.”<sup>45</sup>  
23

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<sup>41</sup> Ibid./68 (Avista response to Staff DR No. 62).

<sup>42</sup> Ibid./69, 72 (Avista response to Staff DR Nos. 63, 66).

<sup>43</sup> RG 43 (5)/Attachment 7.

<sup>44</sup> Exhibit Staff/302, Gardner/5 at 2 (Hydro One response to Staff DR No. 208) and 75 (Avista response to Staff DR No. 68).

<sup>45</sup> Exhibit Staff/302, Gardner/5 at 3 (Hydro One response to Staff DR No. 208).



1 3. “‘fully-allocated cost’ means the sum of direct costs plus a proportional  
2 share of indirect costs; “indirect costs” means costs that cannot be  
3 identified with a specific unit of product or service or with a specific  
4 operation or cost centre, and include but are not limited to overhead  
5 costs, administrative and general expenses, and taxes.”<sup>46</sup>  
6

7 4. “This Code applies to utilities licensed under Part V of the Act.”<sup>47</sup>

8 **Q. Please explain why Staff believes there is possible conflict in the**  
9 **above mentioned areas.**

10 A. Regarding items Nos.1 and 2, Avista allocates common costs between its  
11 gas and electric operations on calculated factors that are not based on  
12 causality. Regarding item No. 3, Staff is concerned that costs allocated to  
13 Avista by Hydro One would include foreign taxes, types of costs that the  
14 Commission has deemed disallowable, and other costs that do not benefit  
15 Oregon customers and are not in the public interest. Last, the policies  
16 provided by Hydro One referred to in item No. 4 apply to utilities licensed  
17 under Ontario Energy Board Act, 1998. Therefore, absent a draft IASA  
18 and draft CAM from Hydro One and Avista, Staff cannot anticipate the  
19 corporate costs that could be shared and how Hydro One may envision  
20 allocating corporate costs to Avista post-merger.

21 **Q. In its Application, do any of Hydro One’s Commitments adequately**  
22 **mitigate your concerns expressed above?**

23 A. No.  
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<sup>46</sup> Ibid./10.

<sup>47</sup> Ibid./12 at 1.4.

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**E. Taxes**

**Q. In the Application, does Hydro One or Avista address the effect that the merger or acquisition may have on income taxes?**

A. Somewhat. The Merger Agreement does discuss taxes and tax liabilities<sup>48</sup>, however, it does not provide assurance that the appropriate amount of taxes would be included in Avista rates post-merger.

**Q. What concerns do you have with the fact that the Application and testimony do not discuss the appropriate level of income taxes, or a plan for handling changes in taxes, that will be included in customer rates?**

A. Staff is concerned because ORS 757.511(4)(b) requires the following:

In reviewing an application received pursuant to this section for an electricity or natural gas utility, the Public Utility Commission must consider the effect of the acquisition or merger on the amount of income taxes paid by the utility or its affiliated group and make any necessary adjustments to the rates of the utility, including the establishment of a balancing account to track income tax expense, to ensure that the acquisition or merger serves the utility's customers and is in the public interest.

**Q. Considering the above requirement, did Staff inquire of Avista how either or both companies have addressed ORS 757.511(4)(b)?**

A. Yes. Staff asked Avista to explain how the merger will serve Avista's customers and be in the public interest. Additionally, Staff requested Avista explain what tax benefits Avista can expect and what new liabilities might arise due to the merger. Avista replied, "At this point in time, we do not

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<sup>48</sup> Hydro One Application/Appendix 2/ 17-18 at 3.9 (a-b).

1 anticipate any material change to our tax expenses associated with the  
2 transaction.”<sup>49</sup>

3 **Q. Does Staff consider Avista’s response satisfactory to meet the**  
4 **statutory requirement?**

5 A. No. Staff finds the response deficient as it does not include any  
6 workpapers or evidence to show that tax expense or tax liabilities to  
7 customers will remain the same, or consideration of a deferral to capture  
8 tax benefits for customers.

9 **Q. What other laws and rules does the Oregon Commission look to for**  
10 **direction regarding the appropriate level of income taxes included in**  
11 **customer rates?**

12 A. Consistent with Internal Revenue Code (IRC) Sections 168(f)(2) and  
13 168(i)(9), Normalization Rules for Public Utilities, the Commission requires  
14 that public utilities normalize federal income taxes for revenue requirement  
15 purposes. Furthermore, OAR 860-027-0048(g) states:

16 Income taxes shall be calculated for the regulated activity  
17 on a standalone basis for both ratemaking purposes and  
18 regulatory reporting. When income taxes are determined  
19 on a consolidated basis, the regulated activity shall record  
20 income tax expense as if it were determined for the  
21 regulated activity separately for all time periods.

22 Lastly, ORS 757.269(1) states “[s]ubject to subsections (2) and (3) of this  
23 section, amounts for income taxes included in rates are fair, just and  
24 reasonable if the rates include current and deferred income taxes and other

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<sup>49</sup> Exhibit Staff/302, Gardner/79 (Avista response to Staff DR No. 70).

1 related tax items that are based on estimated revenues derived from the  
2 regulated operation of the utility.” According to subsection (3):

3 During a ratemaking proceeding conducted under ORS  
4 757.210 for an electricity or natural gas utility that pays  
5 taxes a part of an affiliated group, the Public Utility  
6 Commission may adjust the utility’s estimated income tax  
7 expense based upon: (a) Whether the utility’s affiliated  
8 group has a history of paying federal or state income taxes  
9 that are less than the federal or state income taxes the  
10 utility would pay to units of government if it were an  
11 Oregon-only regulated utility operation; (b) Whether the  
12 corporate structure under which the utility is held affects  
13 the taxes paid by the affiliated group; or (c) Any other  
14 considerations the commission deems relevant to protect  
15 the public interest.

16 **Q. Did Staff inquire how Avista will allocate taxes to the Oregon gas**  
17 **jurisdiction and whether Hydro One will allocate taxes imposed by a**  
18 **Canadian entity to Avista?**

19 A. Yes. Avista asserted, “Avista will continue to operate on a standalone basis  
20 and therefore no changes will be made to the allocation of taxes to the  
21 Oregon gas jurisdiction post-merger related to any Hydro One operations.  
22 Hydro One will not allocate taxes payable by any Canadian entity post-  
23 merger.”<sup>50</sup>

24 **Q. Does the Commission have a duty to ensure Oregon gas customers**  
25 **that the merger will not burden customers with additional tax expense**  
26 **in rates?**

27 A. Yes.

---

<sup>50</sup> Ibid./77-78 (Avista response to Staff DR No. 69).

1 **Q. In its Application, do any of Hydro One's Commitments adequately**  
2 **mitigate your concerns?**

3 A. No.

4

5

### III. CONCLUSION

6

#### A. Concerns Identified

7 **Q. What concerns has Staff identified regarding access to information,**  
8 **accounting records at Avista, corporate overheads and cost**  
9 **allocation between Hydro One and Avista, affiliated interest concerns,**  
10 **any tax implications, and the value of Hydro One's Commitments**  
11 **related to the aforementioned topics?**

12 A. Staff is concerned that the evidence provided by the Companies is deficient  
13 and the Commitments do not support the Oregon legal requirement that the  
14 merger result in a net benefit to Avista's ratepayers and cause no harm to the  
15 public as a whole.

16

#### B. Recommendation

17 **Q. What is Staff's recommendation?**

18 A. Based on Staff's analysis of the preceding topical areas, Staff recommends  
19 the Commission not approve the merger application as filed.

20 **Q. Does this conclude your testimony?**

21 A. Yes.

CASE: UM 1897  
WITNESS: MARIANNE GARDNER

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 301**

**Witness Qualifications Statement**

**February 12, 2018**



### **WITNESS QUALIFICATION STATEMENT**

**NAME:** Marianne Gardner

**EMPLOYER:** Public Utility Commission of Oregon

**TITLE:** Senior Revenue Requirement Analyst  
Energy Rates, Finance and Audit Division

**ADDRESS:** 201 High Street S.E., Suite  
100 Salem, OR. 97301

**EDUCATION:** Master of Business Administration  
Oregon State University, Corvallis, Oregon

Bachelor of Science in Accounting  
Montana State University, Bozeman, Montana

CPA, Oregon

**EXPERIENCE:** I have been employed by the Public Utility Commission of Oregon since March 2013, with my current position being a Senior Revenue Requirement Analyst, in the Energy - Rates, Finance and Audit Division. My responsibilities include research, analysis, and recommendations on a range of cost, revenue and policy issues for electric and natural gas utilities. As the revenue requirement summary witness, I have provided testimony in dockets UE 263, UG 246, UE 283, UE 294, UG 284, UG 287, UG 288, UG 305, UG 325, and UE 319.

In addition, I have approximately 20 years of professional accounting experience, including:

- Thirteen years as a cost accountant with responsibilities including cost accounting, budgeting, product costing, and the preparation of management reports;
- Four years experience in public accounting working in the areas of audit, tax and financial accounting for individual and small business clientele; and,
- Three years experience in non-profit accounting for an agency administrating funds under the Federal Job Training Partnership Act.

CASE: UM 1897  
WITNESS: MARIANNE GARDNER

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 302**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	10/24/2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese/Kevin Christie
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa/Linda Gervais
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 156(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Regarding Avista 600, Pugliese/2 and 4 – Operations in Data Center: Customer service, summary of testimony:

- A. Does Avista currently provide 24/7 support for its data center?
- B. Will Avista coordinate call and data center operations with Hydro One post-merger?
- C. If the answer to either of the two prior sub-questions is “yes,” how is Avista planning on meeting the need for call and data center staff and equipment post-merger?
- D. Please explain in detail what off-setting cost savings Hydro One anticipates from procurement of Avista, i.e., less overtime, less contract labor.
- E. How are the cost savings identified above in subpart (D) to be reflected in the next Avista general rate case test year revenue requirement?
- F. Does Hydro One share phone support and/or data center management, staff and resources across subordinate companies? If so, please explain what drivers Hydro One uses to allocate costs.

**RESPONSE:**

- A. Avista’s data center is supported on-site during business hours and with on-call staff and automated alarming for the failure of critical systems and infrastructure during non-business hours. Avista has call centers located in Spokane, Washington; Coeur d’Alene, Idaho; and Lewiston, Idaho that are networked together to operate as a single Call Center supporting Avista’s customers. Each employee is trained in their role to work with customer accounts or take phone calls from customers in all three of the Company’s jurisdictions. All customer phone calls come in through a single number, 1-800-227-9187, and are answered by the next available representative, regardless of where the customer is located. The following is the Customer Service Business Hours:

General Customer Inquiries / Non Emergency	Monday - Friday 7:00am - 7:00pm
	Saturday 9:00am - 5:00pm

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	10/31/2017
CASE NO.:	UM 1897	WITNESS:	Patrick Ehrbar
REQUESTER:	PUC Staff	RESPONDER:	Pat Ehrbar
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 159(H1)	TELEPHONE:	(509) 495-8620
		EMAIL:	pat.ehrbar@avistacorp.com

**REQUEST:**

Regarding Avista/600 page 9 – Customer satisfaction:

- A. As Hydro One and Avista collaborate to serve the customers from both companies, how will this collaboration be reflected in Oregon customer rates? In this discussion, please address specifically whether residential rates in Oregon are expected to increase, decrease, or remain static over the next 2 years, and provide the supporting rationale for your conclusion.
- B. With regard to the testimony discussion of “benefits to customers from the proposed transaction,” the total estimated annual cost saving to customers, on a system basis for Avista, is approximately \$1.7 million. Please clarify the geographic and regulatory scope of “system” as the term is used here and whether that meaning is different than as used by Avista in its last general rate case.

**RESPONSE:**

- A. As discussed in the response to Staff\_DR\_156 part e., to the extent there are cost savings in the future related to data center, customer service, or other operational efficiencies resulting from the merger (above the cost savings that are included in the proposed annual Rate Credit discussed by Avista witness Mr. Thies), those additional benefits will flow through to customers in general rate cases (through either lower historic base year costs, or through pro forma adjustments to the future test year). Because Avista and Hydro One have just started to engage in high-level discussions to begin to identify possible future opportunities for savings related to economies of scale, it is unlikely that customers’ rates in the next 2 years will change as a result of the transaction (except for the Rate Credit which would lower customers’ rates immediately after the merger closes, if approved).
- B. As discussed by Avista witnesses Mr. Thies and Ehrbar, the approximate \$1.7 million in cost savings are “system” savings. By system, we mean savings that accrue to Avista Utilities’ electric and natural gas services, and Washington, Idaho and Oregon jurisdictions. This definition of “system” is the same as Avista used in general rate proceedings. Further discussion on how “system” savings and costs are allocated to the Company’s services and jurisdictions is provided on pages 4-6 of Mr. Ehrbar’s testimony, Exhibit No. 700.

Emergency Calls	24 Hours
Outage Calls	24 Hours
Shut off for Non-payment	24 Hours
Customer does not make a selection from IVR Menu	24 Hours
Self-Serve Options	24 Hours

- B. Avista and Hydro One have just started to engage in high-level discussions to begin to identify possible future opportunities. There are no plans at this time to merge call and data centers post-close.

After all approvals are received and the companies merge, both companies will work together to identify, evaluate and execute on opportunities to collaborate on information technology assets/information technology systems.

- C. Avista will continue to maintain, and improve as needed, its call and data center operations post-merger.

- D. As explained by Avista witness Mr. Morris, to the extent there are cost savings in the future related to data center, customer service, or other operational efficiencies resulting from the merger (above the cost savings that are included in the proposed annual Rate Credit discussed by Avista witness Mr. Thies), those additional benefits will flow through to customers in general rate cases (through either lower historic base year costs, or through pro forma adjustments to the future test year). At this time, however, those cost efficiencies have not been identified.

- E. See response to D.

- F. Hydro One Networks Inc., a wholly-owned indirect subsidiary of Hydro One Limited, provides phone system support and enterprise IT support and data storage to Hydro One Telecom Inc. and Hydro One Remote Communities Inc., both of which are also wholly-owned indirect subsidiaries of Hydro One Limited. Costs are allocated in accordance with the Ontario Energy Board's *Affiliate Relationships Code for Electricity Distributors and Transmitters* which contains provisions that deal with *the purchase or sale by a utility of a service, resource, product or use of an asset from or to an affiliate.*

Below is a link to the Affiliate Relationships Code:

[http://www.ontarioenergyboard.ca/oeb/ Documents/Regulatory/Affiliate\\_Relationships\\_Code\\_ARC\\_Electricity.pdf](http://www.ontarioenergyboard.ca/oeb/ Documents/Regulatory/Affiliate_Relationships_Code_ARC_Electricity.pdf)

**HYDRO ONE LIMITED**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	November 6, 2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 208(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please explain how Hydro One allocates shared costs to all jurisdictions in which the company operates and provides electric services; please also explain how Hydro One allocates shared costs to its affiliates. In your response, please also include the following information for Hydro One's most recent completed rate case:

- a. Written policies and procedures regarding allocation methodologies;
- b. The allocation factors worksheets used to prepare the rate case;
- c. Any modifications to the allocation methodology proposed by intervenors; and,
- d. The allocation factors used as applied in the ordered rates

**RESPONSE:**

Hydro One operates solely in Ontario. Hydro One allocates shared costs between its utilities and their affiliates in accordance with the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters. The company uses a spreadsheet based methodology for allocating said costs.

- a. Hydro One's *Shared Corporate Services Cost Allocation and Transfer Pricing Policy* (Staff\_DR\_208(H1) Attachment A) and the latest version of the Ontario Energy Board's *Affiliate Relationships Code for Distributors and Transmitters* (Staff\_DR\_208(H1) Attachment B) deal with allocation methodologies, with which Hydro One complies.
- b. "Review of Allocation of Common Corporate Costs (Distribution)-2015" (Staff\_DR\_208(H1) Attachment C), which outlines the allocation factors used to prepare the rate case.
- c. In respect of Hydro One's most recently completed rate case, intervenors did not propose any modifications to Hydro One's allocation methodology.
- d. Please refer to our response to b. above.



# Shared Corporate Services Cost Allocation and Transfer Pricing Policy

## Purpose and Scope

This document specifies accounting policies for the allocation of shared services and transfer pricing for the transactions between Hydro One Inc.'s regulated businesses and their Affiliates and is consistent with the OEB's Affiliate Relationships Code (ARC).

## Revision Statement

The current revisions have been made to reflect the requirements of US Generally Accepted Accounting Principles (GAAP) as defined in the Accounting Standards Codification (ASC) of the Financial Accounting Standards Board (FASB).

## Governing Principles

The allocation of costs relating to shared corporate services shall occur in a manner such that Hydro One's regulated businesses do not cross-subsidize their Affiliates.

## 1.0 Requirements

The cost allocation methodology shall conform to the following general requirements:

1. **Direct Costs:** Where costs can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre, they should be assigned on a direct basis. Application of this principle should take into consideration the materiality of such Direct Cost assignments relative to the cost of implementing such assignments.
2. **Common Corporate Costs:** In contrast, shared corporate services costs (Common Corporate Costs, see ARC, Section 1.2 definition of 'shared corporate services' for examples) are generally allocated to the receiving Utility or Affiliate using activity drivers and using a Fully Allocated Costs model. Proposals to charge any Common Corporate Costs directly to work projects or programs need to be reviewed and approved by the Director, Business Planning and Decision Support to ensure they are not double counted.
3. The Cost Driver to derive the allocation rate shall be selected based on the principle of cost Causality. If a strong causal relationship cannot be established, the principle of benefit should be used. In such case, the Cost Driver measures the proportional degree of benefit provided to the recipient unit(s).
4. If the appropriate theoretical Cost Driver cannot be used due to system constraints or the absence of required information, a proxy that best meets the Causality/Benefit principle shall be selected.
5. The overall cost allocation methodology is required to be periodically reviewed for continued propriety. This generally occurs at the time of cost of service rebasing for Hydro One's regulated businesses. Activity drivers and rates are required to be updated on an annual basis, for inclusion in updated business plans. All changes in

## SP 0804 R1

Direct and Indirect Costs, the allocation methodology, or Cost Drivers shall be appropriately documented within the model files and approved by the Director, Business Planning and Decision Support prior to publishing final results.

## 2.0 Definitions

<b>Term</b>	<b>Definition</b>
<b>Affiliate</b>	Affiliated body corporate: one body corporate shall be deemed to be affiliated with another body corporate if, but only if, one of them is the subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person. Business Corporation Act, R.S.O. 1990, c. B.16, s. 1 (4)
<b>Causality</b>	The existence of a causal relationship between a particular cost and a triggering unit, product or service is determined by analyzing whether the cost would have occurred had the triggering item not existed.
<b>Cost Driver</b>	Method or ratio used to apportion Indirect Costs. It can be a measurable event or quantity identified with a specific unit of product or service, a cause and effect relationship between the Indirect Cost and the causing/benefiting activity, or one or more factors referred to as general drivers.
<b>Direct Cost</b>	A cost that can reasonably be directly associated with a specific unit of product or service, or with a specific operation or cost centre. For Direct Costing to occur, a relevant direct charge mechanism must exist.
<b>Fully Allocated Costs</b>	The sum of all Direct Costs plus a proportional share of Indirect Costs.
<b>Indirect Cost</b>	A cost that cannot be identified with a specific unit of product or service, or with a specific operation or cost centre. When no Direct Cost charging mechanism exists, Direct Costs can be treated as Indirect Costs.
<b>Utility</b>	A licensed electricity transmitter or distributor.

## 3.0 References

SP1100 R2 Costing and Pricing of Non-Regulated Products, Services and Work Policy

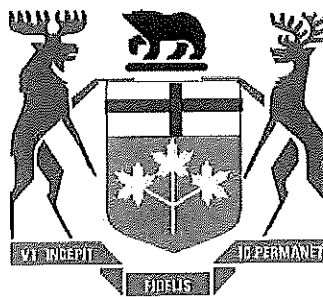
## SP 0804 R1

### 4.0 Document Management

<b>Owner/Functional Responsibility</b>	Director, Business Planning and Decision Support
<b>Approver</b>	Director, Business Planning and Decision Support
<b>Approval Date</b>	July 2016
<b>Effective Date</b>	July 2016
<b>Last Reviewed Date</b>	July 2016
<b>Next Review Date</b>	July 2018

### 5.0 Appendices

None



Ontario

# **AFFILIATE RELATIONSHIPS CODE FOR ELECTRICITY DISTRIBUTORS AND TRANSMITTERS**

## **ONTARIO ENERGY BOARD**

Revised May 16, 2008

(Originally issued on April 1, 1999)

## **1. GENERAL AND ADMINISTRATIVE PROVISIONS**

### **1.1 Purpose of this Code**

This Code sets out rules that govern the conduct of utilities as that conduct relates to their respective affiliates, with the objective of:

- a) protecting ratepayers from harm that may arise as a result of dealings between a utility and its affiliate;
- b) preventing a utility from cross-subsidizing affiliate activities;
- c) protecting the confidentiality of information collected by a utility in the course of provision of utility services;
- d) ensuring there is no preferential access to utility services;
- e) preventing a utility from acting in a manner that provides an unfair business advantage to an affiliate that is an energy service provider; and
- f) preventing customer confusion that may arise from the relationship between a utility and its affiliate.

### **1.2 Definitions**

In this Code:

“Act” means the *Ontario Energy Board Act, 1998*;

“affiliate”, with respect to a corporation, has the same meaning as in the *Business Corporations Act (Ontario)*;

“Affiliate Contract” means any contract between a utility and an affiliate, and includes a Services Agreement;

“agent” means a person acting on behalf of a utility and includes persons contracted to provide services to a utility;

“Board” means the Ontario Energy Board;

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“Code” means this Affiliate Relationships Code for Electricity Distributors and Transmitters;

“confidential information” means information the utility has obtained relating to a specific smart sub-metering provider, wholesaler, consumer, retailer or generator in the process of providing current or prospective utility service;

“direct costs” means costs that can reasonably be identified with a specific unit of product or service or with a specific operation or cost centre;

“distribute” means to convey electricity at voltages of 50 kilovolts or less;

“distribution system” means a system for distributing electricity, and includes any structures, equipment or other things used for that purpose;

“distributor” means a person who owns or operates a distribution system;

“energy service provider” means a person, other than a utility or a shareholder of a utility that is a municipal corporation or the provincial government, involved in the supply of electricity or gas or related activities, including: retailing of electricity; marketing of natural gas; generation of electricity; energy management services; conservation or demand management programs; street lighting services; sentinel lighting services; metering (including smart sub-metering that is the subject of the Smart Sub-Metering Code and wholesale metering); billing other than solely for the delivery and supply of electricity or natural gas or for sewer or water services; and appliance (including water heater) sales, service and rentals;

“fully-allocated cost” means the sum of direct costs plus a proportional share of indirect costs;

“indirect costs” means costs that cannot be identified with a specific unit of product or service or with a specific operation or cost centre, and include but are not limited to overhead costs, administrative and general expenses, and taxes;

“information services” means computer systems, services, databases and persons knowledgeable about the utility’s information technology systems;

“licence” means a licence issued under Part V of the Act;



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“market price” means the price reached in an open and unrestricted market between informed and prudent parties, acting at arm’s length and under no compulsion to act;

“rate” means a rate, charge or other consideration and includes a penalty for late payment;

“Rate Order” means an order of the Board that is in force at the relevant time which, among other things, regulates distribution and transmission rates to be charged by a utility;

“Services Agreement” means an agreement between a utility and its affiliate for the purpose of subsection 2.2 of this Code;

“shared corporate services” means business functions that provide shared strategic management and policy support to the corporate group of which the utility is a member, relating to legal, regulatory, procurement services, building or real estate support services, information management services, information technology services, corporate administration, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee, or public affairs;

“smart sub-metering provider” has the meaning given to it in the Smart Sub-metering Code;

“system planning information” means information pertaining to (i) the planning of a distribution system, including distribution system development or reinforcement plans, equipment acquisitions and work management plans, or (ii) the planning of systems involved in work management or of systems involved in the provision of customer service, including billing systems and call centre operations;

“transmission system” means a system for transmitting electricity, and includes any wires, structures, transformers, equipment or other things used for that purpose;

“transmit” means to convey electricity at voltages of more than 50 kilovolts;

“transmitter” means a person who owns or operates a transmission system;

“utility” means an electricity transmitter or electricity distributor that is licensed under Part V of the *Act*;

“utility asset” means tangible or intangible property included in the utility’s rate base;

“utility revenue” means, in relation to a distributor, its distribution revenue and, in relation to a transmitter, its transmission revenue; and

“utility services” means the services provided by a utility for which a rate or charge has been approved by the Board, and includes a distributor’s obligation to sell electricity pursuant to section 29 of the *Electricity Act, 1998*.

### 1.3 Interpretation

Unless otherwise defined in this Code, words and phrases that have not been defined shall have the meaning ascribed to them in the licences issued by the Board, the *Act* or the *Electricity Act, 1998* as the case may be. Headings are for convenience only and shall not affect the interpretation of this Code. Words importing the singular include the plural and vice versa. A reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document.

### 1.4 To Whom this Code Applies

This Code applies to utilities licensed under Part V of the *Act*.

### 1.5 Hierarchy of Codes

This Code shall prevail over any other code established by the Board where there is a conflict, subject to any specific conditions of a utility’s licence.

### 1.6 Amendments to this Code and Determinations by the Board

- 1.6.1 Except where expressly stated otherwise, any amendments to this Code shall come into force on the date on which the Board publishes the amendments by placing them on the Board’s web site after they have been made by the Board.

## Ontario Energy Board

## Affiliate Relationships Code

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1.6.2 The following amendments to this Code made by the Board on May 14, 2008 come into force on the date that is three months from the date on which the Board publishes the amendments by placing them on the Board's web site after they have been made by the Board:

- (a) the amendment to section 1.2 deleting the definition of "fair market value"; and
- (b) the amendments to section 2.3.

1.6.3 The amendments to this Code made by the Board on May 14, 2008 do not apply to an Affiliate Contract that was in effect on September 19, 2007 until such time as the initial term of such Affiliate Contract expires.

1.6.4 Any matter under this Code requiring a determination by the Board may be determined without a hearing or through an oral, written or electronic hearing, at the Board's discretion.

## **2. STANDARDS OF CONDUCT**

### **2.1 Degree of Separation**

2.1.1 A utility shall ensure accounting and financial separation from all affiliates and shall maintain separate financial records and books of accounts.

2.1.2 A utility shall ensure that at least one-third of its Board of Directors is independent from any affiliate.

### **2.2 Providing or Receiving Services, Resources, Products or Use of Asset**

2.2.1 Where a utility provides a service, resource, product or use of asset to an affiliate or receives a service, resource, product or use of asset from an affiliate, it shall do so in accordance with a Services Agreement, the terms of which may be reviewed by the Board to ensure compliance with this Code. The Services Agreement shall include:

- (a) the type, quantity and quality of service;
- (b) pricing mechanisms;
- (c) cost allocation mechanisms;

**Ontario Energy Board**

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Code**

- 
- (d) confidentiality arrangements;
  - (e) the apportionment of risks (including risks related to under or over provision of service); and
  - (f) a dispute resolution process for any disagreement arising over the terms or implementation of the Services Agreement.

2.2.2 Where a utility shares information services with an affiliate, all confidential information must be protected from access by the affiliate. Access to a utility's information services shall include appropriate computer data management and data access protocols as well as contractual provisions regarding the breach of any access protocols. A utility shall, if required to do so by the Board, conduct a review of the adequacy, implementation or operating effectiveness of the access protocols and associated contractual provisions which complies with the provisions of section 5970 of the CICA Handbook. A utility shall also conduct such a review when the utility considers that there may have been a breach of the access protocols or associated contractual provisions and that such review is required to identify any corrective action that may be required to address the matter. The utility shall comply with such directions as may be given by the Board in relation to the terms of the section 5970 review. The results of any such review shall be made available to the Board.

2.2.3 A utility shall not share with an affiliate that is an energy service provider employees that are directly involved in collecting, or have access to, confidential information.

2.2.4 In the event of an emergency situation a utility may, without a Services Agreement, provide a service, resource, product or use of asset to, or receive a service, resource, product or use of asset from, an affiliate which is also a utility.

2.2.5 The transfer pricing rules set out in section 2.3 do not apply when a utility provides a service, resource, product or use of asset to, or receives a service, resources, product or use of asset from, an affiliate in an emergency situation; a reasonable fully-allocated cost-related price shall be determined afterwards by the parties.

## **2.3 Transfer Pricing**

### **2.3.1 Term of Contracts with Affiliates**

2.3.1.1 The term of an Affiliate Contract between a utility and an affiliate shall not exceed five years, unless otherwise approved by the Board.

### **2.3.2 Outsourcing to an Affiliate**

2.3.2.1 If a utility intends to enter into an Affiliate Contract for the receipt of a service, product, resource, or use of asset that it currently provides to itself, the utility shall first undertake a business case analysis, unless the Affiliate Contract would have an annual value of less than \$100,000 or 0.1% of the utility's utility revenue, whichever is greater. Where an Affiliate Contract has a term of more than one year, the annual value of the Affiliate Contract shall be determined by dividing the total value of the Affiliate Contract by the number of years in the term.

2.3.2.2 For the purposes of section 2.3.2.1, the business case analysis shall contain (a) description of relevant utility needs on a per-service basis, (b) identification of the options available internally or externally from an affiliate or third party, (c) economic evaluation of all available options including the utility's current fully-allocated cost (which may include a return on the utility's invested capital equal to the approved weighted average cost of capital), (d) explanation of the selection criteria (including any non-price factors to be taken into account), (e) estimate of any benefits to the utility's Ontario ratepayers from outsourcing, and (f) justification of why any separate items were bundled together when considered for outsourcing.

### **2.3.3 Where a Market Exists**

2.3.3.1 Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall pay no more than the market price when acquiring that service, product, resource or use of asset from an affiliate.

## Ontario Energy Board

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2.3.3.2 A fair and open competitive bidding process shall be used to establish the market price before a utility enters into or renews an Affiliate Contract under which the utility is acquiring a service, product, resource or use of asset from an affiliate.

2.3.3.3 Despite section 2.3.3.2, where satisfactory benchmarking or other evidence of market price is available, a competitive tendering or bidding process is not required to establish the market price for a contract with an annual value of less than \$100,000 or 0.1% of the utility's utility revenue, whichever is greater. Where an Affiliate Contract has a term of more than one year, the annual value of the Affiliate Contract shall be determined by dividing the total value of the Affiliate Contract by the number of years in the term.

2.3.3.4 Where the value of a proposed contract over its term exceeds \$500,000 or 0.5% of the utility's utility revenue, whichever is greater, a utility shall not award the contract to an affiliate before an independent evaluator retained by the utility has reported to the utility on how the competing bids meet the criteria established by the utility for the competitive bidding process.

2.3.3.5 The Board may, for the purposes of sections 2.3.3.3 and 2.3.3.4, consider more than one Affiliate Contract to be a single Affiliate Contract where they have been entered into for the purpose of setting the contract values at levels below the threshold level set out in section 2.3.3.3 or 2.3.3.4.

2.3.3.6 Where a reasonably competitive market exists for a service, product, resource or use of asset, a utility shall charge no less than the greater of (i) the market price of the service, product, resource or use of asset and (ii) the utility's fully-allocated cost to provide service, product, resource or use of asset, when selling that service, product, resource or use of asset to an affiliate.

### 2.3.4 Where No Market Exists

2.3.4.1 Where it can be established that a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost may include a return on the affiliate's invested capital. The return on invested capital shall be no higher than the utility's approved weighted average cost of capital.



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2.3.4.2 Where a reasonably competitive market does not exist for a service, product, resource or use of asset that a utility sells to an affiliate, the utility shall charge no less than its fully-allocated cost to provide that service, product, resource or use of asset. The fully-allocated cost shall include a return on the utility's invested capital. The return on invested capital shall be no less than the utility's approved weighted average cost of capital.

2.3.4.3 Where a utility pays a cost-based price for a service, resource, product or use of asset that is obtained from an affiliate, the utility shall obtain from the affiliate, from time to time as required to keep the information current, a detailed breakdown of the affiliate's fully-allocated cost of providing the service, resource, product or use of asset.

### 2.3.5 Shared Corporate Services

2.3.5.1 For shared corporate services, fully-allocated cost-based pricing (as calculated in accordance with sections 2.3.4.1 and 2.3.4.2) may be applied between a utility and an affiliate in lieu of applying the transfer pricing provisions of section 2.3.3.1 or section 2.3.3.6, provided that the utility complies with section 2.3.4.3.

### 2.3.6 Transfer of Assets

2.3.6.1 If a utility sells or transfers to an affiliate a utility asset, the price shall be the greater of the market price and the net book value of the asset.

2.3.6.2 Before selling or transferring to an affiliate a utility asset with a net book value that exceeds \$100,000 or 0.1% of the utility's utility revenue, whichever is greater, the utility shall obtain an independent assessment of its market price.

2.3.6.3 If a utility purchases or obtains the transfer of an asset from an affiliate, the price shall be no more than the market price.

2.3.6.4 Before a utility purchases or obtains the transfer of an asset from an affiliate with a net book value that exceeds \$100,000 or 0.1% of the utility's utility revenue, whichever is greater, the utility shall obtain an independent assessment of its market price.

2.3.6.5 The Board may, for the purposes of sections 2.3.6.2 and 2.3.6.4, consider more

## Ontario Energy Board

## Affiliate Relationships Code

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than one asset transaction to be a single transaction where the transactions have been entered into for the purpose of setting the transfer prices at levels below the threshold level set out in section 2.3.6.2 or 2.3.6.4.

### 2.3.7 Transfer Price Established by Law or Code

2.3.7.1 Where a statute, a regulation, or a code established by the Board, prescribes the amount to be charged by or to a utility in relation to the provision or receipt of a service, product, resource or use of asset, that Act, regulation or Code shall prevail over the requirements of sections 2.3.3 to 2.3.5 to the extent of any inconsistency.

### 2.4 Financial Transactions with Affiliates

2.4.1 A utility may provide loans, guarantee the indebtedness of, or invest in the securities of an affiliate, but shall not invest or provide guarantees or any other form of financial support if the amount of support or investment, on an aggregated basis over all transactions with all affiliates, would equal an amount greater than 25 percent of the utility's total equity.

2.4.2 A utility shall ensure that any loan, investment, or other financial support provided to an affiliate is provided on terms no more favourable than what that affiliate would be able to obtain on its own from the capital markets and in all cases at no more favourable terms than the utility could obtain directly for itself in capital markets.

### 2.5 Equal Access to Services

2.5.1 A utility shall not endorse or support marketing activities of an affiliate which is an energy service provider. A utility may include an affiliate as part of a listing of alternative service providers, but the affiliate's name shall not in any way be highlighted.

2.5.2 A utility, including its employees and agents, shall not state or imply to consumers a preference for any affiliate who is an energy service provider.

2.5.3 A utility shall take all reasonable steps to ensure that an affiliate does not use the utility's name, logo or other distinguishing characteristics in a manner which would mislead consumers as to the distinction between the utility and the affiliate.

2.5.4 A utility shall take reasonable steps to ensure that an affiliate does not imply in its marketing material favoured treatment or preferential access to the utility's system or utility services. If the utility becomes aware of inappropriate marketing activity by an affiliate, it shall:

- (a) immediately take reasonable steps to notify affected customers of the violation;
- (b) take necessary steps to ensure the affiliate is aware of the concern; and
- (c) inform the Board in writing of such activity and the remedial measures that were undertaken by the utility.

2.5.5 A utility shall apply all Rate Orders and rate schedules to an affiliate in the same manner as would be applied to similarly situated non-affiliated parties.

2.5.6 Requests by an affiliate or an affiliate's customers for access to a utility's transmission or distribution network or for utility services shall be processed and provided by the utility in the same manner as would be processed or provided for similarly situated non-affiliated parties.

## **2.6 Confidentiality of Confidential Information and Restriction on Provision of System Planning Information**

2.6.1 A utility shall not release to an affiliate confidential information relating to a smart sub-metering provider, wholesaler, consumer, retailer or generator without the consent of that smart sub-metering provider, wholesaler, consumer, retailer or generator.

2.6.2 A utility shall not disclose confidential information to an affiliate without the consent in writing of the smart sub-metering provider, wholesaler, consumer, retailer or generator, as the case may be, except to the extent permitted by the utility's licence or where confidential information is required to be disclosed:

- (a) for billing, settlement or market operation purposes;
- (b) for law enforcement purposes;
- (c) for the purpose of complying with any legislative or regulatory requirement; or
- (d) for the processing of past due accounts of the smart sub-metering

provider, wholesaler, consumer, retailer or generator, as the case may be, which have been passed to a debt collection agency.

- 2.6.3 Confidential information may be disclosed where the information has been sufficiently aggregated such that information pertaining to any individual smart sub-metering provider, wholesaler, consumer, retailer, or generator cannot reasonably be identified. If such information is aggregated it must be disclosed on a non-discriminatory basis to any party requesting the information.
- 2.6.4 Subject to section 2.6.5, a utility shall not provide system planning information to an affiliate that is an energy service provider.
- 2.6.5 A utility may provide system planning information to an affiliate that is an energy service provider:
- (a) if the system planning information is made available to non-affiliated third parties at the same time, or has previously been made available to non-affiliated third parties, on a non-confidential basis in substantially the same form and on the same terms and conditions as it is made available to the affiliate;
  - (b) if the system planning information is, at the time of provision to the affiliate, publicly available in substantially the same form as it is made available to the affiliate; or
  - (c) for the purposes of complying with any legislative or regulatory requirement.

## **2.7 Compliance Measures**

- 2.7.1 A utility shall be responsible for ensuring compliance with this Code and shall:
- (a) perform periodic compliance reviews;
  - (b) communicate the Code to its employees; and
  - (c) monitor its employees' compliance with this Code.

End of Document

# REVIEW OF ALLOCATION OF COMMON CORPORATE COSTS (DISTRIBUTION) – 2016

BLACK & VEATCH PROJECT NO. 188588

PREPARED FOR

Hydro One Networks Inc.

December 21, 2016



**BLACK & VEATCH**  
Building a world of difference.®

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## List of Exhibits

- Exhibit A- Functions and Services in Common Corporate Costs
- Exhibit B- Types of Cost Drivers



## I. Summary

### A. BACKGROUND

Black & Veatch Canada Company (“Black & Veatch”) is pleased to submit to Hydro One Networks Inc. (“Hydro One”) this Report which describes our Review of Allocation of Common Corporate Costs (Distribution)- 2016 (“2016 Review”).

In 2004, Black & Veatch was engaged by Hydro One to recommend a best practice methodology to distribute Common Corporate Costs to Hydro One and its subsidiaries and partnership (identified in Table 2). Common Corporate Costs are the costs to provide certain functions and services (identified in Table 3), including those performed by Inergi LP, to Hydro One and its subsidiaries and partnership. Black & Veatch recommended, Hydro One adopted, and the Ontario Energy Board (“OEB”) accepted, a methodology to distribute those costs, as described in our *Report on Common Corporate Costs Methodology Review* dated May 20, 2005 (“2005 Common Costs Report”).

The OEB-accepted methodology has been applied to Hydro One’s Business Plans, and reviewed by Black & Veatch with subsequent reports issued, as follows:

**Table 1 - History of Black & Veatch’s Cost Allocation Reviews for Hydro One**

BLACK & VEATCH REVIEW	BUSINESS PLAN	BLACK & VEATCH REPORT
2006 Review	BP 2007-2011	<i>Report on Implementation of Common Corporate Costs Methodology</i> dated May 31, 2006
2008 Review	BP 2009-2013	<i>Report on Implementation of Common Corporate Costs Methodology</i> dated September 10, 2008
2009 Review	BP 2010-2014	<i>Report on Shared Services Costs Methodology</i> dated June 29, 2009
2010 Review	Updated BP 2010-2014	<i>Report on Shared Services Costs Methodology – 2011</i> dated February 26, 2010
2012 Review	BP 2012-2016	<i>Review of Shared Services Cost Allocation (Transmission) – 2012</i> dated February 1, 2012
2013 Review	BP 2014-2019	<i>Review of Allocation of Common Corporate Costs (Distribution) – 2013</i> dated September 19, 2013
2014 Review	BP 2014-2019	<i>Review of Allocation of Common Corporate Costs (Transmission) – 2014</i> dated March 17, 2014
2015 Review	BP-2017-2018	<i>Review of Allocation of Common Corporate Costs (Transmission) – 2015</i> dated May 4, 2016

The OEB-accepted methodology to distribute the Common Corporate Costs has been applied by Hydro One to its Business Plan for 2018-2022 (“BP 2018-2022”) data. This Report describes the “2016 Review” that Black & Veatch performed, at Hydro One’s request, of Hydro One’s application of the methodology to its BP 2018-2022 in connection with its 2018-2022 Distribution rates application, and presents Black & Veatch’s conclusions. The methodology remains the same

## Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

between the Transmission case filed in May 2016 with this Distribution case; albeit the results vary slightly due to the regular updating of inputs and costs drivers that incorporate current information.

## B. HYDRO ONE ORGANIZATION

Hydro One Inc. operates through the wholly-owned subsidiaries and partnership listed in Table 2. The OEB regulates, separately, the business units identified as such in Table 2. Each regulated business is required to account separately for its assets, revenues and costs, for both regulatory and financial accounting purposes.

Table 2 – Hydro One Business Units

SUBSIDIARY	BUSINESS UNIT	REGULATED	DESCRIPTION
Hydro One Networks Inc.	Distribution	Yes	Owns and operates a distribution system which spans approximately 75% of Ontario and serves approximately 1.3 million customers.
	Transmission	Yes	Owns and operates substantially all of Ontario's electricity transmission system.
Hydro One Remote Communities Inc	Remotes	Yes	Owns, operates, maintains and constructs generation and distribution assets used to supply of electricity to remote communities in northern Ontario.
Hydro One Telecom Inc.	Telecom	No	Sells high bandwidth telecommunication services to carriers, Internet service providers, and large public and private sector organizations.
Hydro One Inc.	Holding	Yes	Subsidiary of Hydro One Ltd. Acts as the holding company of Hydro One's rate regulated businesses.
Hydro One Ltd.	Holding	No	Public company that owns Hydro One Inc. for the transmission and distribution rate regulated businesses and Hydro One Telecom Inc. for non-regulated business activity. Hydro One Ltd. is owned by public shareholders as well as the Province of Ontario.
B2M Limited Partnership	B2M Transmission Line	Yes	Continuous transmission line between the Bruce Nuclear Power Development and Hydro One's Milton Switching station.

## C. FUNCTIONS AND SERVICES IN COMMON CORPORATE COSTS

Hydro One provides the functions and services identified in Table 3, to the businesses identified in Table 2. Exhibit A further describes the functions and services provided. The BP 2018-2022 includes 2018 Common Corporate Costs totaling approximately \$312 million incurred to perform the relevant functions and services; and the annual total Common Corporate Costs are presented in Table 4.

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Approximately 3.72% of the Common Corporate Costs are incurred under an outsourcing arrangement with Inergi LP ("Inergi"). Common Corporate Costs includes the cost included in BP 2018-2022 for sustainment activities outsourced to Inergi services pertaining to finance, accounts payable, and human resources, and pay services.

**Table 3 - Functions and Services in Common Corporate Costs**

<p><b>Hydro One Inc. Corporate Office</b></p> <ul style="list-style-type: none"> <li>■ President/CEO Office</li> <li>■ Chair</li> <li>■ CFO's Office</li> <li>■ Treasurer's Office</li> <li>■ Board of Directors</li> <li>■ Corporate Secretary - General Counsel</li> <li>■ Pension Cost</li> <li>■ Donations</li> <li>■ Ombudsman Office</li> <li>■ Investor Relations</li> <li>■ EVP Strategy Office</li> </ul>	<p><b>Shared Services and Finance</b></p> <ul style="list-style-type: none"> <li>■ Real Estate</li> <li>■ Value Growth</li> <li>■ Treasury</li> <li>■ Corporate Controller</li> <li>■ Taxation</li> <li>■ Regulatory Affairs</li> <li>■ Business Planning &amp; Decision Support</li> <li>■ Outsourcing Services</li> </ul>
<p><b>Operations</b></p> <ul style="list-style-type: none"> <li>■ Distribution Asset Management (Note 1)</li> <li>■ Planning and Optimization (Note 1)</li> <li>■ Reliability, Strategies, and Compliance (Note 1)</li> <li>■ System Planning (Note 1)</li> <li>■ Network Connections and Development (Note 1)</li> <li>■ Network Operations (Note 1)</li> <li>■ Transmission Asset Management (Note 1)</li> <li>■ VP Planning (Note 1)</li> <li>■ EVP Office – Operations (Note 1)</li> <li>■ Strategic Services</li> <li>■ Key Account Management (Note 1)</li> </ul>	<p><b>Customer and Corporate Relations</b></p> <ul style="list-style-type: none"> <li>■ Customer Care Services (Note 1)</li> <li>■ Customer Strategy and Conservation (Note 1)</li> <li>■ Customer Program Delivery (Note 1)</li> <li>■ VP Customer Service (Note 1)</li> <li>■ Meter to Bill (Note 1)</li> <li>■ Corporate Affairs</li> <li>■ First Nations and Métis Relations</li> <li>■ Bad Debt and Goodwill</li> <li>■ SVP Customer and Corporate Relations</li> </ul>
<p><b>Information Services</b></p> <ul style="list-style-type: none"> <li>■ Corporate Projects</li> <li>■ Information Technology</li> <li>■ Security Operations</li> </ul>	<p><b>Inergi LP (outsourced services)</b></p> <ul style="list-style-type: none"> <li>■ Finance</li> <li>■ Human Resources - Pay Services</li> <li>■ Accounts Payable</li> </ul>
<p><b>People and Culture</b></p>	<p><b>General Counsel &amp; Secretariat</b></p>
<p><b>Audit</b></p>	<p><b>VP Chief Risk Officer</b></p>
<p><i>Note 1- Department participated in 2015 Time Study; see Section V.</i></p>	

## D. BLACK & VEATCH'S ASSIGNMENT

For the 2016 Review, our assignment was to:

- a. Evaluate whether the existing Common Corporate Cost Allocation Methodology continues to be appropriate for Hydro One, and identify changes that are necessary or desirable.

- b. Review Hydro One's application of the OEB-accepted Common Corporate Cost Allocation Methodology to the BP 2018-2022, in connection with its 2018-2022 Distribution rates application.

The organization presented in Table 3 reflects the creation of new departments, realignment of departments among groups, and realignment of functions among departments, that Hydro One believes will allow it to serve its customers most effectively and efficiently, based on the current business and regulatory environment.

The Common Corporate Costs Model for BP 2018-2022 reflects these organizational changes. Black & Veatch reviewed the cost driver for each activity to determine its continued applicability, and where necessary, the development of the cost driver was updated to reflect the organizational changes.

Concurrently with this 2016 Review, Black & Veatch reviewed and issued reports on Hydro One's Overhead Capitalization Rate methodology, Common Assets allocation and Allocation of Common Corporate Costs to the Bruce-to-Milton (B2M) Limited Partnership.

## E. OVERVIEW OF METHODOLOGY

The Black & Veatch methodology for allocating the costs of Hydro One's Common Corporate Costs was designed to address the following considerations:

- Compliance with OEB precedent including Docket RP-2002-0133 (*In The Matter Of The Ontario Energy Board Act, 1998*)
- Compliance with relevant provisions of the Affiliate Relationships Code for Electricity Distributors and Transmitters ("Code")
- Cost incurrence- Are the costs needed to perform services required by the business units?
- Cost allocation- Are costs appropriately allocated among business units, based on the application of cost drivers /allocation factors supported by principles of causality?
- Cost/benefit- Do benefits received equal or exceed the cost?

An overview of the Black & Veatch cost allocation methodology is described below:

- Identify the functions and services included in Common Corporate Costs.
- Identify activities that are performed to provide those functions and services.
- Based on time and/or cost studies, distribute the annual departmental costs in the BP 2018-2022 among the activities performed by that department in providing the functions and services.
- Distribute the cost of each activity among the business units based on direct assignment when possible, and based on cost drivers when direct assignment is not possible.

- The guiding principle used by the Black & Veatch methodology to assign cost drivers is cost causation.

A cost driver is a formula for sharing the cost of an activity among those who cause the cost to be incurred. Cost drivers are discussed in Section D. The different types of cost drivers are described in Exhibit B.

## F. SCOPE OF WORK

Consistent with Black & Veatch's standard practice for consulting assignments, we relied on the genuineness and completeness of all documents presented to us by Hydro One, and we accepted factual statements made to us by Hydro One (e.g., headcount, budgeted amounts) subject only to their overall reasonableness and factual accuracy, but without our independent confirmation. All dollar amounts in this Report are stated in Canadian dollars.

## G. CONCLUSIONS AND RESULTS

Black & Veatch believes that Hydro One's current cost allocation methodology continues to be appropriate for Hydro One because it achieves the purposes for which it was designed (to distribute costs in a manner that is consistent with OEB precedent and regulatory practice) and promotes transparency and efficiency.

Based on our review, Black & Veatch concludes that the results of Hydro One's application of the Black & Veatch Common Corporate Cost Allocation Methodology to its BP 2018-2022 data reflects a cost causation-based distribution of the Common Corporate Costs and conforms to the OEB-accepted methodology. The annual results for years 2018-2022 are shown in Table 4.

Black & Veatch also notes that Hydro One management believes that the existing methodology is appropriate for the company, the cost allocation process receives strong support from Hydro One management and is well integrated into the budgeting process and the Common Corporate Costs Model is updated periodically to reflect current information.

Table 4 presents the results of Hydro One's distribution of the Common Corporate Costs in BP 2018-2022, annually for 2018-2022, among its Distribution, Transmission and Other businesses.

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

Table 4 - Distribution of Annual Common Corporate Costs

Business	2018	2019	2020	2021	2022
(\$ Millions)	\$	\$	\$	\$	\$
Transmission	\$ 153	\$ 153	\$ 153	\$ 155	\$ 158
Distribution	\$ 143	\$ 141	\$ 142	\$ 143	\$ 145
Other	\$ 16	\$ 16	\$ 16	\$ 17	\$ 17
<b>Total</b>	<b>\$ 312</b>	<b>\$ 310</b>	<b>\$ 312</b>	<b>\$ 315</b>	<b>\$ 320</b>
(% of Total)	%	%	%	%	%
Transmission	49%	49%	49%	49%	49%
Distribution	46%	46%	46%	45%	45%
Other	5%	5%	5%	5%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



## II. Statement of Approach

This section presents the approaches used by Black & Veatch to evaluate whether the existing Common Corporate Cost Allocation Methodology continues to be appropriate for Hydro One, and to review Hydro One's application of the methodology to the BP 2018-2022 costs of providing the functions and services included in Common Corporate Costs.

### A. EVALUATE COST ALLOCATION METHODOLOGY

The Common Corporate Cost Allocation Methodology was first applied to Hydro One's Business Plan 2018-2022. Hydro One requested that Black & Veatch evaluate whether the methodology is still appropriate, and what changes, if any, could be considered. Black & Veatch's approach is discussed in detail in Section III.

### B. REVIEW APPLICATION OF COST ALLOCATION METHODOLOGY

In preparing the 2016 Review, Black & Veatch performed the following tasks:

- Task 1. Reviewed Hydro One's current organizational structure and identified departments that perform the functions and services included in Common Corporate Costs.
- Task 2. Identified the activities performed by each department in order to provide the functions and services identified in Task 1.
- Task 3. Determined the Common Corporate Costs in BP 2018-2022 to perform the functions and services in Task 1.
- Task 4. Identified the business units that use the functions and services included in Common Corporate Costs.
- Task 5. Distributed Common Corporate Costs (time for labour resources and cost for non-labour and Inergi resources) reflected in BP 2018-2022 for departments identified in Task 1, among the activities identified in Task 2.
- Task 6. Directly assigned activity costs to business units where a direct relationship exists.
- Task 7. For activities where less than all of the BP 2018-2022 costs were directly assigned to business units in Task 6, assigned a cost driver that reflects cost causation.
- Task 8. Populated the cost drivers.
- Task 9. Reviewed the 2015 Time Study.
- Task 10. Computed total Common Corporate Costs allocated to each business unit.
- Task 11. Performed analytical review of results.
- Task 12. Reviewed the Common Corporate Costs used to perform the computations.

## C. PRINCIPLES OF COST ALLOCATION

There are two methods to allocate or distribute shared costs among a utility's business units – Direct Assignment and Allocation. *Direct Assignment* is used when it can be reasonably determined that all or a portion of an activity is performed for a particular business unit. Direct Assignment is completed through the use of time studies or time surveys; where participants either fill out a daily time sheet or provide an indication of how their time is spent throughout the year. Approximately 70% of Common Corporate Cost in the BP 2018-2022 was assigned directly to one or more of Hydro One's business units.

*Allocation* is used when more than one business unit uses an activity, but the portions of the activity that each uses cannot be directly established through a time study or time survey. In this case, a cost driver must be assigned to distribute the costs of the activity. A cost driver is a formula for sharing the cost of an activity among those entities that cause the cost to be incurred. The principles used by Black & Veatch to assign cost drivers are discussed in Section II.D below.

## D. COST DRIVERS

As stated above, a cost driver is a formula for sharing the cost of an activity among those entities that cause the cost to be incurred. The guiding principle that Black & Veatch uses in assigning cost drivers is cost causation. Cost causation means that there is a causal relationship between the cost driver and the costs incurred in performing the activity. In some cases, cost causation cannot be easily implemented or established, in which case selecting cost drivers based on benefits received is a fair alternative treatment.

Other factors considered in assigning cost drivers include:

- Practicality – The cost driver should be understandable, obtainable at reasonable cost, and objectively verifiable in the initial year as well as in subsequent years.
- Stability – Cost driver values should be reasonably stable from year to year. When estimates are used, the cost driver should be able to be estimated with reasonable accuracy, and estimates should be unbiased.
- Materiality – When choosing between cost drivers, small differences can often be ignored in favor of Practicality and Stability (see above).

## E. TYPES OF COST DRIVERS

Cost drivers can be classified as External or Internal. *External* drivers are based on data that are external to the cost allocation process, such as physical units or financial amounts.

*Internal* drivers are based on values computed as an integral part of the cost allocation process. For example, the cost of a supervisor's salary might be allocated in the same proportion as the salaries of the people being supervised, and the cost of general departmental expenses might be allocated in the same proportion as the specifically assigned departmental activities. Exhibit B further describes the different types of cost drivers.

### III. Evaluate Cost Allocation Methodology

The Common Corporate Cost Allocation Methodology was first applied to Hydro One's BP 2006-10. Black & Veatch has also reviewed the application of the methodology to subsequent business plans, as listed in Section I.A. The purpose of this portion of the 2016 Review was to evaluate if the methodology is still appropriate, including reviewing changes that were recommended in the past.

Based on our discussions with Hydro One personnel and review of the Common Corporate Costs Model, Black & Veatch determined that the cost allocation methodology continues to be appropriate for Hydro One because:

- It meets best practices since it distributes costs based on cost causation, including the use of direct assignment when possible, and then through the use of cost drivers.
- It has been accepted by the OEB.
- It has the support of Hydro One management, and is understood and accepted by the Hydro One business units.
- It allows the business units to determine precisely what amounts they are charged by department and by activity within the department; this transparency provides a basis for understanding the nature of the charges and value of the services received.
- It is well-integrated with Hydro One's annual Business Planning process and produces reasonably stable results over time.
- It accommodates changes in Hydro One's organization, and the Common Corporate Costs Model can be adapted easily to reflect those changes.

Black & Veatch believes that the current cost allocation methodology continues to be appropriate for Hydro One, because it achieves the purposes for which it was designed (to distribute costs in a manner that is consistent with OEB precedent and regulatory practice), and promotes transparency and efficiency.

## IV. Review Application of Methodology to BP 2018-2022

In this Section we will discuss each of the Tasks performed in the Scope of Work, as stated in Section B. This includes the purpose of the Task, the steps performed, the source of the information, and the results.

### **Task 1. Reviewed Hydro One's current organizational structure and identified departments that perform the functions and services included in Common Corporate Costs.**

The purpose of this Review was to evaluate the allocation of the Common Corporate Costs among the businesses that use the functions and services.

The organization of Hydro One Inc. is described in Section I.B. The functions and services support the Distribution business and the Transmission business, and the other businesses listed in Table 2. The departments that perform the functions and services in Common Corporate Costs are listed in Table 3. Exhibit A further describes the functions and services. This information was provided by Hydro One in discussions and documents.

### **Task 2. Identified the activities performed by each department in order to provide the functions and services identified in Task 1.**

The purpose of this task was to identify the activities that are performed in order to provide each of the functions and services.

Functions and services (identified in Task 1) are performed for the benefit of the business units. Activities (discussed in this Task 2) are the tasks performed in order to provide the functions and services. Activities are measured in the amount of resources used.

To distribute the resources required to provide the functions and services included in Common Corporate Costs among the business units on the basis of cost causation, the activities performed were identified and described by Hydro One to Black and Veatch.

### **Task 3. Determined the Common Corporate Costs in BP 2018-2022 to perform the functions and services in Task 1.**

In this task, we obtained the BP 2018-2022 costs for the departments that provide the functions and services included in Common Corporate Costs. Hydro One provided to Black & Veatch the labour and non-labour portions of the BP 2018-2022 for each of these departments, as well as descriptions of major non-labour cost items.

### **Task 4. Identified the business units that use the functions and services included in Common Corporate Costs.**

The business units that use the functions and services included in Common Corporate Costs are listed in Table 2. The information was provided by Hydro One and confirmed by the service recipients.

**Task 5. Distributed Common Corporate Costs (time for labour resources and cost for non-labour and Inergi resources) reflected in BP 2018-2022 for departments identified in Task 1, among the activities identified in Task 2.**

The purpose of this task was to distribute the resources (time for labour and costs for non-labour and Inergi) required for each of the functions and services identified in Task 1, among the activities identified in Task 2. In subsequent tasks, the cost of each activity was either directly assigned to one or more business units or allocated using cost drivers.

**Labour costs**

To distribute budgeted labour costs, Hydro One department managers determined the portion of annual time spent by the personnel under their supervision on each of the activities identified in Task 2. Some managers based their estimates on concurrent time records that they maintain, some conducted interviews with their personnel, and some used their informed judgment. Some of the holding company's labour cost was allocated consistent with previous rate filings. The information provided by the managers was reviewed by Hydro One and Black & Veatch and was found to be reasonable and consistent with prior distributions of resources.

**Non-labour costs**

Budgeted non-labour costs items were examined and distributed based on direct assignment or allocation; this amount includes non-labour costs of departments in the 2015 Time Study. This included OEB invoices, communications programs, insurance costs and claims, human resources programs, labour relations programs, actuarial consultants and audit fee. The balance of non-labour costs includes items such as training and development, non-specific expenses and general expenses.

**Inergi costs**

The Common Corporate Costs representing functions and services provided by Inergi were distributed among the activities, based on information provided by Hydro One, assignments and allocations by Hydro One and Black & Veatch, and the application of judgment by Hydro One and Black & Veatch. The approach for each of the functions and services provided by Inergi is described below. Exhibit A describes these services in greater detail.

- **Finance** – Costs were assigned among activities based on estimated portion of total amount paid to Inergi to perform the function. Activities were allocated among the business units based on chosen cost drivers that relate to each activity (e.g., Fixed Asset Accounting activity was allocated on Gross Utility Plant).
- **Human Resources** – Costs were assigned among activities based on estimated effort by Inergi. All activities were allocated among the business units based on headcount.

**Task 6. Directly assigned activity costs to business units**

The purpose of this task was to assign, among the business units listed in Task 4, the resources (time for labour resources and costs for non-labour and Inergi resources) for each activity listed in Task 2. This task was performed concurrently with Task 5 – Distributed Common Corporate Costs (time for labour resources and cost for non-labour and Inergi resources) reflected in BP 2018-2022 for departments identified in Task 1, among the activities identified in Task 2.

**Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016**

For the activities listed in Task 2, Hydro One’s departmental managers distributed the resource costs among one or more business units, based on the business units that caused the costs to be incurred. When possible, all or a portion of costs were assigned to a specific business unit.

**Task 7. Any portion of an activity that was not assigned to a specific business unit due to its generalized nature was allocated among business units using cost drivers, as described in Task 7. Assigned cost drivers**

As discussed above, the costs of activities were directly assigned to business units when possible. The purpose of this task was to select cost drivers for the portion of costs which were not directly assigned in Task 6.

The principles that Black & Veatch used to assign cost drivers are discussed in Section II.D- Cost Drivers. Black & Veatch selected cost drivers based on applying the principles discussed above, its experience in performing cost allocation studies, consultations with Hydro One as to the nature of each activity, and industry practices and regulatory requirements.

Section II.E Types of Cost Drivers describes the types of cost drivers.

Table 5 summarizes the direct assignments and types of costs drivers used to distribute the Common Corporate Costs among the business units. Amounts include the Inergi charges.

**Table 5 - Direct Assignments and Cost Drivers for Common Corporate Costs**

<b>TYPE</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>(% of Total)</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct Assignment	58.56%	57.79%	57.76%	57.63%	58.54%
Physical	13.03%	13.27%	13.52%	13.57%	13.75%
Financial	20.76%	21.10%	21.39%	21.52%	21.83%
Internal	7.65%	7.84%	7.33%	7.29%	7.33%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>101.44%</b>

**Task 8. Populated cost drivers**

The purpose of this task was to determine the values of each cost driver that are attributable to each business unit in order to distribute the costs of each activity among the business units. The supporting information was provided by Hydro One.

**Task 9. Reviewed 2015 Time Study**

This Task is discussed in Section V.

**Task 10. Computed total common corporate costs for each business unit**

The purpose of this task was to distribute the total cost of each activity among the business units. The amount distributed was the sum of the amounts directly assigned in Task 6, and allocations based on the cost drivers identified in Task 7.

For allocations based on the cost drivers, the amount allocated to each business unit was computed by multiplying the activity cost to be allocated by the cost driver value for the business unit.



**Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016**

**Task 11. Performed analytical review**

The purpose of this task was to compare the results of the distribution of the BP 2018-2022 Common Corporate Costs among the business units to the results in the previous 2014 Review, and to understand the differences.

The proportions of the total cost distributed to each business unit have been reasonably similar over time and differences are explained by additions and removal of departments from the Common Corporate Costs (i.e., the 2016 Review included Bad Debt and Goodwill which is 100% Distribution, for the first time), changes in allocations of time, changes in allocator values and changes in departmental functions and activities.

**Task 12. Reviewed Common Corporate Costs Model**

The purpose of this task was to review the Common Corporate Costs Model that Hydro One has developed for allocating the Common Corporate Costs, to determine if it properly reflects and models the OEB-approved cost allocation methodology for those costs included in the BP 2018-2022.

Black & Veatch first reviewed Common Corporate Costs Model in connection with our 2008 Review, and has reviewed the model for each of the subsequent reviews performed, including this 2016 Review. The model is updated periodically to reflect organizational changes; Business Plan costs; additions to and deletions of departmental activities; time and cost distributions among activities; assignments of allocators; and cost driver values.

The Common Corporate Costs distributes departmental costs among activities (Task 6) and then distributes the cost of each activity based on direct assignments or cost drivers (Task 10).

Based on Black & Veatch's review, the Common Corporate Costs properly implements the OEB-accepted methodology for distributing the costs of corporate functions and services in the BP 2018-2022, and continues to produce a cause-based allocation of costs.

## V. 2015 Time Study

Hydro One employees representing approximately \$105 million of annual labour costs participated in a time study for the four-week period ending June 12, 2015 ( "2015 Time Study").

The departments that participated in the 2015 Time Study are identified in Table 3 (designated by Note 1 next to the department name). The responsibilities of these departments are included in Exhibit A.

The personnel in these departments are able to determine with reasonable accuracy, on a current basis, the time they spend on Distribution Operations and Maintenance, Distribution Capital Projects, Transmission Operations and Maintenance and Transmission Capital Projects because the programs and projects on which they work are clearly defined.

A properly performed time study measures cost causation and is widely accepted as a basis for assigning costs. Hydro One personnel administered the 2015 Time Study using the same design and communication material designed by Black & Veatch and utilized in the time study that occurred in 2013. Black & Veatch's responsibilities included reviewing time study results and the consolidation of the results, and confirming the completeness of the time study and its consistency with the study design. The methodology was the same as used in prior time studies conducted by Black & Veatch for Hydro One.

It was not practical to perform a full-year study, but we believe the results for a four-week period are representative of the full-year. To support this judgment, Black & Veatch reviewed the previous Hydro One time studies, which were completed at different times during the year, and found that the results were reasonably similar to the 2015 Time Study results.

Black & Veatch found that the 2015 Time Study was appropriately designed and completed, the results were correctly compiled, and the methodology was the same as for prior Hydro One time studies performed in connection with Black & Veatch's previous cost allocation reviews. Therefore, Black & Veatch concluded that the 2015 Time Study results were a proper basis for assigning the costs of the departments included in the study between Hydro One's Distribution and Transmission business units.

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

**Exhibit A: Functions and Services in Common Corporate Costs**

FUNCTIONS AND SERVICES	DESCRIPTION
<b>Hydro One Inc. Corporate Office (HOI)</b>	
President / CEO Office	Leadership of the staff of the Corporation to ensure that their culture and behaviours lead to achievement of its strategic objectives. Develop and update strategy and establishes performance targets to assess progress towards the goals and objectives defined by the strategy.
Chair	Strategic direction, implementation and results for Hydro One Inc. and for each subsidiary.
CFO's Office	Provide Hydro One and subsidiaries with strategic review and approval for all financial and investment decisions. Review policies and procedures, treasury operations and tax planning, financial control and reporting.
Treasurer's Office	Debt and equity issuance, capital structure management and oversight of Finance- Treasury function.
Board of Directors	Strategic direction, implementation and results for Hydro One Inc. and for each subsidiary.
Corporate Secretary	Provide direction and analysis in areas of: Board and Committee(s); Office of Chair and Board members; Code of Business Conduct; Community Citizenship; Freedom of Information and Privacy, Corporate Archives, Corporate Records, Corporate Secretariat.
General Counsel	Oversee and support Law, Regulatory and Corporate Secretariat General Counsel functions.
Pension Cost	Pension fund contributions.
Donations	Includes donations to support injury prevention, corporate donations (e.g. Salvation Army), energy education, United Way and local community causes. Costs are directly assigned to Shareholder only.
Ombudsman Office	The Ombudsman Office commenced activity following the Initial Public Offering, in order to address complaints escalated from the Customer Service . Prior to that, the Province of Ontario's Ombudsman had authority to investigate issues related to Hydro One customers.
Investor Relations	Investor Relations commenced activity following the Initial Public Offering, in order to communicate with Shareholders and potential investors and address their concerns.
EVP Strategy	Supports the executive team by identifying strategic opportunities and developing related initiatives, including mergers and acquisitions and non-regulated strategy work.
<b>Shared Services and Finance</b>	
Real Estate	Manage and acquire rights of way and easements; manage property taxes; manage SLU revenue programs; manage Employee Relocation Program.

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

FUNCTIONS AND SERVICES	DESCRIPTION
Value Growth	Seeks ways to leverage Hydro One's core competencies to increase overall value and drive down average cost to serve. Costs are directly assigned to Shareholder only.
Treasury	Risk management including insurance purchasing; insurance claims settlement; financial risk management; cash & banking operations; debt management-prospectus, debt issuance, borrowing, maintain relationship with shareholders; funds management; investor relations-shareholders, creditors, equity analysts & rating agencies; support business activities; project management.
Corporate Controller	Corporate Accounting & Reporting; Revenue Management; Financial Modeling & Analysis; Accounting Policy; Internal Control; IFRS / US GAAP; Inergi Finance; Bill 198; Corporate Compliance.
Taxation	Meet internal and external tax compliance requirements and reduce overall corporate tax liability through tax planning for current and new businesses, acquisitions and dispositions, special projects, tax compliance (including income tax, HST, and DRC returns for all entities), tax accounting, lobbying for legislative tax changes and government tax audits.
Regulatory Affairs	Coordinate applications with OEB; compliance with OEB orders; design and implement regulatory policy; manage relationship with OEB. Tasks include: cost allocation and rate design for regulated Tx and Dx, especially rate structures and rates for Tx and Dx tariffs; implement approved rates; support transmitters' representative on IESO Technical Panel; manage MV Star to support settlement. Includes: Direct billed OEB costs for Tx and Dx; Direct billed NEB costs for Tx; Costs of Rate Hearings before the OEB for Tx and Dx.
Business Planning and Decision Support	Financial modeling & analysis; corporate planning & reporting; regulatory finance; decision support to the lines of business
Outsourcing Services	Manage overall business relationship between Hydro One and Inergi LP.
<b>Operations</b>	
Distribution Asset Management	Create prioritized, defensible distribution system investment strategies and plans to meet Hydro One's Corporate Strategic Objectives including promoting innovation and automation of our grids consistent with maximum customer value. This includes the Distribution Technology roadmap and smart meter deployment including communications infrastructure.
Planning and Optimization	Coordinate the investment planning and investment approvals processes for projects and programs issued to the lines of business from the Planning Business Unit. The investment plan is developed and maintained through the use of various tools, reports and LoB interaction.

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

FUNCTIONS AND SERVICES	DESCRIPTION
Reliability, Strategies, and Compliance	Promote and facilitate Hydro One’s engagement and participation in the development of reliability standards and related IESO Market Rules; Develop, communicate and assist with the implementation of policies, directives, procedures, and processes to ensure an enduring compliance posture with reliability standards.
System Planning	Develop and commit prioritized, defensible transmission development plans, consistent with corporate strategy, to meet government policy, OPA plans, customer needs, regulatory requirements and industry standards. Conduct Regional Infrastructure Planning to meet OEB requirements and to develop regional plans to meet regional supply needs.
Network Connections and Development	Facilitate the connection of new load and generation customers to Hydro One’s transmission network, supporting customers’ objectives while respecting Hydro One’s strategic objectives and resource requirements.
Network Operations	Operates the largest electricity delivery system in Ontario and one of the largest in North America for the needs of the Province of Ontario. Hydro One has a highly skilled and experienced workforce using first-class operating systems located in a state-of-the-art Control Centre. Hydro One is a team working together and safely to ensure Ontario has a safe, reliable supply of electricity.
Transmission Asset Management	Provide asset strategies, investment plans and work definition for the sustainment of the transmission grid to enable safe, reliable, efficient and cost effective delivery in a customer-focused commercial culture that increases enterprise value for our shareholder that provides increased value to our customers.
VP- Planning	Oversees Distribution Asset Management, Transmission Asset Management, Planning and Optimization, Network Connections and Development, System Planning, and Reliability, Strategies, and Compliance.
EVP Office- Operations	Oversight of Operations group.
Strategic Services	Supports the executive team by advancing key strategic initiatives and interfacing with Lines of Business to assist in the implementation of these initiatives, coordinating the development of processes to ensure alignment within the Company and a focus on our key priorities, and providing support to the President and CEO and the Leadership Team.
<b>Information Services</b>	
Corporate Projects	Deliver the projects necessary to maintain and enhance the core services Hydro One provides to its customers across the province. Project delivery is completed by leveraging both internal and external expertise to design and construct using standard and repeatable methods that lead to safe, reliable and cost effective operations of those assets.

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

FUNCTIONS AND SERVICES	DESCRIPTION
Information Technology	Information technology security; Enterprise IT architecture; Service delivery; Technology services; Governance of IT architecture, Business analysis and information management, Project management; Inergi & Telecom services management. Applications; Compliance security; Data services; Information services; IT operations; System architecture.
Security Operations	Incident reporting and security awareness; Threat intelligence gathering; Physical security and asset threat and risk assessments; Investigations; Theft of electricity consultation and detection; Workplace violence prevention and response; Contract security procurement assistance; Overall security and asset protection advice; Security infrastructure Capital and OM&A investment planning and project management.
<b>Customer &amp; Corporate Relations</b>	
Customer Care Services	Service the approximately 1.1 million distribution customers. Improve customer satisfaction through strategic system and process enhancements, effective services contracting, proactive communications and quality programs. Service programs include meter reading, billing, settlements, customer contact handling and collections. Project work includes regulatory compliance initiatives and service enhancements.
Customer Strategy and Conservation	Design and deliver energy conservation and demand management incentive based programs; Leverage Smart Grid investments to provide customer enablement of new technologies for energy management; Co-ordinate Greener Choices program; Provide input to Corporate Strategic Plan and develop recommendations on emerging strategic opportunities.
Customer Program Delivery	Supports Customer Service and Corporate Relations with five year business plans and the associated three year Dx Rate Filings with the OEB. Includes the Credit & Collections team is focused on reducing arrears and bad debt for both active and final-billed accounts, while working with customers on a variety of payment options to increase customer choice and provide more payment flexibility. Also included is the new Conservation and Demand Management team that delivers province-wide programs in order to meet multi-year targets aimed at reducing energy peaks and the overall consumption on the electricity grid.
Key Account Management	Manage relationships with Hydro One's large customers including over 90 Transmission-connected Industrials, 79 LDCs and 33 Transmission-connected Generators, representing almost 70% of Hydro One's revenues. Includes Operating Support; Account Executives; Contract Management; and Customer Programs.
VP Customer Service	Oversees Customer Service group, which has overall accountability for relationship, affordability and value proposition for products and services provided to customers. Includes bill management, major accounts and value-added services (e.g. conservation). Customer Service also



Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

FUNCTIONS AND SERVICES	DESCRIPTION
Meter To Bill	<p>responsible for Advanced Distribution System Project and Smart Meters.</p> <p>Focused on providing clear, accurate, and timely bills to customers. This includes validation of meter reading data, bill calculations, exception handling, retailer transactions, bill creation, bill insertion, and bill issuance.</p>
Corporate Affairs	<p>Support all external and internal communications initiatives. Interact with most other Hydro One departments; special focus on Customer Service. Support major projects including: development of partnership activities; coordinate with external energy agencies (e.g. OPA, IESO), Ministries in Ontario Public Service and internal Hydro One resources. Participate in pre-public consultations with municipalities and First Nations. Support customer strategy, rate strategy, distribution generation strategy; develop working relationships with customers, regulators, shareholder, lenders; labour relations; corporate culture.</p> <p>Includes SVP Customer &amp; Corporate Relations - Oversees the entire Customer Service organization as well as the old Corporate Relations group, including Corporate Affairs, First Nations and Metis Relations and Key Account Management.</p>
First Nations and Métis Relations	<p>Provide First Nations and Métis consultation advice and support; Advise re First Nations and Métis HR strategies; Provide strategic advice to Remotes with respect to First Nations and Métis issues.</p>
Bad Debt and Goodwill	<p>Bad Debt related to Distribution service. Allocated 100% to Distribution.</p>
SVP Customer and Corporate Relations	<p>Oversees VP Customer Service, Key Account Management, Corporate Affairs and First Nations and Métis Relations.</p>
<b>Inergi LP (outsourced services)</b>	
Finance and Accounting Services	<p>Accounts Payable; Accounts Receivable (non-energy); Fixed asset and project cost accounting; general accounting and planning, budgeting and reporting</p>
Human Resources- Pay services	<p>Payroll and related services</p>
Accounts Payable	<p>Invoice processing and payment</p>
<b>People and Culture</b>	
People and Culture	<p>Primarily employee-related services, including administer compensation &amp; benefits programs; decision support for business units; talent management (hiring, succession, development, coaching; high potential employee assessments); recruitment and diversity (diversity programs, grad program, student/co-op, line of business resourcing); data administration; consulting support to LOBs and corporate functions; VP Human Resources.</p> <p>Provide full-scale service pertaining to bargaining, Ontario Labour Relations Board hearings, grievance and arbitration hearings, advice and</p>

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

FUNCTIONS AND SERVICES	DESCRIPTION
	guidance, plus training to all levels of Hydro One management. Involves interaction with 21 unions and 24 collective agreements.
<b>Audit</b>	
Audit	Provides assurance that internal controls continue to operate effectively, identification and recommendations for areas where controls can break down or need improvement to meet corporate objectives. This includes the VP Chief Risk Officer.
<b>General Counsel &amp; Secretariat</b>	
General Counsel & Secretariat	Provides legal advice to all business units, acting as an internal “law firm” for the Corporation on most aspects of law affecting it, and is also well acquainted with day- to-day requirements of the Corporation.
<b>Telecom Services</b>	
Telecom Services	Provides telecommunications infrastructure across the Province, including both voice and data. Links staff and business applications at Trinity, Richview TS, Markham and London Call Centers, Mill Creek data centre, 125 field offices (400 total sites including stations) and customers via Call Centres and Web sites.
<b>VP Chief Risk Officer</b>	
VP Chief Risk Officer	The VP Chief Risk Office group creates an enterprise-wide comprehensive and uniform approach to anticipate, identify, prioritize, measure, treat and report on key business risks impacting our organization. It puts in place the policies, common processes, competencies, accountabilities, reporting and enabling technology to execute that approach successfully.

Hydro One Networks Inc. | COMMON CORPORATE COSTS (DISTRIBUTION) - 2016

**Exhibit B: Types of Cost Drivers**

TYPE	DESCRIPTION	EXAMPLES
<b>External Cost Drivers</b>		
Physical	Physical units; usually objectively determinate but often require estimates	Headcount (of employees), number of workstations, invoices to vendors
Financial	Financial information from accounting or management reports, budgets or projections	Capital expenditures, Net utility plant, Program Project Costs, Total capital, Total revenue
Blended	Weighted combinations of other drivers, used when one or more drives are applicable and none is clearly preferable; weights determined by judgment	Non-energy Rev_Assets Blend = 50% weight for Non-Energy Revenue and 50% weight for Assets
Driver xBusiness Unit	Any driver may be modified by excluding one or more business units to which the activity does not apply	Cost driver for Business Process Improvements is Operating Maintenance Capital, but Telecom and Remotes business units do not use the shared service, therefore activity cost driver is called Oper Maint Cap xTxR (i.e., Gross Utility Plant excluding Telecom and Remotes)
<b>Internal Cost Drivers</b>		
All Internal Cost Drivers	Use the result of previous allocations as the basis for further allocations	Cost of general departmental expenses might be allocated in the same proportion as the specifically assigned departmental activities

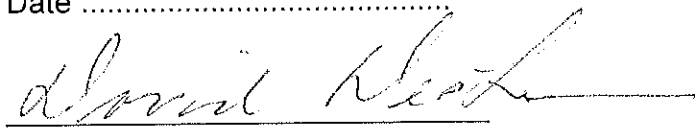
FORM A

Proceeding: EB-2017-0049

ACKNOWLEDGMENT OF EXPERT'S DUTY

1. My name is David DesLauriers (name). I live at Westboro (city), in the State (province/state) of Massachusetts.
2. I have been engaged by or on behalf of Hydro One Networks, Inc. (name of party/parties) to provide evidence in relation to the above-noted proceeding before the Ontario Energy Board.
3. I acknowledge that it is my duty to provide evidence in relation to this proceeding as follows:
  - (a) to provide opinion evidence that is fair, objective and non-partisan;
  - (b) to provide opinion evidence that is related only to matters that are within my area of expertise; and
  - (c) to provide such additional assistance as the Board may reasonably require, to determine a matter in issue.
4. I acknowledge that the duty referred to above prevails over any obligation which I may owe to any party by whom or on whose behalf I am engaged.

Date February 27, 2017

  
Signature

## **Expert Evidence Statement from Black & Veatch Canada Company**

**This Statement** is provided in compliance with Ontario Energy Board (“Board”) Rule 13A, regarding the reports listed below (“Reports”) dated December 21, 2016, prepared by Black & Veatch Canada Company (“Black & Veatch”).

### **Reports:**

- Review of Allocation of Common Corporate Costs (Distribution) – 2016
- Review of Shared Assets Allocation (Distribution) – 2016
- Review of Overhead Capitalization Rates (Distribution) – 2018-2022

### **Consultant:**

Black & Veatch Canada Company  
11401 Lamar Avenue  
Overland Park, KS 66211

Black & Veatch, and its affiliate Black and Veatch Management Consulting LLC, provide strategic, economic and management consulting specializing in energy matters, in areas such as utility cost allocation and ratemaking, economic analysis, strategy development, operational assessment, industry restructuring support, litigation and regulatory support, and technical analysis.

### **Qualifications:**

The lead experts on this project were:

*David DesLauriers*

Mr. DesLauriers is a highly experienced Director in Black & Veatch’s Rates & Regulatory Services group and specializes in regulated interstate transmission pricing and wholesale electric market policy matters. He delivers a unique blend of regulatory policy acumen and practical rate setting experience to provide highly effective and supportable ratemaking and regulatory solutions to his clients. Mr. DesLauriers has advised numerous midstream energy utilities on rates and regulatory policy for the past 24 years. His areas of expertise include: electric transmission cost of service and rate design, wholesale electric market design policy and operational topics, Federal Energy Regulatory Commission (FERC) policy matters, regulatory due diligence (M&A) and compliance with FERC regulation. His clients include Regional Transmission

## **Expert Evidence Statement from Black & Veatch Canada Company**

Organizations and Independent System Operators, transmission owning energy companies (regulated and non-regulated) and industry stakeholder groups involved in FERC regulatory policy. Mr. DesLauriers led the common cost allocation study conducted for Kinder Morgan Inc. in 2009-2010 timeframe and testified before FERC on common cost allocation (IS09-437).

### *Russell Feingold*

Mr. Feingold leads Black & Veatch's Rates & Regulatory Services group and has over 40 years of experience in the utility industry, the past 37 years of which have been in the field of utility management and economic consulting. Specializing in the utility industry, he has advised and assisted utility management, and industry trade and research organizations in matters pertaining to costing and pricing, competitive market analysis, regulatory planning and policy development, gas supply planning issues, strategic business planning, merger and acquisition analysis, corporate restructuring, new product and service development, load research studies and market planning. He has prepared and presented expert testimony before numerous utility regulatory bodies, including the Ontario Energy Board, and has spoken widely on issues and activities dealing with the costing, pricing, and marketing of utility services. Mr. Feingold has led cost allocation review projects for Hydro One Networks Inc. related to the allocation of common corporate service costs, for Union Gas Limited and Enbridge Gas Distribution related to their regulated and unregulated underground storage operations, and for Union Gas Limited related to its Dawn to Trafalgar gas transmission system, and its corporate shared services functions.

### *John Taylor*

During his 12 year career as a consultant to utilities Mr. Taylor has supported projects involving financial analysis, regulatory support and strategy, market assessment, litigation support, and organizational and operations reviews. Mr. Taylor's work often involves providing support for regulatory proceedings by conducting various studies and analyses related to revenue requirements, affiliate transactions, class cost of service, and cash working capital studies. He also has experience in asset and corporate valuation, the application of real options analysis, and various risk management techniques. Mr.



## **Expert Evidence Statement from Black & Veatch Canada Company**

Taylor has also been involved in the sale of generating assets, supporting due diligence efforts and regulatory approval processes. He has filed testimony as an expert witness on class cost of service studies and on the appropriate use of statistical analysis during audit testing.

### **Instructions Provided:**

The instructions provided to Black & Veatch in preparing the Report were:

- Recommend a best practice methodology to distribute Hydro One Inc.'s Common Corporate costs among the business units that use the functions and services. This recommendation could include the continuation of the existing methodology, the continuation of the existing methodology with modifications or the proposal of a new methodology.
- Prepare a Report of the recommended Common Corporate Costs Methodology to be used in future rate applications. This report will include a conclusion, definitions, a summary of every factor used in the methodology and the proposed methodology.
- Identify the functions and services included in the Common Corporate costs.
- Identify activities that are performed in order to provide the functions and services included in the Common Corporate costs.
- Determine which Common Corporate functions can distribute cost directly, which units can have cost distributed using time studies and which units require allocations using drivers and why.
- Propose and analyze all drivers used for allocation.
- Propose, analyze and perform all time studies required.
- Distribute the annual budgeted costs for years 2017-2021 to perform each function and service among the activities required to perform it, based on time and/or cost studies.
- Distribute the cost of each activity among the business units based on direct assignment when possible, and based on cost drivers when not.
- Prepare responses to Interrogatories from Interveners during a rate application relating to the proposed Cost Allocation methodology.
- Be available to testify to the proposed methodology during a future rate application.
- Prepare final reports for Common Corporate Costs allocation reflecting the current Business Plan and including both the Distribution and Transmission businesses, to be submitted in Cost of Service applications.
- In support of the successful Proponent's work, Hydro One's management will respond to all requests for basic information and/or supporting documentation.

## **Expert Evidence Statement from Black & Veatch Canada Company**

### **Basis of Evidence:**

The basis for the evidence is set forth in the Reports themselves.

### **Context of Evidence:**

This evidence is not provided in response to another expert's evidence. In 2004, Black & Veatch (formerly R.J. Rudden Associates) was engaged by Hydro One to recommend a best practice methodology to distribute the costs of providing Shared Services, between its Transmission and Distribution businesses and other businesses. Black & Veatch recommended the methodology, which was adopted by Hydro One and accepted by the Board in its EB- 2006-0501 Decision with Reasons, dated August 16, 2007. The accepted methodology has been reviewed and updated by Black & Veatch and accepted by the Board as part of subsequent Transmission and Distribution rate filings EB-2007-0681, EB-2008-0272, EB-2009-0096, EB-2010-0002, EB-2012-0031, EB-2013-0416, and EB-2014-0140. To remain consistent with the Board's approved methodology, a similar review and update process has been done as part of this filing.

### **Confirmation:**

The expert has been made aware of and agrees to accept the responsibilities that are or may be imposed on the expert as set out in Rule 13A.

*Signature:*

*Name of Expert:* Black & Veatch Canada Company

By David DesLauriers, Director, Black & Veatch Management Consulting LLC

*Date:* February 27, 2017

A handwritten signature in cursive script, appearing to read "David DesLauriers", written in black ink.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	November 3, 2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 209(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please explain Hydro One's current transfer pricing between its regulated energy jurisdictions and its affiliates. In the response, please provide all written policies and procedures regarding transfer pricing. In the response, please also address the purchase or transfer of services between affiliates and the purchase or delivery of power between affiliates.

**RESPONSE:**

Hydro One's utilities are required to comply with the transfer pricing provisions in section 2.3 of the Ontario Energy Board's *Affiliate Relationships Code for Electricity Distributors and Transmitters* (Staff\_DR\_208(H1) Attachment B) in their purchase or sale of a service, resource, product or use of asset from or to an affiliate. Please also refer to Hydro One's *Shared Corporate Services Cost Allocation and Transfer Pricing Policy* (Staff\_DR\_208(H1) Attachment A), which also deals with allocation methodologies.

**HYDRO ONE LIMITED**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	November 3, 2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 210(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

If Hydro One's merger application is approved by Avista's regulators, please explain how the anticipated allocation of shared costs, transfer pricing of services, and the purchase or delivery of power between Hydro One and Avista and between Hydro One's affiliates and Avista will differ or be consistent with the methodologies, policies or procedures described by Hydro One in its responses to Staff's above DR Nos. 208 and 209.

**RESPONSE:**

Please refer to Hydro One's responses to Staff\_DR\_208(H1) and 209(H1). Any allocation of shared costs and transfer pricing for services, resources, products or use of assets between Hydro One utilities and Avista will be in accordance with the Ontario Energy Board's *Affiliate Relationships code for Electricity Distributors and Transmitters* and any other applicable US laws, regulations and regulatory instruments that apply to Avista.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	November 6, 2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 211(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide the following information regarding Hydro One's accounting for the pre-closing costs associated with the acquisition of Avista:

- a. Please describe Hydro One's method for determining if a cost is directly assigned or allocated;
- b. Please provide all policies, guidelines, and training material used by Hydro One employees to determine direct assignment or allocation of these costs; and,
- c. Please identify any estimates used to apply or assign costs and provide the supporting calculations in Excel; and,
- d. Please provide the total amount of cost incurred currently and explain how Hydro One expects to recoup the costs.

**RESPONSE:**

a), b) & c) With respect to any pre-closing costs incurred by Hydro One, no such costs will be allocated or assigned to Avista.

d) As of September 30, 2017 approximately \$19 million of pre-closing costs have been incurred by Hydro One and will be funded by Hydro One.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 230(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide a narrative explanation of the timing and process the Companies expect to use to identify specific examples of synergies and efficiencies from the merger of Hydro One (a transmission and distribution utility) and Avista and AEL&P (which provide electric generation).

**RESPONSE:**

Avista and Hydro One will establish joint working groups early in 2018 in the areas of supply chain, operations, information systems, and innovation to share information and to identify potential efficiencies. Antitrust laws (e.g., Section 1 of the Sherman Act and the Hart-Scott-Rodino Act) permit such integration planning, but restrict certain non-public commercially sensitive information from being shared until after the transaction closes. Thus, specific opportunities for synergies and efficiencies will be determined at that time. (i.e. after the transaction closes)



**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 234(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please list and describe in detail any specific examples of the efficiencies that Hydro One expects to result for Avista from the proposed merger within the following categories and explain the rationale supporting the conclusion:

- a. Cost Allocations
- b. Business processes
- c. R&D
- d. Customer Service

**RESPONSE:**

Please refer to our response to Staff\_DR\_230(H1).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	11/16/2017
CASE NO.:	UM 1897	WITNESS:	Patrick D. Ehrbar
REQUESTER:	Staff	RESPONDER:	Jennifer Smith
TYPE:	Data Request	DEPT:	Accounting
REQUEST NO.:	Staff – 039(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please walk through how Avista tracked and captured the costs associated with early and subsequent discussions about the proposed merger, and then more active planning, due diligence, and other review in the length of time since a merger was first raised as a possibility, and explain from the context of Condition 17 in Avista / 304 Thies/3.

**RESPONSE:**

As stated in Mr. Ehrbar's testimony, Avista/700/Ehrbar/Page 11, "all costs associated with evaluating and executing on the Proposed Transaction are being separately tracked and recorded below-the-line" in accordance with the "Direct Assignment Protocol" included in the filing as Ehrbar Exhibit No. 703 as well as included as Appendix 7 to the Application. Please see Staff\_DR\_039(AVA), Attachment A for an additional copy of this Protocol.

Additionally, prior to the announcement of the merger, non-labor expenses were recorded below-the-line to FERC account 417120 and project 77705077 - Strategic Analysis, and were then transferred to project 77705316 – Hydro One Avista Acquisition in July 2017.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/05/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 049(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please describe the shared corporate services that Hydro One will provide to Avista. In the response, please point to any testimony, data responses, agreements or contracts regarding shared corporate services.

**RESPONSE:**

Hydro One and Avista have not identified any areas where there will be shared corporate services. At this time, Avista and Hydro One have just started to engage in high-level discussions to begin to identify possible future opportunities for savings related to economies of scale. Initial discussions have focused on sharing general supply chain information, metrics and practices, as well as information technology and computer systems; a more detailed analysis will occur post-closing.

Please see Staff\_DR\_208(H1) for more information regarding Hydro One's Shared Corporate Services Policy.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/04/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 050(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please describe the shared corporate services that Avista will provide to Hydro One. In the response, please point to any testimony, data responses, agreements or contracts regarding shared corporate services.

**RESPONSE:**

Please see response to Staff\_DR\_049(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/04/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 051(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please compare the Hydro One expected shared corporate services to those currently provided by Avista to its jurisdictions and affiliates.

**RESPONSE:**

Please see response to Staff\_DR\_049(AVA) and Staff\_DR\_054(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 052(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please explain how Oregon Avista customers will directly benefit from Avista, a gas-only utility in Oregon, sharing corporate services with Hydro One, an electric utility. Please provide specific examples and quantify the benefits or savings in U.S. dollars.

**RESPONSE:**

Hydro One and Avista have not yet identified any areas where there will be shared corporate services, and no such benefits have been quantified. Please see Staff\_DR\_049(AVA).

There are however immediate cost savings that will benefit Oregon customers following the closing, such as reduced expenses associated with Avista no longer having publicly traded common stock, fewer non-employee members on Avista's Board of Directors, and other cost savings discussed by Avista witness Mr. Thies, will be passed through to customers through the proposed rate credit. The estimated annual savings resulting from the merger is approximately \$1.7 million, while the annual rate credit in the first five years is \$2.65 million (and \$3.65 million in years 6-10). To the extent there are future savings resulting from the merger, and to the extent the identifiable benefits exceed the annual offsetable Rate Credit amounts, these additional benefits will be flowed through to customers in base retail rates in general rate cases as they occur.

Please also see response to Staff\_DR\_156(H1) and Staff\_DR159(H1), for additional information.



**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/05/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 053(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

In addition to the shared services that Hydro One plans to provide to Avista, will Avista receive services from Hydro One affiliates? Please explain in detail.

**RESPONSE:**

Hydro One and Avista have not identified any areas where there will be shared corporate services, nor has either Company identified any services which will be provided to Avista by Hydro One affiliates. For additional information please see response to Staff\_DR\_049(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 054(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Referring to Oregon PUC Docket RG 43, Avista's 2016 Oregon Affiliated Interest Report, page 4, regarding affiliate services, "(1) Services are provided at cost. Any charges allocated to Oregon are allocated based on the Company's four-factor allocation methodology." Please explain:

- a. Whether the corporate services Hydro One intends to provide to Avista will be at cost and whether the costs will be allocated by Avista to its Oregon jurisdiction based on the four-factor allocation noted above.
- b. Whether transferring services at cost is consistent with Hydro One's shared corporate services cost allocation pricing policy as set forth in Hydro One's response to Staff's DR No. 208.

**RESPONSE:**

- a. For transactions between Avista and Hydro One, the Company described in both the Joint Application and in testimony how these transactions will be accounted for in the future. See Paragraphs 74 and 75 in the Joint Application for the "Protocol for Direct Assignment of Costs Between Avista and Hydro One," as well as AVISTA/703. As described in Paragraph 75, the Company provided a memorandum in Appendix 7 to the Joint Application that further describes the Direct Assignment Protocol. By following this process, the Joint Applicants believe there is no cross-subsidization.

Additionally, the Lopez testimony at HYDRO ONE/400 18:14-20 addresses costs incurred by Hydro One or one of its subsidiaries that may be allocated or assigned to Avista, as described in Commitment No. 23.

Avista currently has limited services that are provided by affiliates. Those transactions are described in the Company's annual Affiliated Interest Report as required by OAR 860-27-0100. The reports that have been filed with the Commission have been provided in the data room in Section 3(b).

Avista is subject to OAR 860-027-0040 – Applications for Approval of Transactions Between Affiliated Interests. As such, all affiliated transactions are subject to review in any proceeding involving rates or practices of Avista by the Oregon Commission.

- b. Please refer to our response to Staff Data Request Number 068 (AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 055(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please explain how the Companies will avoid duplicative services and reduce corporate overhead costs if there are no reductions to Avista's workforce.

**RESPONSE:**

Areas of corporate overhead impacted by the merger are discussed in Mr. Thies' testimony (Exh. 300 at p. 15) and include SEC costs, Directors fees, etc.

Because Avista will continue to operate as an independent stand-alone utility, there will be no duplicative services until such time as future opportunities for shared services can be identified and implemented (see Staff\_DR\_049(AVA)).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 056(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Are any “above the line” accounts being used to record merger related costs? Please explain in detail, provide the FERC account numbers.

**RESPONSE:**

Please see Avista’s response to Staff\_DR\_039(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Adam Munson
TYPE:	Data Request	DEPT:	Corporate Accounting
REQUEST NO.:	Staff – 057(AVA)	TELEPHONE:	(509) 495-2471
		EMAIL:	Adam.Munson@avistacorp.com

**REQUEST:**

Please list Avista's cost to date for the merger transaction by cost type and description, (e.g. legal, accounting, consulting, travel, officer salaries, meals), FERC account, FERC account description, and amount in U.S. dollars.

**RESPONSE:**

All transactions costs through December 31, 2017 have been captured in account 426500.

Row Labels	2017
Professional Services	10,347,023
Legal Services	2,171,105
Loaded Labor	1,462,768
Employee Travel	447,852
General Services	124,154
Board Meeting Fee	54,944
Miscellaneous	9,782
Grand Total	14,617,627

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Rosemary Coulson
TYPE:	Data Request	DEPT:	Financial Planning & Analysis
REQUEST NO.:	Staff – 058(AVA)	TELEPHONE:	(509) 495-2036
		EMAIL:	Rosemary.coulson@avistacorp.com

**REQUEST:**

What are Avista’s anticipated costs (budget or otherwise) for this transaction?

**RESPONSE:**

The following table includes Avista’s anticipated costs of the Hydro One transaction:

Avista's Transaction Costs:	2017	2018	2019	2020	2021	2022	Total
External Costs	13,154,859	22,455,000	-	-	-	-	35,609,859
Change of Control and Retention	-	30,140,518	1,077,250	1,077,250	807,938	-	33,102,955
Contribution to Avista Foundation	-	7,000,000	2,000,000	2,000,000	2,000,000	2,000,000	15,000,000
Excise Property Taxes	-	2,500,000	-	-	-	-	2,500,000
Internal Labor, fully loaded	1,462,768	1,083,035	-	-	-	-	2,545,803
<b>Total Costs</b>	<b>14,617,627</b>	<b>63,178,553</b>	<b>3,077,250</b>	<b>3,077,250</b>	<b>2,807,938</b>	<b>2,000,000</b>	<b>88,758,617</b>



**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/10/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Adam Munson
TYPE:	Data Request	DEPT:	Corporate Accounting
REQUEST NO.:	Staff – 059(AVA)	TELEPHONE:	(509) 495-2471
		EMAIL:	Adam.Munson@avistacorp.com

**REQUEST:**

Please explain whether the Company will record post-merger costs such as transition and integration costs in “above the line” accounts. Please explain in detail and provide the FERC account numbers and an estimate of the transition and integration costs in U.S. dollars.

**RESPONSE:**

We will continue to capture costs associated with the merger “below-the-line” in account 426.5. Because the governance structure establishes largely independent operation of Avista, integration plans and cost estimates have not been developed.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/05/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Ed Schlect
TYPE:	Data Request	DEPT:	Corporate Dev.
REQUEST NO.:	Staff – 060(AVA)	TELEPHONE:	(509) 495-8100
		EMAIL:	ed.schlect@avistacorp.com

**REQUEST:**

Are there any affiliates of Hydro One that Avista currently conducts business with? If so, please list these affiliates and describe how they interact with Avista.

**RESPONSE:**

No.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 061(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Has Hydro One provided an estimate on percentages of shared services that will be directly allocated and indirectly allocated?

**RESPONSE:**

Hydro One and Avista have not yet identified any areas where there will be shared corporate services and no such benefits have been quantified. Please see response to Staff\_DR\_049(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/05/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Ed Schlect
TYPE:	Data Request	DEPT:	Corporate Dev.
REQUEST NO.:	Staff – 062(AVA)	TELEPHONE:	(509) 495-8100
		EMAIL:	ed.schlect@avistacorp.com

**REQUEST:**

Is Avista contemplating structuring an affiliate to undertake business activities of any Hydro One affiliates after completion of the transaction? Please explain in detail.

**RESPONSE:**

Not at this time.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/05/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Ed Schlect
TYPE:	Data Request	DEPT:	Corporate Dev.
REQUEST NO.:	Staff – 063(AVA)	TELEPHONE:	(509) 495-8100
		EMAIL:	ed.schlect@avistacorp.com

**REQUEST:**

Is Avista contemplating structuring an affiliate or subsidiary to undertake any new business activities or business ventures not presently being performed by a current affiliate or subsidiary after completion of the transaction? Please explain in detail, noting where Avista's plans differ from consultant recommendations Avista has seen in the last two years regarding best management of Avista's non-regulated business development.

**RESPONSE:**

Avista has no current plans to structure an affiliate or subsidiary to undertake any new business activities or business ventures not presently being performed by a current affiliate or subsidiary after completion of the transaction.

Avista has not seen consultant recommendations in the last two years regarding the best management of Avista's non-regulated business development.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 064(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Has Avista informed Hydro One that in a general rate case before the Oregon Commission certain costs such as Officer Incentives may be deemed disallowed and unrecoverable in customer rates?

**RESPONSE:**

Hydro One has been briefed throughout all general rate case proceedings and is aware that there may be costs that currently are, or may be deemed in the future, disallowable and unrecoverable in customer rates.



**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/11/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff - Gardner	RESPONDER:	Annette Brandon
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 065(AVA)	TELEPHONE:	(509) 495-4324
		EMAIL:	annette.brandon@avistacorp.com

**REQUEST:**

Please provide Organization Charts for Avista's Budgeting, Forecasting, Human Resources, Finance, Accounting and Tax divisions. Please include total Full time equivalents (FTEs) for each division and 2017 fiscal year labor costs (include all loadings) for each division.

**RESPONSE:**

Please see Staff\_DR\_065(C)(AVA) Confidential Attachment A for Company Organization Charts, categorized by Executive Officer.

Please see Staff\_DR\_065(C)(AVA) Confidential Attachment B for FTEs and 2017 Regular Earnings for departments reporting to the Executive Officers. The amount labeled as "Regular Earnings" represents the total system (Capital, O&M, and Non-Operating) and is primarily related to regular time and actual paid time off (overtime is excluded).

Overhead loadings are not tracked at the individual department level, but rather are part of an overall benefit loader, which is applied as a percentage of labor charges to the same general ledger account where labor was charged. The approximate overhead loading percentage applied to the Regular Earnings listed in Attachment B is approximately 50% for Benefits, 8.5% for Payroll Taxes, 23.8% for Incentive Non-Union or 3% Incentive Union. (Please note the paid time off loader is excluded because actual paid time off is included in the "Regular Earnings" amount.)

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 066(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

If the transaction is approved, in what time frame does Avista intend to file with the Oregon Commission affiliated interest (AI) contracts for new affiliates? Please explain in detail.

**RESPONSE:**

If the transaction is approved, discussion of the new Affiliate will be included in the Company's annual Affiliated Interest Report as required by OAR 860-27-0100. However, it should be noted there are no anticipated contracts between Avista and Hydro One at this time. Please also see the response to Staff\_DR\_054(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 067(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Has Avista informed Hydro One of the Oregon Commission's following statutes and rules that protect Oregon customers from affiliated interest abuses or manipulations?

- a. Oregon Revised Statutes (ORSs) 757.015, ORS 757.490, ORS 757.495, ORS 756.070 through ORS 756.200; and,
- b. Oregon Administrative Rules (OARs) 860-027-0041, OAR 860-027-0041, OAR 860-027-0045, OAR 860-027-0048, and OAR 860-027-0100.

Please explain in detail and point to all references in the application, testimony or responses to data requests.

**RESPONSE:**

Avista has informed Hydro One of the above statutes and rules that protect Oregon customers from affiliated interest abuses and has acknowledged Regulatory Commitments in part C of Appendix 8 to the Application and more specifically commitments 19 and 23, listed below:

19. **State Regulatory Authority and Jurisdiction:** Olympus Holding Corp. and its subsidiaries, including Avista, as appropriate, will comply with all applicable laws, including those pertaining to transfers of property, affiliated interests, and securities and the assumption of obligations and liabilities.

23. **Cost Allocations Related to Corporate Structure and Affiliate Interests:** Avista agrees to provide cost allocation methodologies used to allocate to Avista any costs related to Olympus Holding Corp. or its other subsidiaries, and commits that there will be no cross-subsidization by Avista customers of unregulated activities.

The cost-allocation methodology provided pursuant to this commitment will be a generic methodology that does not require Commission approval prior to it being proposed for specific application in a general rate case or other proceeding affecting rates.

Avista will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology is reasonable for ratemaking purposes. Neither Avista nor Olympus Holding Corp. or its subsidiaries will contest the Commission's authority to disallow, for retail ratemaking purposes in a general

rate case, unreasonable, or misallocated costs from or to Avista or Olympus Holding Corp or its other subsidiaries.

With respect to the ratemaking treatment of affiliate transactions affecting Avista, Avista and Olympus Holding Corp. and its subsidiaries, as applicable, will comply with the Commission's then-existing practice; provided, however, that nothing in this commitment limits Avista from also proposing a different ratemaking treatment for the Commission's consideration, or limit the positions any other party may take with respect to ratemaking treatment.

Avista will notify the Commission of any change in corporate structure that affects Avista's corporate and affiliate cost allocation methodologies. Avista will propose revisions to such cost allocation methodologies to accommodate such changes.

Avista will not take the position that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.

- a. The Company made references to the following in Docket UM 1897:

<b>Oregon Revised Statute (ORS)</b>	<b>Document</b>	<b>Page Number</b>
757.015	Joint Application	2
757.495	Joint Application	2

- b. The Company made references to the following in Docket UM 1897:

<b>Oregon Administrative Rules (OAR)</b>	<b>Document</b>	<b>Page Number</b>
860-027-0100	Staff DR 054	1

**HYDRO ONE LIMITED**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	1/3/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa (H1)
TYPE:	Data Request	DEPT:	Law (H1)
REQUEST NO.:	Staff – 068(AVA)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

OAR 860-027-0048 describes the Oregon Commission's transfer pricing policy and requirement of a utility to file a cost allocation manual. In essence, this rule requires that assets, supplies, or services transferred from an affiliate to the utility be charged at the lower of cost or market or at the tariffed rate. Conversely, the rule requires assets, supplies or services transferred from a utility to an affiliate be charged at the higher of cost or market or at the tariffed rate. Is this rule in conflict with any statutes, rules or policies that Hydro One is subject to by the Ontario Energy Board or any other entity that regulates Hydro One activities?

**RESPONSE:**

Hydro One is subject to the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters (the "ARC") in relation to any purchase or sale of a service, product, resource or use of asset, or in relation to the transfer of an asset, between Hydro One's utilities and an affiliate. Hydro One sees no conflict between the OAR rule and the ARC, which provides that:

- Where a reasonably competitive market exists for a service, product, resource, or use of asset, a utility shall pay no more than the market price when acquiring that service, product, resource, or use of asset from an affiliate.
- Where a reasonably competitive market exists for a service, product, resource, or use of asset, a utility shall charge no less than the greater of (i) the market price of the service, product, resource, or use of asset and (ii) the utility's fully-allocated cost to provide service, product, resource, or use of asset, when selling that service, product, resource, or use of asset to an affiliate.
- Where it can be established that a reasonably competitive market does not exist for a service, product, resource, or use of asset that a utility acquires from an affiliate, the utility shall pay no more than the affiliate's fully-allocated cost to provide that service, product, resource or, use of asset.
- Where a reasonably competitive market does not exist for a service, product, resource, or use of asset that a utility sells to an affiliate, the utility shall charge no less than its fully-allocated cost to provide that service, product, resource, or use of asset.

- If a utility sells or transfers to an affiliate a utility asset, the price shall be the greater of the market price and the net book value of the asset.
- If a utility purchases or obtains the transfer of an asset from an affiliate, the price shall be no more than the market price.



**AVISTA CORP.**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 069(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please explain how Avista will allocate taxes to the Oregon gas jurisdiction post-merger. In the response, specifically address if Hydro One will allocate taxes imposed by any Canadian entity to Avista.

**RESPONSE:**

Avista will continue to operate on a standalone basis and therefore no changes will be made to the allocation of taxes to the Oregon gas jurisdiction post-merger related to any Hydro One operations. Hydro One will not allocate taxes payable by any Canadian entity post-merger.

Included as a Regulatory Commitments in part C of Appendix 8 to the Application and more specifically commitment 23, listed below, Avista will notify the Commission of any change in corporate structure that affects Avista's corporate and affiliate cost allocation methodologies. Avista will propose revisions to such cost allocation methodologies to accommodate such changes.

**23. Cost Allocations Related to Corporate Structure and Affiliate Interests:**

Avista agrees to provide cost allocation methodologies used to allocate to Avista any costs related to Olympus Holding Corp. or its other subsidiaries, and commits that there will be no cross-subsidization by Avista customers of unregulated activities.

The cost-allocation methodology provided pursuant to this commitment will be a generic methodology that does not require Commission approval prior to it being proposed for specific application in a general rate case or other proceeding affecting rates.

Avista will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology is reasonable for ratemaking purposes. Neither Avista nor Olympus Holding Corp. or its subsidiaries will contest the Commission's authority to disallow, for retail ratemaking purposes in a general rate case, unreasonable, or misallocated costs from or to Avista or Olympus Holding Corp or its other subsidiaries.

With respect to the ratemaking treatment of affiliate transactions affecting Avista, Avista and Olympus Holding Corp. and its subsidiaries, as applicable, will comply with the Commission's then-existing practice; provided, however, that nothing in this commitment limits Avista from also proposing a different

ratemaking treatment for the Commission's consideration, or limit the positions any other party may take with respect to ratemaking treatment.

Avista will notify the Commission of any change in corporate structure that affects Avista's corporate and affiliate cost allocation methodologies. Avista will propose revisions to such cost allocation methodologies to accommodate such changes.

Avista will not take the position that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/10/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Don Falkner
TYPE:	Data Request	DEPT:	Tax
REQUEST NO.:	Staff – 070(AVA)	TELEPHONE:	509-495-4326
		EMAIL:	don.falkner@avistacorp.com

**REQUEST:**

Considering the requirement in ORS 757.511(4)(b), how will the acquisition of Avista by Hydro One serve the utility's customers and be in the public interest? Also explain what tax benefits Avista can expect, and what tax liabilities Avista could possibly incur, as a result of the transaction and of ownership by Hydro One.

**RESPONSE:**

ORS 757.511 (4)(b) states: "In reviewing an application received pursuant to this section for an electricity or natural gas utility, the Public Utility Commission must consider the effect of the acquisition or merger on the amount of income taxes paid by the utility or its affiliated group and make any necessary adjustments to the rates of the utility, including the establishment of a balancing account to track income tax expense, to ensure that the acquisition or merger serves the utility's customers and is in the public interest."

At this point in time, we do not anticipate any material change to our tax expenses associated with the transaction.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/08/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 071(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

How will Avista modify its Intercompany Administrative Service Agreement (IASA) and cost allocation manual (CAM) post-merger? In the response, specifically address whether Avista's allocation factors or the bases for those factors will change.

**RESPONSE:**

There will not be any changes made to the Intercompany Administrative Service Agreement (IASA) and the cost allocation manual (CAM) post-merger, as Hydro One and Avista have not yet identified any areas where there will be shared corporate services, and no benefits have been quantified. Please see Staff\_DR\_049(AVA) and Staff\_DR\_066(AVA).

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/26/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 077(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please explain in detail how each Company (Avista and Hydro One) will account for stranded costs arising from a regulator’s disallowance or exclusion of incurred costs from customer rates. For example, among other costs, the Oregon Commission has in the past disallowed remuneration based on financial performance measures, limited meals expense, and advertising expense. In the response, please address the following:

- a. If Hydro One’s Ontario regulator disallows a cost that Hydro One considers allocable in part or in whole to Avista, will Hydro One allocate any portion of it to Avista? If so, under what circumstances will Avista then allocate this cost in part or in whole to the Oregon jurisdiction?
- b. If Hydro One includes in its allocable costs to Avista, costs that are allowable by Hydro One’s Ontario regulator but are costs the Oregon Commission has disallowed in the past, i.e., officer incentives, will these costs still be passed through to Avista? If so, under what circumstances will Avista then allocate these costs in part or in whole to the Oregon jurisdiction e.g. include in its Oregon ROO, rate case, or earnings test?
- c. With regard to allocable costs transferred from Hydro One to Avista and then from Avista to the Oregon jurisdiction, will the identity of the original cost (primary cost element or source cost) be maintained in Avista books so that Oregon Staff can easily see the primary cost element in the Oregon jurisdictional allocation, i.e., officer incentives for Hydro One or its affiliates? Please answer this question for both expensed costs and capitalized costs.
- d. If Avista allocates or passes through costs that are disallowed by Hydro One’s Ontario regulator, will Hydro One include these cost in its own books or will Avista have to treat the cost as a stranded cost and absorb it as a loss on its own books?

**RESPONSE:**

As noted in response Staff\_DR\_054(AVA), the Company described in both the Joint Application and in testimony how these transactions will be accounted for in the future. See Paragraphs 74 and 75 in the Joint Application for the “Protocol for Direct Assignment of Costs Between Avista and Hydro One,” as well as AVISTA/703. As described in Paragraph 75, the Company provided a memorandum in Appendix 7 to the Joint Application that further describes the Direct Assignment Protocol.

**PRIVILEGED AND CONFIDENTIAL — JOINT PROSECUTION AND DEFENSE AND  
CONFIDENTIALITY AGREEMENT MATERIALS**

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	01/26/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 078(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Referring to Hydro One’s initial application, Appendix 7, footnote 1 and 2, Avista lists a myriad of services that may be cross charged between Hydro One and Avista. Please describe the protocol to be followed by Hydro One employees and Avista employees for charges post-closing from Hydro One to Avista. In the response, please point to the Application, testimony, or data responses that explain the established cost allocation process that protects Oregon customers from cross-subsidization, ensures these costs from Hydro One are categorized in the proper FERC accounts in Avista’s books, and are easily auditable by the Oregon Commission.

**RESPONSE:**

Please see the response to Staff\_DR\_054(AVA).



**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	02/01/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 094(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

In anticipation of approval of the merger transaction, has a draft Intercompany Administrative Services Agreement (IASA) between Avista and Hydro One been prepared? If so, please provide a copy. This request is ongoing.

**RESPONSE:**

No, an IASA has not been prepared. As noted in response Staff\_DR\_054(AVA), the Company described in both the Joint Application and in testimony how any such transactions will be accounted for in the future. See Paragraphs 77 and 78 in the Joint Application for the “Protocol for Direct Assignment of Costs Between Avista and Hydro One,” as well as AVISTA/703. As described in Paragraph 75, the Company provided a memorandum in Appendix 7 to the Joint Application that further describes the Direct Assignment Protocol.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	02/01/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 095(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

In anticipation of approval of the merger transaction, has a draft Cost Allocation Manual (CAM) that includes cost allocation methodologies between Avista, Hydro One, and affiliates been prepared? If so, please provide a copy. This request is ongoing.

**RESPONSE:**

No, a CAM has not been prepared. Currently the Company is not anticipating any changes made to the cost allocation manual (CAM) post-merger, as Hydro One and Avista have not yet identified any areas where there will be shared corporate services, and no benefits have been quantified. Until otherwise determined, all transactions with Hydro One will follow the “Protocol for Direct Assignment of Costs Between Avista and Hydro One” as noted in response Staff\_DR\_054(AVA), Paragraphs 74 and 75 in the Joint Application, as well as AVISTA/703.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	02/01/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 096(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

If the merger transaction with Hydro One is approved, at what time will Avista file an application for approval of an Intercompany Administrative Services Agreement (IASA) with the Commission?

**RESPONSE:**

Currently the Company is not anticipating Avista file an application for approval of an Intercompany Administrative Services Agreement (IASA) post-merger, as Hydro One and Avista have not yet identified any areas where there will be shared corporate services, and no benefits have been quantified. Until otherwise determined, all transactions with Hydro One will follow the “Protocol for Direct Assignment of Costs Between Avista and Hydro One” as noted in response Staff\_DR\_054(AVA), Paragraphs 74 and 75 in the Joint Application, as well as AVISTA/703. Please also see the response to Staff\_DR\_071.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	02/01/2018
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 097(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

If the merger transaction with Hydro One is approved, at what time will Avista file a revised Cost Allocation Manual (CAM) with the Commission that is updated to include cost allocation methodologies between Avista and Hydro One, and affiliate?

**RESPONSE:**

Currently the Company is not anticipating Avista filing an application for approval of a revised Cost Allocation Manual (CAM) post-merger, as Hydro One and Avista have not yet identified any areas where there will be shared corporate services, and no benefits have been quantified. As discussed in Mr. Ehrbar’s testimony, as well as in the Joint Application, to the extent Avista employees dedicate time and incur costs related to the operations of Hydro One, such costs would be directly assigned and billed to Hydro One, and would not be borne by Avista’s customers. Likewise, should Hydro One employees dedicate time and incur costs associated with Avista’s operations, such costs would be directly assigned and billed to Avista and would be subject to review and approval by the Commission prior to being recovered in retail rates. All transactions with Hydro One will follow the “Protocol for Direct Assignment of Costs Between Avista and Hydro One” as noted in response Staff\_DR\_054(AVA), Paragraphs 77 and 78 in the Joint Application, as well as AVISTA/703. As described in Paragraph 75, the Company provided a memorandum in Appendix 7 to the Joint Application that further describes the Direct Assignment Protocol. Please also see the response to Staff\_DR\_071(AVA).

CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 400**

**Reply Testimony**

**February 12, 2018**

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1 **I. QUALIFICATIONS & EXECUTIVE SUMMARY**

2 **1. Qualifications**

3 **Q. Please state your name, occupation, and business address.**

4 A. My name is Kathy Zarate. I am an Economist Analyst, employed by the  
5 Public Utility Commission of Oregon in the Energy rates, Finance and Audit  
6 Division.

7 **Q. Please describe your educational background and employment  
8 experience.**

9 A. My educational background and employment experience are set forth in my  
10 Witness Qualification Statement, which is provided as Exhibit Staff/401.

11 **Q. What is the purpose of your testimony and how is it organized?**

12 A. The purpose of my testimony is to evaluate Hydro One Limited's (Hydro One  
13 or Applicant) track record as a utility and identify concerns for Commission  
14 consideration regarding Hydro One as the future parent company for Avista  
15 Corporation (Avista). My review of Hydro One focuses on four issues both  
16 looking at Hydro One and considering what impact Hydro One may have on  
17 Avista: (1) Corporate Citizenship, (2) Customer Service, (3) Safety and  
18 Reliability, and (4) Environmental and Emissions Impact. Throughout my  
19 analysis of these four topics, I also consider the commitments (conditions)  
20 that Hydro One has proposed. Finally, I also reviewed Hydro One's  
21 experience, or in this case "lack of experience," in the gas business.

22 **Q. Did you prepare exhibits in support of your reply testimony?**

23 A. Yes. I prepared the following exhibits:



- 1 Exhibit Staff/401 – Witness Qualification Statement.
- 2 Exhibit Staff/402 – Company Responses to Staff Data Requests (DR)
- 3 regarding Corporate Citizenship (DR: 32, 155, 158, 169,
- 4 170 and 171)
- 5 Exhibit Staff/403 – Company Responses to Staff DRs regarding Customer
- 6 Service (DR: 156 and 157)
- 7 Exhibit Staff/404 – Company Responses to Staff DRs regarding Safety and
- 8 Reliability (DR 172)
- 9 Exhibit Staff/405 – Company Responses to Staff DRs regarding
- 10 Environmental and Emissions Impact (DR: 161, 162, 164,
- 11 166, and 167)
- 12 Exhibit Staff/406 – 2015 Ombudsman Report

13  
14 **2. Executive Summary**

15 **Q. Please provide an executive summary of your testimony.**

16 A. My review of Hydro One’s background raises concerns principally with  
17 respect to Hydro One’s customer service and general corporate culture.  
18 These concerns arise in part from review of the Ontario Ombudsman Report  
19 attached to my testimony.<sup>1</sup> Additionally, I raise concerns regarding the cost of  
20 Hydro One’s current and future environmental liabilities, as well as other  
21 litigation. I have recommended changes to commitments in the customer  
22 service issue area. Although the proposed new commitments help to mitigate  
23 the customer service concerns, the issue of Hydro One corporate culture  
24 clearly remains and is of significant concern.

25 //

26 //

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<sup>1</sup> Staff Exhibit/406, or Ombudsman Ontario/Home/Resources/Reports and Case Summaries/Reports on Investigations/2015/In the Dark, available at [https://www.ombudsman.on.ca/Files/sitemedia/Documents/Investigations/SORT%20Investigations/HydroOne-ENG-MAY\\_webready.pdf](https://www.ombudsman.on.ca/Files/sitemedia/Documents/Investigations/SORT%20Investigations/HydroOne-ENG-MAY_webready.pdf).

1 **II. ANALYSIS**

2 **ISSUE 1. CORPORATE CITIZENSHIP**

3 **Q. Did you review Hydro One's record on corporate citizenship?**

4 A. Yes. I reviewed Hydro One's record on corporate citizenship, which I view as  
5 the interaction the utility has with the public and community it serves in  
6 general. Hydro One has only existed since 2015 as a "private" corporation,  
7 so my review is somewhat limited and relies primarily on Hydro One's  
8 responses to Staff data requests.

9 **Q. What types of activity are indicators of good corporate citizenship?**

10 A. There are many ways a company can demonstrate good corporate  
11 citizenship; however, for this analysis I have focused on the issues of low-  
12 income support, charitable giving, and environmental compliance as they are  
13 indicative of corporate citizenship.

14 **Q. What commitments does Hydro One propose that deal with corporate**  
15 **citizenship?**

16 A. Hydro One proposed several commitments related to corporate citizenship:

17 **Local Presence/Community Involvement:**

- 18 • **9. Avista's Headquarters:** Avista will maintain:  
19 (a) its headquarters in Spokane, Washington;  
20 (b) Avista's office locations in each of its other service territories, and  
21 (c) no less of a significant presence in the immediate location of each of  
22 such office locations than what Avista and its subsidiaries maintained  
23 immediately prior to completion of the Proposed Transaction;
- 24 • **10. Local Staffing:** Avista will maintain Avista Utilities' staffing and  
25 presence in the communities in which Avista operates at levels sufficient  
26 to maintain the provision of safe and reliable service and cost-effective  
27 operations and consistent with pre-acquisition levels;

- 1 • **11. Community Contributions:** Avista will maintain a \$4,000,000 annual  
2 budget for charitable contributions (funded by both Avista and the Avista  
3 Foundation);
- 4 • **12. Community Involvement:** Avista will maintain at least Avista's  
5 existing levels of community involvement and support initiatives in its  
6 service territories;
- 7 • **13. Economic Development:** Avista will maintain at least Avista's  
8 existing levels of economic development, including the ability of Avista to  
9 spend operations and maintenance funds to support regional economic  
10 development and related strategic opportunities in a manner consistent  
11 with Avista's past practices;
- 12 • **14. Membership Organizations:** Avista will maintain the dues paid by it  
13 to various industry trade groups and membership organizations;
- 14 • **53. Community Contributions:** Hydro One will make a one-time  
15 \$7,000,000 contribution to Avista's charitable foundation at or promptly  
16 following closing;
- 17 • **54. Low-Income Energy Efficiency Funding:** Avista will continue to  
18 work with its advisory groups on the appropriate level of funding for low  
19 income energy efficiency programs; and
- 20 • **55. Addressing Other Low-Income Customer Issues** Avista will  
21 continue to work with low-income agencies to address other issues of  
22 low-income customers, including funding for bill payment assistance.

23 **Q. Do you have a general concern regarding the above commitments?**

24 A. Yes. I am concerned that each of the above commitments are not pledged  
25 by **both** Hydro One and Avista. This conflicts with the normal expectation of  
26 Staff reflective of prior Oregon mergers and acquisitions. Dual commitments  
27 avoid confusion and demonstrate that the parent also will take necessary  
28 actions and support to ensure that the commitment will be met.<sup>2</sup> Therefore, I  
29 have suggested edits that have both Hydro One and Avista jointly making  
30 the commitments.

---

<sup>2</sup> For example, *In the Matter of the Application of Scottish Power plc and PacifiCorp for an Order Authorizing Scottish Power plc to Exercise Substantial Influence Over the Policies and Actions of PacifiCorp*, Docket No. UM 918, Order No. 99-616 Appendix-Stipulation 5, the commitments are pledged by both Scottish Power and PacifiCorp.

1 **Q. Do you have further concerns regarding the commitments mentioned**  
2 **above?**

3 A. Yes, take for instance Commitment No.12, regarding Community  
4 Involvement, and considering Hydro One's interaction with communities  
5 and being service-focused. Hydro One represents that it helps its  
6 customers and their communities "realize their aspirations" and provided  
7 some examples in its application.<sup>3</sup> However, in response to Staff DR No.  
8 169, Hydro One reports that it does not know how its customers of  
9 indigenous communities have viewed its environmental stewardship, which  
10 raises Staff's concern about the service-focused nature of Hydro One.<sup>4</sup>  
11 And regarding indigenous communities, Hydro One explains that some of  
12 its current and proposed transmission and distribution assets are or may  
13 be located on reserve lands that can have a "material adverse effect on the  
14 Company" and its operations due to litigation and/or settlement.<sup>5</sup>

15 **Q. Do any of the previously-listed commitments relate to Hydro One or**  
16 **Avista having formal charitable giving programs?**

17 A Yes, for example, Commitment No. 53 concerns maintaining Avista's  
18 charitable foundation; Hydro One proposes to direct Avista to make a  
19 \$7 million donation to Avista's Charitable Foundation. The donation would  
20 not be reflected in rates and is paid for below-the-line. In the Applicant's  
21 filing, Hydro One/200, Schmidt/30-31, Hydro One also identifies its charitable

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<sup>3</sup> Hydro One/200, Schmidt/Page 30.

<sup>4</sup> Exhibit Staff/402 (Hydro One Response to Staff DR 169).

<sup>5</sup> Appendix A to Application at 281.

1 and corporate citizenship activities as evidence that it has similar culture as  
2 Avista.

3 **Q. As a general matter do you find the assertion that Hydro One and**  
4 **Avista have similar cultures to be convincing?**

5 A. No. I am not swayed by the testimony that similar cultures exist. I have  
6 identified differences in actions and activities that would tend to suggest the  
7 cultures are different. For example, please see my testimony below  
8 regarding Hydro One's customer service/billing review conducted by the  
9 Ontario Ombudsman Office.

10 **Q. In terms of Hydro One experience that is consistent with Avista's needs,**  
11 **what types of business does Hydro One own and operate?**

12 A. Hydro One is essentially a pure electric transmission and distribution utility  
13 located solely within Ontario. It owns and operates 11 active international  
14 power lines connecting Ontario's transmission system with transmission  
15 systems in Michigan, Minnesota, and New York.<sup>6</sup> It seeks diversification both  
16 in terms of jurisdictions and in new business sector functions.<sup>7</sup> Concerns are  
17 raised when a merger takes place where the acquiring business has little  
18 operational experience on the new business functions it is acquiring.  
19 Executive management may not appreciate the level of resources that may  
20 be needed to successfully operate the business.

21 **Q. Does this fact raise any concerns for Staff?**

---

<sup>6</sup> Appendix 6 to Application at 361.

<sup>7</sup> Application at 15.

1 A. Yes. Hydro One has never owned and operated a natural gas distribution  
2 company. Hydro One intends to rely on the experience of two executives with  
3 experience in natural gas utilities.<sup>8</sup>

4 **Q. What are your conclusions regarding corporate citizenship?**

5 A. While Hydro One asserts in data request responses that it has acted as a  
6 good corporate citizen, Hydro One's experience is very time-limited since  
7 recently becoming a private company. Also, there is evidence that Hydro  
8 One may not actively seek input from all public interest groups such as the  
9 tribes. As noted above, the commitments that the applicants offer should  
10 show commitment from both Avista and Hydro One. Concerning  
11 Commitment No. 53, community contributions, the funding should come from  
12 Hydro One to reflect true incremental value in the transaction. Father, Staff  
13 highlights Hydro One's limited on-the-ground experience in the natural gas  
14 business.

15 **ISSUE 2. CUSTOMER SERVICE**

16 **Q. Please explain what you mean by customer service.**

17 A. For this testimony, customer service means any interaction a utility has with  
18 its customers. Typically, these interactions involve customer billing and  
19 other service-related contacts customers have with their utility.

20 **Q. Before addressing the specifics of Hydro One's record with respect to**  
21 **customer service, how does Avista handle customer service calls at**  
22 **present?**

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<sup>8</sup> See Staff/510, Anderson/7.

1 A. In its response to Staff Data DR 156,<sup>9</sup> Avista represents:

2 *Avista's data center is supported on-site during business*  
3 *hours and with on-call staff and automated alarming for*  
4 *the failure of critical systems and infrastructure during*  
5 *non-business hours. Avista has call centers located in*  
6 *Spokane, Washington; Coeur d'Alene, Idaho; and*  
7 *Lewiston, Idaho that are networked together to operate*  
8 *as a single Call Center supporting Avista's customers.*  
9 *Each employee is trained in their role to work with*  
10 *customer accounts or take phone calls from customers in*  
11 *all three of the Company's jurisdictions. All customer*  
12 *phone calls come in through a single number, 1-800-227-*  
13 *9187, and are answered by the next available*  
14 *representative, regardless of where the customer is*  
15 *located.*

16  
17 **Q. Did you review Hydro One's record with respect to customer service?**

18 A. Yes. I mainly focused on billing-related customer service as that appeared  
19 to have some recent history and discussion in Canada.

20 **Q. What materials did you review related to customer service?**

21 A. Public materials, responses to Staff DRs, and items related to the Ontario  
22 Ombudsman report.

23 **Q. Please explain what the Ontario Ombudsman is.**

24 A. The Ontario Ombudsman is an official appointed to investigate individuals'  
25 complaints of maladministration, especially that of public authorities.

26 **Q. What did you find with regard to billing-related customer service?**

27 A. Staff found serious billing issues that arose around the implementation of a  
28 new Hydro One billing system in 2014. Staff DR No. 157 asked for a copy of  
29 the Ombudsman report that was published as a result of investigating billing

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<sup>9</sup> Attached as Exhibit Staff /403 (Avista Response to Staff DR 156).



1 issues; the report is publically available online.<sup>10</sup> The Ontario Ombudsman's  
2 note introducing the report explained that "this investigation involved an  
3 unprecedented number of complaints and required extraordinary efforts by  
4 personnel in every part of our office."<sup>11</sup> Hydro One was forced to acknowledge  
5 the seriousness of the situation, its then President and CEO stating: "We  
6 acknowledge that Hydro One's culture was at the heart of our customer service  
7 failings. We are committed to changing that culture to become one of service and  
8 pride that puts the focus on ensuring that Hydro One is the company the people of  
9 Ontario need us to be."<sup>12</sup>

10 After reviewing that report, I am very concerned about Hydro One's  
11 customer service and culture that led to the customer service issues.

12 **Q. Could you provide some examples of specific complaints reviewed by**  
13 **the Ombudsman?**

14 A. I have listed below some of the report's findings. The numbering and  
15 accompanying text that appears after each general finding is taken directly  
16 from the Ontario Ombudsman's report.

- 17 1) Hydro One sent bills to customers in outrageous amounts, and Hydro  
18 One threatened disconnection if not paid.

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<sup>10</sup> Staff Exhibit/406, or Ombudsman Ontario/Home/Resources/Reports and Case Summaries/Reports on Investigations/2015/In the Dark, available at [https://www.ombudsman.on.ca/Files/sitemedia/Documents/Investigations/SORT%20Investigations/HydroOne-ENG-MAY\\_webready.pdf](https://www.ombudsman.on.ca/Files/sitemedia/Documents/Investigations/SORT%20Investigations/HydroOne-ENG-MAY_webready.pdf).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* (see Hydro One response letter dated May 11, 2015).

- 77 System errors continued well into 2014. In February, a defect involving incorrect time-of-use information inflated bills. Another defect resulted in incorrect first bills for some **30,000** new customers. One customer was billed more than **\$35,000** for a vacant farm, when the real amount owing was only **\$122**. In April, a combination of factors led to a corporate customer receiving a bill for more than **\$15 million** rather than the **\$4,034.47** owed. In May, Hydro One withdrew **\$9,000** from a customer's account without first checking why the system was showing exceptionally high electrical usage for two months.
- 78 In June 2014, a customer was mistakenly billed **\$20,087.64** instead of **\$1,309.71**, and the Canadian Army's Garrison Petawawa was wrongly billed more than **\$50 million**. A month later, a company was issued a bill for **\$11 million** in error.

<b>Here's what you owe</b>	
Balance forward	\$4,428.80
Your new charges	\$50,747,089.25
<b>Ⓢ Total amount you owe</b>	<b>\$50,751,518.05</b>
The total amount you owe, as indicated on this bill, is due on the billing date. Your payment for this invoice is due on <b>July 8, 2014</b> (the Required Payment Date).	

2) **Figure 3: Excerpt from Garrison Petawawa's erroneous bill for \$50.7 million.**

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45 **A Kilworthy man** contacted Hydro One's call centre after not receiving a bill for a year. He was told he owed **\$3,600**. When he disputed the amount, the call centre agent blamed him for providing the wrong address, told him he owed late fees, and placed his account on the list for disconnection. He later learned his address had not been properly transferred to the new system. Eventually, Hydro One issued an apology, gave him 12 months' worth of service credits, and cancelled the disconnection notice.

- 3) Hydro One sent out disconnection notices in the winter even though a non-disconnect policy was in force in the winter. Hydro One did not inform customers of the non-disconnect policy.

1           **284** As Ontarians are well aware, winter here can be long and cruel, with temperatures dipping well below freezing for extended periods. For those who rely on electricity to help heat their homes, going without can have devastating consequences. In recognition of this, Hydro One has a winter disconnection moratorium, the timing of which varies depending on local geography. It does not disconnect residential customers with unpaid bills during the winter months. Instead, it restricts their electricity usage through a “load limiter” device. Although the winter disconnection moratorium has been in place for many years, Hydro One deliberately kept this practice secret. It continued to send disconnection warnings and threats to cut off power throughout the winter – including over the December holiday season – to coerce customers to pay up.

2           **294** In late January 2015, senior staff from my Office raised this matter with Hydro One executives and emphasized that its approach lacked the transparency expected of a public body. Hydro One officials defended the practice as consistent with that of other utility companies. They resisted the suggestion that they should publish information about the winter disconnection moratorium, saying it would be a disincentive to customers paying their bills on time. They also said the company’s practice complied with the distribution service code approved by the Ontario Energy Board. In fact, the board has established minimum requirements for disconnection notices, but nowhere does it direct utilities to mislead customers about the spectre of disconnection.

- 3           4) Hydro One published misleading information as to diminish the errors  
4           and issues of its billing system.

5           **211** As well, we discovered that call centre audit results could be manipulated to paint an overly rosy picture. Some staff told us they “cherry pick” the calls they audit, selecting short calls that meet average handle time expectations. One candidly explained:

6                               If we get close to the end of the month and the quality is not where it  
7                               should be, then we have to work to get the quality to where it should be.  
8                               We choose the calls...

9           As noted above, the former CEO of Hydro One, in a written response to the  
10           Ombudman’s Report, said that the culture of Hydro One must change.

                              We are pleased with our progress to-date but we fully understand that meeting our customers’ expectations involves much more than simply improving our billing and call centre performance. In responding to these concerns we recognized that the issues went deeper than the implementation of new technologies. We acknowledge that Hydro One’s culture was at the heart of our customer service failings. We are committed to changing that culture to become one of service and pride that puts the focus on ensuring that Hydro One is the company the people of Ontario need us to be.

11           **Q. Do these findings raise concerns?**

12           **A.** Yes. Staff is very concerned that Avista’s current high standard of customer

1 service and focus on the customer instead of statistics may suffer after the  
2 acquisition by Hydro One given Hydro One's shaky past track record. Hydro  
3 One and Avista have not proposed binding commitments that assure Staff  
4 that Avista's quality of customer service will not suffer from the merger.

5 **Q. What does Hydro One propose with regard to customer service?**

6 A. Commitment No.10 is provided below.

- 7 • **10. Local Staffing:** Avista will maintain Avista Utilities' staffing and  
8 presence in the communities in which Avista operates at levels sufficient to  
9 maintain the provision of safe and reliable service and cost-effective  
10 operations and consistent with pre-acquisition levels.

11  
12 **Q. And what concerns do you have for Commitment No. 10?**

13 A. My concern is that there is no assurance that Hydro One and Avista would  
14 maintain separate operations. Given the poor track record that Hydro One  
15 has with respect to its billing system operations and management systems,  
16 Staff is not convinced that Avista's operations might suffer or degrade due to  
17 the Hydro One culture that led to Hydro One's problems in the Ontario  
18 Ombudsman report.

19 **Q. Do you have any recommendations for this issue?**

20 A. Yes. First, Hydro One and Avista should commit that Avista will maintain its  
21 customer call center and not consolidate the call center operations with any  
22 Hydro One affiliate. In addition, Hydro One should make it clear that it will  
23 also be held to this commitment.

24 Second, I note that as written, Commitment No. 10 reflects blanket  
25 statements with no examples or specific actions that will be taken by Hydro

1 One that would provide some confidence Avista's service quality will not  
2 degrade from its current levels. I encourage Avista and Hydro One to  
3 address this concern.

4 **Q. What are your conclusions regarding customer service?**

5 A. I am very concerned regarding Hydro One's customer service record. The  
6 concern is that Avista's performance could degrade under the leadership of  
7 Hydro One. To help mitigate, but not eliminate, the risk to Avista's customer  
8 service, I recommend that a commitment preclude the consolidation of  
9 Avista's customer call service operations with any Hydro One affiliate. In  
10 addition, I propose a commitment regarding billing practices for arriving and  
11 departing customers. Finally, I propose that Hydro One be added to the  
12 commitments to ensure Hydro One also supports the commitments.

13 **ISSUE 3. SAFETY AND RELIABILITY**

14 **Q. Please discuss your findings with regard to safety and reliability.**

15 A. Staff issued data requests regarding this area of focus. Staff DR No. 172  
16 requested Hydro One report on its safety record.<sup>13</sup> In its response, Hydro  
17 One reported on a limited number of serious injuries to employees that  
18 included deaths. For the preceding ten years going back to 2008, Hydro  
19 One had three employee deaths. Two appear to be electric construction  
20 related, and one was during driving. For 2017, Hydro One says it had  
21 1.1 deaths for every 200,000 hours worked.

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<sup>13</sup> A copy of Hydro One's response is attached as Exhibit Staff/ 504.

1                   It is true that these are electric-related accidents, not natural gas  
2                   business service serious injuries. However, Hydro One has no direct  
3                   practical gas business experience so it is impossible to develop a gas-based  
4                   safety profile for Hydro One.

5                   **Q. Does Hydro One have any safety-related training programs regarding**  
6                   **natural gas business experience?**

7                   A. No.

8                   **Q. Does Hydro One have any reliability-related training programs**  
9                   **regarding gas operations?**

10                  A. No.

11                  **Q Has the lack of gas safety training affected safety or reliability?**

12                  A. Hydro One does not provide natural gas service at present so it is difficult to  
13                  determine.

14                  **Q. Does Hydro One offer any commitment in the area of safety and**  
15                  **reliability?**

16                  A. Yes. Hydro One proposes the following reliability/service quality commitment:

- 17                   • **15. Safety and Reliability Standards and Service Quality Measures:**  
18                   Avista will maintain Avista's safety and reliability standards and policies  
19                   and service quality measures in a manner that is substantially comparable  
20                   to, or better than, those currently maintained.

21  
22                  **Q. Please discuss your concerns about Commitment 15.**

23                  A. This commitment adds no incremental benefit to Avista's customers, and in  
24                  fact misses an opportunity to improve some issues in Avista's service quality  
25                  policies. For example, one positive change would be to alter Avista's current  
26                  practice for new customer billing. At present, whenever new customers begin

1 service or an existing customer leaves service, Avista estimates the billing  
2 usage. This practice is not exact and the chance for error increases as more  
3 time lapses between when the customer leaves or arrives and when the  
4 meter is read. Therefore, Staff recommends a change in practice that is  
5 more similar to other utilities. If the time for reading the meter is going to be  
6 more than five days from when the customer departs or a new customer is  
7 connected, Avista will read the meter at the time the customer is leaving  
8 service or beginning service. This change in practice would be one small  
9 benefit to customers in having more accurate billing reflecting actual versus  
10 estimated usage.

11 **Q. Please discuss your conclusion in the area of safety and reliability?**

12 A. Staff did not identify significant concerns in this area. While Oregon has  
13 zero tolerance for work-related deaths, the fact that Hydro One experienced  
14 some limited deaths is not substantively different than Oregon electric  
15 operating utilities. However, we made recommendations regarding changes  
16 to the applicant-proposed commitments, as well as added a commitment  
17 regarding opening and closing meter reads for customer changes.

18 **ISSUE 4. ENVIRONMENTAL/EMISSIONS IMPACT**

19 **Q. Please discuss the issue of environmental/emissions impact.**

20 A. My review included looking into Hydro One's recent history with regard to  
21 compliance and care given to the issue of Environmental/Emissions Impact.

22 I looked at examples of activity such as avian care, treatment of  
23 invasive species, environmental liabilities, as well as other legal



1 challenges/complaints against Hydro One operations with regard to  
2 environmental issues.

3 **Q. Are these issues important?**

4 A. Yes. Hydro One is subject to extensive Canadian federal, provincial and  
5 municipal environmental regulation, of which “Failure to comply could subject  
6 the Company to fines or penalties.”<sup>14</sup> Further, Hydro One has extensive  
7 environmental contamination and remediation liabilities in the foreseeable  
8 future with regard to PCBs and other hazards. Hydro One discusses these  
9 types of liabilities and others in Appendix 6 to the Application. For example,  
10 “The Company’s best estimate of the total estimated future expenditures to  
11 comply with current PCB regulations is \$158 million (2015 - \$168 million).  
12 These expenditures are expected to be incurred over the period from 2017-  
13 2025.”<sup>15</sup> Likewise, the “Company’s best estimate of the total estimated  
14 suture expenditures to complete its land assessment and remediation  
15 program is\$66 million . . . .”<sup>16</sup> These are just a few of many liabilities  
16 identified in Appendix 6.<sup>17</sup>

17 Besides these significant expenses Avista’s future parent will have to  
18 bear, there is regulatory risk associated with a diminished focus on  
19 maintaining Avista’s compliance with various environmental laws including  
20 emissions compliance. This could come from either Hydro One influencing

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<sup>14</sup> Appendix 6 to Application at 284.

<sup>15</sup> Appendix 6 to Application at 337.

<sup>16</sup> Appendix 6 to Application at 337.

<sup>17</sup> See Appendix 6 at 345, “28. Contingencies – Legal Proceedings” where Hydro One Inc. and other entities are defendants in active litigation where the plaintiff is seeking up to \$125 million in damages related to allegations of improper billing.

1 Avista with regard to the importance of these issues, as well as financial  
2 pressures.

3 The new Avista board post-merger will include five members selected by  
4 Hydro One. In this capacity, the members could have a different outlook on  
5 managing business priorities. Also, Hydro One has paid a significant  
6 premium for Avista. The new Avista board may be focused on ensuring  
7 Avista's earnings are sufficient to make the investment sound from the Hydro  
8 One investor viewpoint. The increased focus on earnings may incent Avista  
9 to be directed to attempt to reduce costs on many company operations  
10 including environmental compliance cost. Avista could be directed to carry-  
11 out lower cost/higher risk environmental strategies.

12 **Q. Are your concerns reduced by the fact that a number of Hydro One**  
13 **board members are required to be from the Pacific Northwest (PNW)?**

14 A. No. The fact that some of the board members will be residents of the PNW  
15 is no guarantee that their focus will be on PNW interests and that they will  
16 not have interested with respect to Hydro One.

17 **Q. How did you investigate this issue?**

18 A. I reviewed available materials on-line as well as prepared and transmitted  
19 data requests to Hydro One.

20 **Q. What did your analysis find?**

21 A. With respect to environmental/emissions matters, I found concerning matters  
22 with regard to outstanding liabilities of Hydro One. As discussed below,  
23 Canada has different environmental laws than the United States and Hydro

1 One's approaches to compliance relate to the framework it is operating  
2 under.

3 **Q. On another matter, does Hydro One have experience with site**  
4 **restoration legal compliance issues?**

5 A. It does not appear so. In response to Staff Data Request No. 164,<sup>18</sup> Hydro  
6 One states that, "Hydro One does not have a legal obligation to restore land  
7 after the end of the useful life of generating or substation facilities." This  
8 does highlight the difference in Canadian laws and the U.S. Staff is  
9 concerned as to whether Hydro One will operate and commit resources to  
10 meet U.S. legal requirements, especially in those areas for which the  
11 Company has not operated under, when Hydro One is already strapped to  
12 meet its own compliance obligations.

13 **Q. Did you look into other areas on this topic such as pollution in**  
14 **general, fishing and hunting?**

15 A. Yes. Through Staff DR Nos. 161 and 162, I investigated Hydro One's efforts  
16 to control an invasive species (161) and appropriately handle PCBs (162).  
17 In the former, Hydro One did address an invasive species issue. From my  
18 review, it appears that Hydro One took only limited actions which involved a  
19 minimum amount of funds such that the invasive species was not fully  
20 removed at the time the response was prepared. This raises a concern as to  
21 whether Hydro One is committed to devote the necessary resources to meet  
22 environmental commitments.

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<sup>18</sup> Exhibit Staff/405 (Hydro One response to Staff DR 164).

1 With regard to PCBs, it appears Hydro One has a comprehensive plan to  
2 address, remove and appropriately dispose of PCBs. Hydro One's Land  
3 Assessment and Remediation (LAR) Program was developed in 1999/2000  
4 to address any environmental obligations inherited from its predecessor,  
5 Ontario Hydro.<sup>19</sup> The funding of the LAR program is factored into the rate  
6 filing with the Ontario Energy Board on a three year cycle. Hydro One  
7 anticipates that all environmental obligations and/or risks identified under the  
8 LAR program will be addressed by 2025, however, Staff highlighted the  
9 magnitude of just some liabilities Hydro One is obligated to pay and seeks  
10 more information regarding the types and total cost of these obligations.

11 **Q. What other inquiries did you make?**

12 A. Staff Data Request No. 166 inquired with regard to care for avian species,  
13 with respect to transmission facilities. It appears that Hydro One does  
14 arrange its activities to have minimal impact on avian species.

15 With respect to Staff Data Request No. 167, a copy of which is attached,  
16 Hydro One said it was planning on joining the Avian Powerline Interaction  
17 Committee (APLIC) in 2018. Hydro One also states that it installs structures  
18 for Ospreys to protect that species. The response, however, does not state  
19 how many structures Hydro One has installed, the dollars committed to this  
20 area, and why Hydro One had not joined the APLIC previously given that  
21 Hydro One owns extensive transmission facilities.

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<sup>19</sup> Exhibit Staff/405 (Hydro One response to Staff DR 164).

1       **Q. What commitments did Hydro One propose in its filing with regard to**  
2       **environmental/emissions?**

3       A. The Hydro One filing included the following commitments on the topic of  
4       environmental/emissions, but many are not applicable to Oregon customers:

- 5               • **47. Renewable Portfolio Standard Requirements:** Hydro  
6               One acknowledges Avista's obligations under applicable  
7               renewable portfolio standards, and Avista will continue to comply  
8               with such obligations. **[Not Applicable To Oregon]**
- 9               • **48. Renewable Energy Resources:** Avista will acquire all  
10              renewable energy resources required by law and such other  
11              renewable energy resources as may from time to time be deemed  
12              advisable in accordance with Avista's integrated resource  
13              planning process and applicable regulations. **[Not Applicable To**  
14              **Oregon]**
- 15             • **49. Greenhouse Gas and Carbon Initiatives:** Avista's  
16              Greenhouse Gas and Carbon Initiatives contained in its current  
17              Integrated Resource Plan, and Avista will continue to work with  
18              interested parties on such initiatives.
- 19             • **50. Greenhouse Gas Inventory Report:** Hydro One and Avista  
20              commit that Avista will report greenhouse gas emissions as  
21              required.
- 22             • **51. Efficiency Goals and Objectives:** Avista will continue its  
23              ongoing collaborative efforts to expand and enhance.

24       **Q. Please discuss your conclusions with regard to environmental and**  
25       **emissions impact.**

26       A. My initial review raised concerns that Hydro One may not be willing to fund  
27       environmental remediation activities at proper levels in Avista's service  
28       territory. I also have concerns regarding the fact that Canadian  
29       environmental laws are different than those under which Avista operates.  
30       Hydro One may not appreciate the level of resources or legal risks Avista may

1 face under the U.S. environmental laws, and likewise, Avista customers  
2 should not be responsible for the environmental obligations Hydro One is  
3 responsible for through 2025, or at any point thereafter.

### 4 III. CONCLUSION

5 **Q. Please summarize your findings.**

6 A. My initial review of Hydro One has raised concerns principally with respect to  
7 Hydro One's customer service, general corporate culture, environmental  
8 remediation obligations, tribal land obligations, and other unresolved litigation.  
9 These concerns arise from the review of the Ontario Ombudsman Report  
10 attached as an exhibit to my testimony, in addition to sections of the  
11 Application.

12 Additionally, my testimony provides recommendations on the Applicant's  
13 proposed commitments primarily that add Hydro One as standing behind the  
14 commitment. I also recommended new commitments in the customer service  
15 area, which provide some benefit to Avista customers (Commitment #15—  
16 associated with customer meter reads) or helps mitigate potential degradation  
17 of customer service quality (Commitment #10 – associated with maintaining  
18 Avista customer call centers).

19 **Q. Does this conclude your testimony?**

20 A. Yes.

CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 401**

**Witness Qualifications Statement**

**February 12, 2018**



**WITNESS QUALIFICATION STATEMENT**

NAME: Kathy Zarate

EMPLOYER: Public Utility Commission of Oregon

TITLE: Utility Analyst  
Energy Rates, Finance and Audit Division

ADDRESS: 201 High Street SE., Suite 100  
Salem, OR. 97301

EDUCATION: Bachelor of Arts, Economics  
Oregon State University, Corvallis, Oregon

Bachelor Degree in Law  
Republic University, Santiago, Chile

EXPERIENCE: I have been employed by the Public Utility Commission of Oregon since April 2016, with my current position being a Utility Analyst, in the Energy - Rates, Finance and Audit Division. My responsibilities include research, analysis, and recommendations on a range of regulatory issues such as review of affiliated interest filings, property sales applications and rate proposals.

I have approximately 10 years of professional experience in contracting and audit review work, including:

- Six years as contract specialist for 3 Com, Santiago, Chile, with responsibilities including coordinating and preparing contracts with resellers, reviewing company books and records, coordinating logistics in business delivery, and investigating property theft.

CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 402**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 24, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese/Kevin Christie
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa/Linda Gervais
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 155 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Regarding Avista 500, Christie/12 – low income energy funding:

- A. Please provide a current list of companies and/or foundations working with Avista and Hydro One respectively, and briefly describe the focus of each company and/or foundation.
- B. Please describe each of the funding mechanisms by which Hydro One and Avista support these companies and/or foundations.
- C. Please compare the Hydro One funding for low income assistance in Ontario as a percentage of Hydro One’s gross revenues, with Avista’s like ratio for its operations individually in ID, OR, WA, and MT.
- D. For 2015, 2016, and 2017, please provide the number of Hydro One customers in arrears at any time in each of the listed years.
- E. For 2015, 2016, and 2017, what percentage of residential Hydro One customers were in arrears at any time during each of the listed years?
- F. For 2015, 2016, and 2017, what percentage of total Hydro One customers were in arrears at any time during each of the listed years?
- G. For 2015, 2016, and 2017, please describe the Ontario Electricity Support Program and explain what portion, if any, of Hydro-One’s bad debt is covered by this program.
- H. Please provide a narrative explanation of how the above issues are likely to affect rates for Oregon customers post-closing of the merger?

**RESPONSE:**

- A) The following financial assistance programs are available to Hydro One customers to assist them in managing their electricity bills:
  - **Low-Income Energy Assistance Program (LEAP):** The Low-Income Energy Assistance Program (“LEAP”) is a grant program developed by the Ontario Energy Board intended to provide emergency relief to eligible low income consumer who may be experiencing difficulty paying their bill. Customers apply for LEAP through an intake agency that has partnered with their distributor, and in this regard, Hydro One works with the United Way of Greater Simcoe County.
  - **Affordability Fund:** The Government of Ontario has established an Affordability Fund so that electricity utilities and community services agencies can work together to help households whose electricity bills may be a burden. The Affordability Fund can improve a customer’s home energy efficiency with free energy-saving upgrades, which can lower home energy use and the electricity bill.

- **Home Assistance Program:** Home Assistance helps customers living on fixed or modest incomes improve their homes' energy efficiency and manage costs. Based on income eligibility, the program offers a detailed home energy assessment, installation of free home energy upgrades and expert advice on more ways to save energy at home. Customers may qualify for free energy-efficient upgrades for their home, such as light bulbs or appliances.
- **Ontario Electricity Support Program (OESP):** The program, which began January 2016, lowers electricity bills for lower-income households by providing a monthly credit to eligible customers based on household income and household size. The OESP credits are applied directly to eligible customers' bills. The OESP is intended to provide ongoing monthly bill payment support to lower-income customers.

Please see Staff\_DR\_155(H1) Attachment A for Avista's list of agencies.

B) Funding for these programs is outlined below:

- **Low-Income Energy Assistance Program (LEAP):** LEAP is funded by all utility ratepayers through distribution rates. The funds provided by Hydro One for LEAP must be used only for Hydro One's customers, or customers of unit sub-meter providers operating within Hydro One's service area. Although LEAP is funded by all ratepayers through each distributor's rates, distributors may also contribute additional LEAP funding, as outlined in our response to part C) below.
- **Affordability Fund:** The program is funded by the Government of Ontario through the Fair Hydro Plan.
- **Home Assistance Program:** The program is funded by the Independent Electricity System Operator (IESO), offered by Hydro One and delivered through GreenSaver.
- **Ontario Electricity Support Program (OESP):** The OESP was previously funded by all ratepayers through a per kilowatt-hour charge on electricity bills. On March 2, 2017, the Government of Ontario announced as part of the Fair Hydro Plan that OESP funding would be moving to the provincial tax base.
- **For Avista,** the percentage of gross revenue associated with low income assistance in Washington is 1.1% and 2.2% for electric and natural gas respectively. In Oregon, it is 0.2%. The Company does not have a low income assistance program in its Idaho and Montana jurisdictions.

C) **Low-Income Energy Assistance Program:** Hydro One provides funding for the Low-Income Energy Assistance Program (LEAP), which provides emergency relief to eligible low-income customers.

In 2016, Hydro One contributed \$4 million to the LEAP, approximately \$1.7 million of which was mandated by the Ontario Energy Board. This represented approximately 0.08% of Hydro One's gross Distribution revenues for 2016.

**Voluntary Winter Moratorium:** Hydro One has had a voluntary winter moratorium for several years, whereby no residential disconnections take place. In 2017, the Government of Ontario announced legislation, called the Protecting Vulnerable Energy Consumers Act, which gives the Ontario Energy Board power to end disconnections during cold weather.

**Winter Relief:** Building on the company’s annual winter moratorium, Hydro One announced a new Winter Relief Program in December 2016 to help customers in hardship get their electricity service reconnected for the winter and get back on track.

**Revised Customer-Facing Practices:** In 2017, Hydro One increased the number of touch points with customers prior to disconnection, including new outbound calls and collections notices, exceeding the OEB’s requirement.

**Eliminating Security Deposits:** The Company put value back into the hands of customers by eliminating all residential security deposits, returning existing deposits, and reducing deposit requirements for businesses – a Canadian industry first.

D-F) Hydro One defines customers in arrears if they are overdue on their invoice by more than 90 days.

The table below responds to the above three Staff Data Requests:

Year	155 D - # of Hydro One distribution customers in arrears	155 E - % of residential Hydro One distribution customers in arrears	155 F - % of Hydro One distribution customers in arrears
2015	51,000	4.0%	4.0%
2016	44,000	3.4%	3.3%
2017 (to Sept.)	38,000	2.9%	2.9%

G) The Ontario Electricity Support Program (OESP), which began January 2016, reduces the cost of a customer’s household electricity by applying a monthly credit directly to their bill. The credit amount will depend on how many people live in the home and the combined household income. Currently, the plan offers credits ranging from \$35 to \$113 per month. Since this credit is only applied to active accounts, none of the funding directly reduces the Company’s Net Bad Debt.

H) As discussed in Hydro One’s direct filing, Avista will operate as a stand-alone utility, operated independently from Hydro One. Avista will continue to provide low-income energy efficiency funding through its Commission-approved Schedule 485, Avista Oregon Low Income Energy Efficiency Program, or AOLIEE. To the extent there are changes to that program over time, it will be due to the needs of the Community Action Partnership Agencies that administer the program, and not due to the merger between Avista and Hydro One.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 27, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 158 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please specify Hydro One’s work plan for building and maintaining positive and mutually beneficial relationships with Native American Tribes in Oregon.

**RESPONSE:**

Hydro One has developed positive relationships with Indigenous communities and customers across the province of Ontario. Helping communities realize their aspirations is central to Hydro One’s integrated Indigenous Relations strategy with respect to partnership, integration, and leadership.

As discussed in Hydro One’s direct filing, Avista will continue to operate as a stand-alone utility, operated independently from Hydro One. Avista will continue to maintain positive and mutually beneficial relationships with Native American Tribes in its service territories.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 26, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Staff Request	DEPT:	Law
REQUEST NO.:	Staff - 169(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@HydroOne.com

**REQUEST:**

Does Hydro One find that First Nations and conservation groups concur with Hydro One's positive assessment of its environmental stewardship?

**RESPONSE:**

As we have not received any specific feedback from Indigenous communities with regards to our positive assessment of our environmental stewardship, we cannot comment on whether they concur with it.

We have had feedback from some Ontario Government Ministries such as the Ministry of Natural Resources and Forestry (MNR) and the Ministry of Agriculture, and they feel that we are leaders when it comes to Species at Risk and creation of pollinator habitat. MNR has also commended Hydro One on its excellent work with respect to portable bridge installations at sensitive water crossings. We regularly get positive feedback from our close relationships with conservation authorities (through Conservation Ontario) on our management practices in regulated areas and sensitive areas. This year we have had positive feedback from non-profit groups such as the David Suzuki Foundation as we endeavor to create more pollinator habitats and through avian support programs.

Hydro One is committed to delivering electricity to our customers and managing our operations in an environmentally responsible manner. We work cooperatively with governments, customers, suppliers, and other stakeholders to develop programs that contribute to improving our environmental performance and stewardship in our communities.

Hydro One works closely with government ministries, conservation authorities, and municipalities across the province to develop new infrastructure and to maintain the vegetation on our rights-of-way in an environmentally responsible manner. Consultation, collaboration and partnerships are a key component to these relationships. Hydro One and Conservation Ontario maintain a close working relationship as defined by our Memorandum of Understanding, which outlines communications and best management protocols to ensure that all environmental impacts of projects are mitigated.

We acknowledge that Indigenous peoples have a unique cultural relationship with the land and traditional ecological knowledge of the environment, therefore we actively engage with Indigenous communities to ensure our activities are guided by values that reflect mutual respect, accountability and responsiveness. By engaging Indigenous communities in our projects, Hydro One continues to develop projects in an environmentally sustainable manner and we are committed to working with Indigenous communities to ensure we foster positive working



relationships that also improve environmental stewardship. We regularly engage Indigenous communities in the assessment of environment effects of projects and often participate in archaeological studies. Staff/402  
Zarate/6

**HYDRO ONE LIMITED**  
**RESPONSE TO REQUEST FOR INFORMATION**

Staff/402  
Zarate/7

JURISDICTION:	OREGON	DATE PREPARED:	October 23, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 170 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

What grants does Hydro One have funded through the (a) national Canadian government and (b) the Province of Ontario. Please specify the purposes of the grant, the amount, and total duration.

**RESPONSE:**

Hydro One does not seek government grants from either the federal or provincial governments; however, the company does participate in provincial government-sponsored Conservation and Demand Management (CDM) programs.

With respect to CDM programs, the Province's Independent System Electricity Operator funds the programs and works collaboratively with local distribution companies and other partners to deliver conservation programs throughout Ontario to achieve the targets set out in the Province's Conservation First Framework.

Hydro One received \$338 million of financial support for innovative electricity conservation technologies, practices, research, and programs that have been and will be implemented during the period from 2015 to 2020 and that will help Ontario reach its long-term energy conservation goals.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 24, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 171 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please explain whether Hydro One has a grant manager or like skill set on staff with experience in grant writing and whether that expertise would be applied to seek U.S. Federal grants for environmental and infrastructure purposes for Avista in any US federal infrastructure stimulus program.

**RESPONSE:**

Hydro One does not have a grant manager. As discussed in Hydro One’s direct filing, Avista will continue to operate as a stand-alone utility, operated independently from Hydro One. Avista will continue to use their expertise to seek U.S. Federal grants, if applicable. Please refer to Hydro One Limited’s response to Staff Data Request Number 170.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	09/25/2017
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Ryan Krasselt
TYPE:	Data Request	DEPT:	Accounting / Finance
REQUEST NO.:	Staff – 032(AVA)	TELEPHONE:	(509) 495-2273
		EMAIL:	ryan.krasselt@avistacorp.com

**REQUEST:**

Please provide a detailed explanation of the changes in funding to Avista’s charitable contributions and the changes in funding to the Avista Foundation. Please include an explanation of:

- a. How the proposed \$2,000,000 annual contribution to the Avista Foundation will be funded. Will Hydro One, Avista, or ratepayers fund this amount?
- b. How the \$2,500,000 increase in budget for charitable contributions will be funded.
  - i. Will Hydro One, Avista, or ratepayers fund this amount?
  - ii. Is this additional to or inclusive of the \$2,000,000 amount from subpart (a)?
- c. How will the \$7,000,000 one-time contribution to Avista Foundation be funded?
- d. Please provide a listing of the accounting entries envisioned and whether these entries are included in any cost allocations to regulated accounts of Avista.

**RESPONSE:**

Avista and the Avista Foundation currently make charitable contributions of approximately \$2.5 million per year. The level of charitable contributions would be increased to approximately \$4.0 million if the merger is approved and closes. The proposed amounts to be contributed to the Avista Foundation (\$7.0 million one-time contribution and \$2.0 million annual contribution) provide a source to fund a portion of the future \$4.0 million charitable contributions noted above.

- a. The \$2.0 million annual contribution to the Avista Foundation will not be funded by customers (ratepayers). This amount will be funded by Avista, Hydro One or a subsidiary of Hydro One.
- b. The commitment is to maintain a \$4.0 million budget for charitable contributions (funded by both Avista and the Avista Foundation). Currently, a \$2.5 million level is maintained. This results in an increase of approximately \$1.5 million.
  - i. The increase in contributions for charitable contributions will not be funded by customers (ratepayers). This amount will be funded by both Avista and the Avista Foundation.

- ii. This amount is in addition to the \$2.0 million contribution to the Avista Foundation noted in subpart (a) above.
- c. The \$7.0 million one-time contribution to the Avista Foundation will be funded by Avista (see Commitment No. 53 in Mark Thies' Exhibit 304). The contributions will not be funded by customers (ratepayers).
- d. The accounting entries related to the charitable contributions and contributions to the Avista Foundation will not be included in any cost allocations to customers (ratepayers).
  - i. Proposed accounting entry for \$2.0 annual contribution to the Avista Foundation if funded by Avista (subpart (a) above). If this was funded directly by Hydro One or a subsidiary of Hydro One there would be no entry on Avista's books.

Dr. Donations (account 426.1)  
Cr. Cash (account 131)

- ii. Proposed accounting entry for \$4.0 million in charitable contributions (subpart (b) above). A portion of the \$4.0 million in annual charitable contributions will be funded by the Avista Foundation. Amounts funded by the Avista Foundation will not be recorded on Avista's books.

Dr. Donations (account 426.1)  
Cr. Cash (account 131)

- iii. Proposed accounting entry for \$7.0 million one-time contribution to the Avista Foundation if funded by Avista (subpart (c) above). If this was funded directly by Hydro One or a subsidiary of Hydro One there would be no entry on Avista's books.

Dr. Donations (account 426.1)  
Cr. Cash (account 131)

CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 403**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	10/24/2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese/Kevin Christie
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa/Linda Gervais
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 156(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Regarding Avista 600, Pugliese/2 and 4 – Operations in Data Center: Customer service, summary of testimony:

- A. Does Avista currently provide 24/7 support for its data center?
- B. Will Avista coordinate call and data center operations with Hydro One post-merger?
- C. If the answer to either of the two prior sub-questions is “yes,” how is Avista planning on meeting the need for call and data center staff and equipment post-merger?
- D. Please explain in detail what off-setting cost savings Hydro One anticipates from procurement of Avista, i.e., less overtime, less contract labor.
- E. How are the cost savings identified above in subpart (D) to be reflected in the next Avista general rate case test year revenue requirement?
- F. Does Hydro One share phone support and/or data center management, staff and resources across subordinate companies? If so, please explain what drivers Hydro One uses to allocate costs.

**RESPONSE:**

- A. Avista’s data center is supported on-site during business hours and with on-call staff and automated alarming for the failure of critical systems and infrastructure during non-business hours. Avista has call centers located in Spokane, Washington; Coeur d’Alene, Idaho; and Lewiston, Idaho that are networked together to operate as a single Call Center supporting Avista’s customers. Each employee is trained in their role to work with customer accounts or take phone calls from customers in all three of the Company’s jurisdictions. All customer phone calls come in through a single number, 1-800-227-9187, and are answered by the next available representative, regardless of where the customer is located. The following is the Customer Service Business Hours:

General Customer Inquiries / Non Emergency	Monday - Friday 7:00am - 7:00pm
	Saturday 9:00am - 5:00pm



Emergency Calls	24 Hours
Outage Calls	24 Hours
Shut off for Non-payment	24 Hours
Customer does not make a selection from IVR Menu	24 Hours
Self-Serve Options	24 Hours

- B. Avista and Hydro One have just started to engage in high-level discussions to begin to identify possible future opportunities. There are no plans at this time to merge call and data centers post-close.

After all approvals are received and the companies merge, both companies will work together to identify, evaluate and execute on opportunities to collaborate on information technology assets/information technology systems.

- C. Avista will continue to maintain, and improve as needed, its call and data center operations post-merger.
- D. As explained by Avista witness Mr. Morris, to the extent there are cost savings in the future related to data center, customer service, or other operational efficiencies resulting from the merger (above the cost savings that are included in the proposed annual Rate Credit discussed by Avista witness Mr. Thies), those additional benefits will flow through to customers in general rate cases (through either lower historic base year costs, or through pro forma adjustments to the future test year). At this time, however, those cost efficiencies have not been identified.
- E. See response to D.
- F. Hydro One Networks Inc., a wholly-owned indirect subsidiary of Hydro One Limited, provides phone system support and enterprise IT support and data storage to Hydro One Telecom Inc. and Hydro One Remote Communities Inc., both of which are also wholly-owned indirect subsidiaries of Hydro One Limited. Costs are allocated in accordance with the Ontario Energy Board’s *Affiliate Relationships Code for Electricity Distributors and Transmitters* which contains provisions that deal with *the purchase or sale by a utility of a service, resource, product or use of an asset from or to an affiliate.*

Below is a link to the Affiliate Relationships Code:

[http://www.ontarioenergyboard.ca/oeb/\\_Documents/Regulatory/Affiliate\\_Relationships\\_Code\\_ARC\\_Electricity.pdf](http://www.ontarioenergyboard.ca/oeb/_Documents/Regulatory/Affiliate_Relationships_Code_ARC_Electricity.pdf)

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 157 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

For 2015, 2016, and 2017, please provide the Ontario ombudsman count of how many faulty Hydro One bills there were for each listed year.

**RESPONSE:**

The Ontario Ombudsman launched an investigation into the transparency of Hydro One’s billing practices in February 2014. According to the Ontario Ombudsman’s final report, dated May 2015: “In February 2014, 84,394 customers were either receiving multiple estimated bills or had not received a bill for more than 90 days.” [We are pleased to report that this has drastically declined to less than 1,000 customers who are receiving multiple estimated bills and zero customers who haven’t received a bill for more than 90 days.] Hydro One’s billing accuracy now exceeds the Ontario Energy Board’s target of 99%.

In 2015, Hydro One Inc. and its subsidiaries ceased to be subject to a number of Ontario Statutes that apply to entities owned by the Province, including the *Ontario Ombudsman Act*. Hydro One Limited is similarly not subject to those statutes.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 157 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

For 2015, 2016, and 2017, please provide the Ontario ombudsman count of how many faulty Hydro One bills there were for each listed year.

**RESPONSE:**

The Ontario Ombudsman launched an investigation into the transparency of Hydro One’s billing practices in February 2014. According to the Ontario Ombudsman’s final report, dated May 2015: “In February 2014, 84,394 customers were either receiving multiple estimated bills or had not received a bill for more than 90 days.” [We are pleased to report that this has drastically declined to less than 1,000 customers who are receiving multiple estimated bills and zero customers who haven’t received a bill for more than 90 days.] Hydro One’s billing accuracy now exceeds the Ontario Energy Board’s target of 99%.

In 2015, Hydro One Inc. and its subsidiaries ceased to be subject to a number of Ontario Statutes that apply to entities owned by the Province, including the *Ontario Ombudsman Act*. Hydro One Limited is similarly not subject to those statutes.

CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 404**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 172 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please list each Hydro One major accident and workplace death in the last 10 years, such as the incident at Hinchinbrooke Distribution Station and at Toronto transformer station. With this list please summarize the causes for the major accident or death and if there has been an accident for the same reasons since. Please tie this response in to the Company’s response to DR 25 regarding scorecards.

**RESPONSE:**

Hydro One’s recordable injury rate has been reduced 77% over the past 10 years to a 2017 year-to-date rate of 1.1 recordable injuries per 200,000 hours worked. The fatalities and serious injuries listed below are included in our recordable injury rate.

Serious Injury: A life threatening work injury/illness, or permanent disability.

Examples of serious injuries are:

- Amputation or permanent loss of use of a limb or hand or foot;
- Permanent loss of sight in one or both eyes;
- Second and third degree burns to a major portion of the body; or
- Substantial loss of blood.

Date	Business	Type of Incident	Cause	Repeat (Y/N)
30/05/08	Lines Construction	Fatality	Fall to lower level (fall from tower)	N
30/09/08	Lines Construction	Significant burns	Explosion including electric arc (44kV bus contact)	N
06/12/12	Stations Construction	Significant burns (2 <sup>nd</sup> degree)	Explosion including electrical arc (lowering extension cord)	N
05/03/13	Stations Construction	Fatality	Compressed or pinched by rolling, shifting or sliding object	N
23/08/14	Station Services	Significant burns	Contact with wires, transformers or other electrical components	N
13/11/14	Health Safety Environment	Fatality	On road collision between vehicles	N

<b>Date</b>	<b>Business</b>	<b>Type of Incident</b>	<b>Cause</b>	<b>Repeat (Y/N)</b>
07/12/14	Transmission Lines	Significant burns	Explosion including electrical arc (installing grounds 115 kV)	N
17/11/15	Distribution Lines	Partial amputation of foot	Struck by swinging or slipping object	N
14/7/17	Forestry Services	Electrical contact and Significant Burns	Contact with wires, transformers or other electrical components (4.8 kV)	N
26/7/17	Transmission Lines	Significant burns	Explosion including electrical arc (installing spill protection guard for tower painting 230 kV)	N

CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 405**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**



## HYDRO ONE LIMITED RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 161 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

### REQUEST:

Regarding Hydro One’s brochure about the Heber Down conservation area, please specify the name of “the invasive species” that Hydro One eliminated, describing how and at what cost this was accomplished, and whether this action was integral to Hydro One utility operations.

### RESPONSE:

- Hydro One was contacted in 2016 by the Central Lake Ontario Conservation Authority (CLOCA) in regards to a stand of the invasive plant Phragmites (*Phragmites australis subspecies. Australis*), also known as the European Common Reed, on a shared utility Right of Way (ROW) within the Heber Down Conservation Area. While Ontario has a similar native plant (*Phragmites australis subspecies. Americanus*), the invasive subspecies can cause significant damage to local ecosystems. Invasive Phragmites is quickly established and spreads aggressively, choking out native vegetation and creating a monoculture that is difficult to eradicate.
- A key element of invasive Phragmites control is responding quickly to new populations. As such, Hydro One and the two other utilities sharing the ROW partnered with CLOCA to mitigate this problematic species.
- While significant gains have been made towards mitigating spread of invasive Phragmites from the area, efforts are ongoing. Control efforts have been focused on a combination of: herbicide treatment (hand wicking and spot spraying), manual spade removal, and matting /flattening. Stem counts of invasive phragmites in the control area have been reduced from 70 stems per square meter in 2016 to <20 per square meter in 2017.
- In a tri-party joint undertaking with other entities in the ROW, Hydro One has contributed towards control efforts. Specific costs have not been established for future work, but to date, approximately \$3,000 has been contributed by Hydro One (materials only; does not include labour). Efforts may continue into 2018 and beyond if necessary.
- Invasive Phragmites is listed as a ‘restricted species’ under Ontario’s *Invasive Species Act* legislation and the associated *Ontario Regulation 354*. While this stand of invasive Phragmites did not directly impede the continued operation of our assets, the removal will both improve the health of the local ecosystem and facilitate compliance with the *Invasive Species Act*.
- Work completed at Heber Down to remove the invasive Phragmites was done at the request of CLOCA and was done in collaboration with CLOCA. There was no involvement from the Ministry of Environment and Climate Change, Ministry of Natural Resources and Forestry or other regulators.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 162 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

What specific actions has the company taken to date to demonstrate that the following statement is true? “Hydro One manages a number of hazardous substances, such as PCBs, herbicides, and wood preservatives. In addition, some facilities have substances present which are designated for special treatment under occupational, health and safety legislation, such as asbestos, lead and mercury. The Company has environmental management programs in place to deal with PCBs, herbicides, asbestos and other hazardous substances.

**RESPONSE:**

- Hydro One has comprehensive programs to ensure the proper management of hazardous substances such as PCBs, herbicides, and designated substances. These programs identify the accountabilities for storage, transportation, disposal and training for the management of these hazardous substances.
- Hydro One has been removing PCBs from its system for many years through a comprehensive testing and destruction program with the objective of meeting end-of-use deadlines as prescribed by the government of Canada and in compliance with applicable regulations.
- Hazardous substances in the ground, such as arsenic and hydrocarbons have been actively remediated at many higher risk locations to ensure potential environmental impacts have been mitigated through Hydro One’s Land Assessment and Remediation (LAR) program.
- In regards to designated substances (e.g. asbestos, lead and mercury) Hydro One has developed procedures in accordance with applicable regulations to i) survey known asbestos containing materials or materials assumed to contain asbestos, ii) update record of these materials annually, iii) update records when new information becomes available, and iv) perform routine inspections of materials suspected to be asbestos containing.
- As per applicable provincial regulations, designated substance surveys are conducted prior to construction to identify and mitigate and hazardous materials that may be present. Abatement is conducted by trained internal staff or by licensed third party contractors. These project requirements are documented in Hydro One’s environmental specifications, which are completed specifically for individual capital projects.
- When materials are suspected of being designated substances (e.g. asbestos, lead, or mercury) all parties are notified and the proper procedures are undertaken to remove or mitigate the impacts of the designated substances in accordance with applicable provincial regulations using licensed abatement contractors.
- Hydro One provides internal training on handling, storage and disposal of hazardous substances to ensure proper management of such substances throughout the life cycle.
- On an annual basis Hydro One performs self-assessment on the management of hazardous substances such as PCBs and herbicides which looks at controls such as

storage, handling and disposal. Self-assessments are reviewed by management and deficiencies are flagged for corrective actions.

- Emergency response programs are integral to the management of these hazardous substances and Hydro One has developed a spills/fire management program to ensure that staff are properly trained in response, expert 24/7 emergency response contractors are on standby and that a group of environmental staff are available 24/7 to respond.
- PCBs are regulated at the provincial level by Regulation 362 (under the Ontario *Environmental Protection Act*) which identifies storage, transportation and disposal requirements and at the federal level by SOR/2008-273 (under the *Canadian Environmental Protection Act*), which outlines end-of-use dates for PCBs.
- Hydro One's facilities are regularly inspected by both the provincial Ministry of Environment and Climate Change (MOECC) and federal Environment and Climate Change Canada (ECCC) to ensure regulatory compliance for storage, transportation, and end-of-life dates.
- In 2016, Hydro One participated in 17 MOECC and ECCC inspections and as of September 30, 2017, it participated in 12 MOECC and ECCC inspections. There were no orders or required actions as a result of the inspections. All inspections are documented and records maintained.
- In regards to Designated Substances, Ontario Regulation 490/09 (under the *Occupational Health and Safety Act*) regulates exposure to designated substances in the workplace and outlines different ways to control hazards posed by those substances.

Regulation 278/05 (under the same Act) applies to asbestos during construction and demolition projects. Under this Regulation, a project owner is legally required to identify any designated substances prior to contractors beginning work. Designated substances are also monitored through annual inspections (asbestos surveys) or through a specific designated substance survey being conducted for a specific project.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 164 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Does Hydro One have obligations to restore land after the end of the useful life of generating or substation facilities? If so, how does Hydro One financially guarantee each of these future restoration obligations? For example in Oregon, an electric utility might provide an unsecured letter of credit that is somewhat less expensive than a letter of credit backed by the utility's revolving credit facility, or a bond.

**RESPONSE:**

Hydro One does not have a legal obligation to restore land after the end of the useful life of generating or substation facilities. If the asset was considered surplus, it would be assessed prior to any disposition and either remediated or an adjustment would be made to the market price. In the event of discovery of off-site contamination causing an "adverse effect" under the Ontario *Environmental Protection Act*, Hydro One would be required to remediate the off-site issue.

Hydro One's Land Assessment and Remediation (LAR) Program was developed in 1999/2000 to address any environmental obligations inherited from its predecessor, Ontario Hydro. The funding of the LAR program is factored into the rate filing with the Ontario Energy Board on a three year cycle. Hydro One anticipates that all environmental obligations and/or risks identified under the LAR program will be addressed by 2025.

The LAR Program does not fund future restorations that occur at the end of useful life. However, as referenced above, properties would be assessed at end of life and appropriate action taken. As new properties are acquired, existing contamination issues are factored into the acquisition and capital costs.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 20, 2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 166 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please describe what safeguards, protections, or policies related to birds that Hydro One deploys on its transmission lines.

**RESPONSE:**

- Hydro One takes its obligations to minimize and eliminate impacts on bird species seriously. Birds in Ontario are protected by both Federal and Provincial legislation (Ontario *Fish and Wildlife Conservation Act*, the *Migratory Bird Convention Act* (MBCA) and Ontario's *Endangered Species Act* for listed species).
- Hydro One complies with Species at Risk legislation by completing registrations through the *Ministry of Natural Resources and Fisheries (MNRF)*, monitoring updated species at risk lists, and using the MNRF Geographic Information System (GIS) databases to assist in planning work and mitigation plans. There is also consultation with regulators during capital and maintenance work.
- Hydro One has procedures on how to carry out work while causing the least amount of disruption to bird species. Wherever possible, vegetation management work is undertaken outside of the migratory bird nesting season as defined by Environment and Climate Change Canada. If this is not practicable, nest sweeps, identification and setbacks are implemented in advance of vegetation management work.
- As part of Hydro One Forestry's Integrated Vegetation Management process, proactive consultation with local stakeholders is undertaken (e.g., municipalities, conservation authorities, and government agencies) to develop site specific strategies and to minimize impacts on bird species.
- In high risk areas, Hydro One has installed bird diverters on transmission lines to prevent local bird populations from inadvertently colliding with our lines. In 2016, Hydro One installed approximately 600 bird diverters adjacent to the Dundas Transformer Station (TS) and Hamilton Beach.
- Hydro One has an active Osprey nesting box program. In locations where Osprey have created nests on distribution poles, we have installed nesting boxes to both improve the success rate of these nests and to reduce reliability concerns. Hydro One has also participated in bird banding research efforts in the Guelph area.
- Hydro One also has specific policies on how to manage woodpecker forage and nesting damage on our wooden distribution poles to ensure that system reliability is not affected.
- As part of our continual improvement efforts, the above-referenced policies and strategies are currently being refined into an overarching Avian Protection Plan (APP). This APP is being developed in consultation with utility peers on the Canadian Electricity Association MBCA working group. Further, Hydro One will be expanding the resources and

mitigation strategies available to us by joining the Avian Powerline Interaction Committee (APLIC) in 2018.

Staff/405  
Zarate/6

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	October 25, 2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 167 (H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide Hydro One's studies of its impact on raptors over the last ten years and explain whether raptor deaths are increasing or decreasing, and why.

**RESPONSE:**

- Raptors are protected in Ontario by provincial legislation (the *Fish and Wildlife Conservation Act*, 1997).
- Hydro One has not undertaken specific studies related to the impacts of our lines on raptor mortality. We rely on our networks and industry associations to understand the way our assets impact raptors and ways we could mitigate those impacts.
- We draw from industry resources developed by the Electric Power Research Institute (EPRI) and benchmark with other Canadian Utilities via Canadian Electricity Association (CEA) working groups to improve our bird management practices.
- In an effort to improve our Program, Hydro One will be joining the Avian Powerline Interaction Committee (APLIC) in 2018. APLIC is a North American wide association where membership provides access to significant resources via other member utilities, as well as the Edison Electric Institute.
- The most common raptor interaction issues we have at Hydro One are focused on Osprey building their nests on the crossarms of our distribution poles. This can cause system reliability issues, as sticks used to build the nests can fall onto the assets below these nests. There is also a risk of injury or death to the bird nesting on a distribution pole. When Osprey nests are identified on our distribution poles, nesting boxes are installed when practical. These boxes improve reliability by providing a more stable location for the nest and eliminating sticks falling into our assets. As Osprey tend to return to the same location to nest year after year, this also provides a safer nesting location for the birds going forward.
- Hydro One has participated in Osprey specific bird banding research in Guelph Ontario. We are looking to expand this program to more locations in 2018.
- In the past, Hydro One has installed bird diverters on transmission lines around high risk areas in an effort to reduce bird strikes.



CASE: UM 1897  
WITNESS: KATHY ZARATE

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 406**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

# IN THE DARK

Investigation into the transparency of Hydro One's billing practices and the timeliness and effectiveness of its process for responding to customer concerns



## OMBUDSMAN REPORT


André Marin, Ombudsman of Ontario • May 2015




### OMBUDSMAN'S NOTE:

This investigation involved an unprecedented number of complaints and required extraordinary efforts by personnel in every part of our office. From the Special Ombudsman Response Team staff who did the systemic work (led by Lead Investigator Grace Chau), to the dedicated teams of Investigators and Early Resolution Officers who triaged cases and referred them to Hydro One, to the Senior Counsel, managers and investigators who met regularly with Hydro One's senior team, it was a joint effort. The entire office, including the corporate support, IT and communications teams, made this report possible.

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## **Ombudsman Report**

**Investigation into the transparency of Hydro One’s billing practices and the timeliness and effectiveness of its process for responding to customer concerns**

**“In the Dark”**

**May 2015**



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## Executive Summary

- 1 Large public sector corporations carrying on monopolistic commercial enterprises can sometimes forget the citizens they were created to serve. Hydro One, which distributes electricity to 1.3 million Ontario consumers, made a critical mistake when installing a new billing and account management system in May 2013. In planning for and implementing its “customer information system” to meet its business goals, Hydro One lost sight of its public interest purpose and failed to adequately consider the impact on its customers. Its overconfidence in its technical superiority fostered complacency. When glitches arose with the new system, Hydro One’s first response was to scramble for technical fixes. It forgot to consider the consequences to its customers.
- 2 Soon after the system changeover, more than 89,000 customers stopped receiving bills. Some were not billed under the new system for months, while others only received bills based on estimates for prolonged periods. Then, as technical glitches were being addressed, the system issued a flurry of multiple invoices and huge “catch-up” bills, leaving customers frustrated and confused. Many had large sums withdrawn automatically from their bank accounts without notice or explanation. Tens of thousands of accounts were affected by bizarre errors, as Hydro One worked frantically to clear unexpected system problems. Hydro One’s outsourced call centre and its in-house customer relations centre were left to cope with the ensuing flood of calls and complaints without proper training or adequate tools and resources. Workload pressures contributed to rude, insensitive, and substandard customer service.
- 3 Hydro One’s board of directors and executive managers claimed they were caught off guard and oblivious to the developing crisis. They blamed lower-level managers for presenting them with overly optimistic reports. Some Hydro One representatives deliberately kept the situation under wraps, deflecting media inquiries and even deceiving the electricity regulator, my Office and other stakeholders about the extent and nature of the company’s billing and customer service disaster.
- 4 Hydro One tried to contain reputational damage by dealing quietly and reactively with issues as they arose. Whenever bad publicity surfaced in the press, Hydro One adopted a dismissive and minimizing approach, claiming that only a small percentage of its customers were affected by the billing problems. Its statistics and descriptions of the issues were nebulous and shifted over time, however, it ultimately confirmed that in February 2014, **84,394** customers were

either receiving multiple estimated bills or had not received a bill for more than 90 days. When one adds the thousands who experienced hardship as a result of other system errors and billing inaccuracies since May 2013, the tally of those affected by Hydro One's bungling is likely well over 100,000.

- 5 Until February 2014, when I launched my investigation and Hydro One's cover was effectively blown, the company feverishly tried to spin positive news stories. Since then, it has faced a crisis of confidence that has rocked it to its public sector core and damaged its financial bottom line. Hydro One has paid a hefty price trying to make things right, spending more than \$88 million to dig its way out of controversy and restore public trust.
- 6 My Office received an unprecedented number of complaints in connection with this investigation – **10,565** as of the writing of this report, and counting. While the volume has dropped markedly over the last year, we continue to hear from about a dozen people a day who remain concerned about Hydro One's billing and customer service.
- 7 The source of Hydro One's mind-boggling maladministration does not lie in defective data and software programming. Rather, its fatal fault is a technocratic and inward-facing organizational culture that is completely out of step with public sector values. Even after Hydro One pledged to become more customer-centric, to do better, and to learn from its mistakes, it continued to display insensitivity and disregard for its customers. As late as February 2015, during the coldest month in Ontario's recorded history, the company lied to and bullied customers with the threat of disconnection.
- 8 Hydro One's ordeal has underscored an expensive lesson in public administration: Its customers must be considered in every aspect of its operations. Although the Chief Executive Officer and President has offered a public *mea culpa* and several changes have been made to improve customer service, much remains to be done to bring the company up to the standard Ontario's citizens deserve.
- 9 The Ontario government has recently announced plans to significantly restructure Hydro One, including disposing of 60% of the utility, while retaining a 40% ownership interest. It has also proposed to appoint an in-house ombudsman to address customer complaints about the new privatized utility. My investigation demonstrates that Hydro One has historically not lived up to the principles of good public administration expected of Ontario's public bodies. During the recent billing and customer service fiasco, its customer service was abysmal by any standard. A corporate ombudsman's loyalty is ultimately to the employer it serves and is no substitute for independent investigative oversight.

In introducing structural changes to Hydro One's operations, the government of Ontario should ensure that the public interest in fair, timely and effective customer service is preserved, including the right of recourse to my Office.

- 10 I make 66 recommendations in this report, 65 addressed at reorienting Hydro One's corporate persona and improving its operational practices to better serve the public interest, reflecting the public sector values of openness, transparency and accountability. Hydro One has accepted all of these recommendations. Recommendation 66 is aimed at ensuring that implementation of my recommendations continues as the Government of Ontario moves forward with the proposed restructuring of Hydro One. Regrettably, in responding to this recommendation, the Ministry of Energy has confirmed that the government's privatization plans include abandoning independent and external oversight through my Office.
- 11 I will monitor Hydro One's progress in fulfilling its commitments. I will also continue to encourage the government to retain existing accountability mechanisms, including Ombudsman oversight of Hydro One and any successor corporation. My report clearly documents Hydro One's failure to communicate openly, honestly and proactively with its customers, its regulator, Ministry officials and my Office. I am concerned that unless accountability is assured through independent and impartial scrutiny, stakeholders may once again find themselves in the dark.

## Investigative Process

- 12 My Office first noticed a rising trend in Hydro One complaints in 2012-2013, when we received 328, up from 232 the previous year.<sup>1</sup> In 2013-2014, that number more than doubled, reaching 647 by early February 2014. Most complaints focused on bills that were wrong, excessive, duplicated, unreasonably delayed or estimated based on unclear criteria. Our attempts to resolve customer concerns were also increasingly met by stonewalling by Hydro One officials, a frustrating experience I likened to "wrestling with a slippery pig."<sup>2</sup> We were particularly concerned about people who found themselves in vulnerable situations and facing significant financial hardship and stress because of their dealings with Hydro One.

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<sup>1</sup> Ombudsman Ontario, Annual Report 2012-2013, p. 29. Online:

[https://ombudsman.on.ca/Resources/Reports/2012-2013-Annual-Report.aspx#Ministry\\_of\\_Energy](https://ombudsman.on.ca/Resources/Reports/2012-2013-Annual-Report.aspx#Ministry_of_Energy)

<sup>2</sup> <http://news.nationalpost.com/news/canada/like-wrestling-with-a-slippery-pig-ontario-ombudsman-to-investigate-hydro-one-after-increasing-complaints>

- 13 Common complaints involved large “catch-up” bills issued to customers who had received estimated bills or no bills for long periods, and who were given little time to pay or explanation for the amounts billed. Many also cited long waits, for what turned out to be inadequate information from Hydro One’s customer service operations.
- 14 Given the rising complaint volume and our own experience with Hydro One’s delayed and reticent response to our inquiries, on February 4, 2014, I announced a systemic investigation into complaints about serious problems with billing and customer service at Hydro One. I stated that the investigation would focus on the transparency of the utility’s billing practices and the timeliness and effectiveness of its process for responding to customer concerns.
- 15 The investigation was assigned to the Special Ombudsman Response Team (SORT). A team of seven investigators carried out the investigation under the direction of SORT’s director and with the assistance of senior counsel.
- 16 My Office received more complaints about Hydro One than we have about any single organization in our 40-year history. In addition to the original **647** complaints, nearly 10,000 poured in after the investigation was announced. To deal with this unprecedented volume, my Office took a two-pronged approach: While SORT pursued the broad systemic issues, a team of 12 early resolution officers and investigators triaged Hydro One complaints, and referred complainants elsewhere if their issues were outside the scope of our authority. Another 12-member dedicated team resolved individual cases with a 10-member team that Hydro One created in February 2014 as a special “SWAT” team to deal with cases from my Office. Not all complaints to our Office required referral to or follow-up by Hydro One. However, since April 2013, **4,142** complaints have been resolved through our intervention and Hydro One’s efforts. My Office’s director of investigations and senior counsel also met regularly with senior Hydro One officials throughout the investigation.
- 17 I met with the Chief Executive Officer and President of Hydro One several times and addressed systemic themes that we identified. I also took a turn on the phone lines alongside my staff to hear complainants’ concerns firsthand.
- 18 SORT conducted **190** interviews, including with current and past Hydro One executives, outsourced agencies that perform work on behalf of Hydro One, complainants and stakeholders.
- 19 Our attempts to identify and interview relevant Hydro One staff were complicated by a significant degree of transition within the company’s management. During the first month of the investigation, two customer service

executives left the company; one retired, the other was terminated. The same month another key official departed to join another company. At least six other executives shifted positions as the investigation proceeded, and leadership at the outsourced call centre changed.

- 20 SORT investigators requested briefing sessions with Hydro One at the beginning of the investigation to get an overview of its billing system and some of the technical issues relating to billing. Investigators also met with representatives from other agencies, including the Ontario Energy Board and the Independent Electricity System Operator.
- 21 As well, some 25 industry insiders and whistleblowers, including current and former Hydro One staff and staff from its outsourced service providers, contacted us to express concerns about billing and customer service issues. They provided us with helpful insights into the culture of the company.
- 22 Site visits and interviews with staff were conducted at Hydro One’s two outsourced call centres, in Markham and London, Ont. At both locations, our investigators had an opportunity to monitor call centre agents as they handled customer calls.
- 23 SORT made two formal requests and several additional requests for documents when it became clear some relevant information was omitted. The bulk of the documentation reviewed was in electronic format – on 10 USB keys, equivalent to more than **23,000** pages of printed material. In addition, in response to our request for the electronic communications of 12 Hydro One staff, we received a hard drive containing **151,471** emails.
- 24 In addition to complaints about Hydro One billing and customer service, we received many complaints about subjects that were not the focus of this investigation – chiefly, electricity pricing and smart meters. The Ontario Energy Board approves the rates that utilities can charge customers for electricity. As for the smart metering initiative, at the time my investigation was launched, it was already under scrutiny by the Auditor General of Ontario. Her findings were reported on December 9, 2014, in her annual report, in which she also identified concerns with billing problems at Hydro One. Included among her recommendations were calls for improved tracking of inquiries and complaints, better education of ratepayers and fixing problems with the billing system.<sup>3</sup>

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<sup>3</sup> This section of the Auditor General’s report can be found here:  
[http://www.auditor.on.ca/en/reports\\_en/en14/311en14.pdf](http://www.auditor.on.ca/en/reports_en/en14/311en14.pdf)

- 25 SORT also reached out to other utilities to learn about best practices in Canadian and international jurisdictions. Ontario is the only province that mandates time-of-use pricing for electricity and one of a few Canadian jurisdictions to use smart meters to collect time-of-use information.
- 26 Given the unprecedented volume of complaints, and strong interest from complainants, Hydro One customers and public officials, I issued a brief public update on my investigation on March 11, 2015.<sup>4</sup>

## Hydro One: The Power that Be

- 27 Hydro One Inc., the largest electricity transmission and distribution company in Ontario, is wholly owned by the provincial government, which appoints its board of directors. It operates in association with five subsidiaries<sup>5</sup> and has \$22.6 billion in total assets. Hydro One generates significant public profits. In 2013, Hydro One's net income was **\$803 million**, which resulted in a **\$218-million** dividend payment to the province.
- 28 The company provides direct service to 21 remote communities and some 1.3 million rural and urban distribution customers. It issues about 1 million bills a month. Since 2002, Hydro One has outsourced customer call handling, billing, credit and collections to a private operator. Initially, Hydro One retained Inergi LP to run its call centres. That company in turn subcontracted this responsibility to Vertex Customer Management (Canada) Ltd. As of March 1, 2015, Inergi LP is directly responsible for these outsourced services under a new three-year agreement.

## System Refresh

- 29 In 2011, as part of a four-phase, multi-year project to refresh its information technology systems, Hydro One allocated \$180 million to replace its customer information system. The existing system was operating on an old platform installed in 1998, which was no longer supported by the vendor. Hydro One predicted that the new system would improve customer service and yield up to \$172 million in financial benefits over a seven-year period. The initial target

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<sup>4</sup> The update can be found online here: <https://ombudsman.on.ca/Newsroom/Press-Release/2015/Ombudsman-receives-10,000--complaints-about-Hydro-.aspx>

<sup>5</sup> The five subsidiaries are: Hydro One Networks Inc. (which had primary accountability for the issues I investigated), Hydro One Remote Communities Inc., Hydro One Telecom Inc., Hydro One Brampton Networks Inc., and Norfolk Power Distribution Inc.



date for the new system to be implemented – or “go live,” in the company’s parlance – was over the October 2012 Thanksgiving long weekend.

- 30 The company had successfully replaced other internal information systems as part of the project, but the last phase was the first to have, in Hydro One’s phrase, “a direct customer-facing impact.” The customer information system is used for many customer service functions, including billing and account management. It is also an important resource for call centre staff, who handle about 1.5 million customer calls and 280,000 items of correspondence each year.
- 31 Hydro One estimated that the new system would increase the number of calls resolved on the first contact with the call centre by 5%, while decreasing the average call handling time by 20 seconds, and the average correspondence handling time by 16 seconds.
- 32 It was understood that with any system change, customer complaints would likely increase in the short term. Hydro One predicted that for routine matters, call volume and average handling time would increase by about 20% in the first month, but would normalize by the five-month mark. It also projected a 25% increase in the average handling time and volume for more complicated calls in the first month, but expected these to normalize within 10 months.
- 33 Our investigation revealed that Hydro One’s forecasts fell glaringly short of the mark. For starters, the implementation date was delayed by seven months. The new customer information system did not “go live” until the May 21, 2013 Victoria Day long weekend.
- 34 Still, the company cautiously celebrated the success of the new system. In an internal newsletter on the day of the launch, it declared “We did it!” and said: “There was much to celebrate this Victoria Day weekend

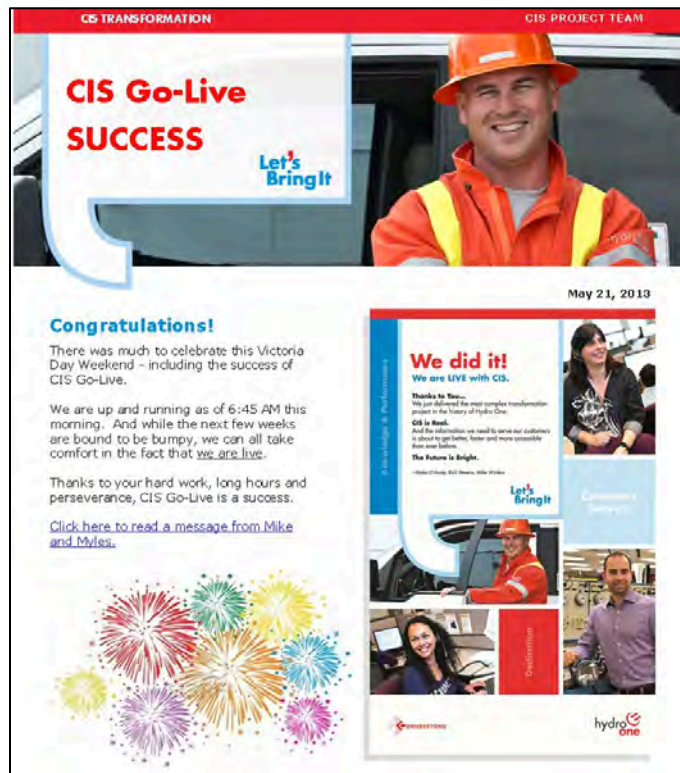


Figure 1: Hydro One internal newsletter, May 21, 2013.



– including the success of [customer information system] Go-Live!” The newsletter noted that “while the next few weeks are bound to be bumpy, we can all take comfort in the fact that we are live.”

- 35** According to internal emails we reviewed, technical glitches began to surface soon after the system went live, but officials were confident they could be resolved. Seasoned Hydro One staff also considered the situation mild in comparison to the installation of the previous system in 1998, which had triggered 200,000 delayed bills. As one put it in an internal audit report, “there was a collective relief that the problems were seemingly less than might have been expected. This might have led to a sense of complacency.”
- 36** Internal emails circa June 2013 refer to daily crises, but also improvements. There was a sense that the worst was over – one even noted there were no “major news stories” and “no *Toronto Star*-worthy issues so far.” By September 2013, Hydro One’s organizational spirits were buoyed when it won, for the second time, an award from the company that designed its information system. It was praised for helping to ensure “customer care operations remain top in the industry, including reliable call center interactions and increased accuracy and timeliness in their billing process.”<sup>6</sup>
- 37** Unfortunately, these good omens proved to be the calm before the storm. Within a matter of months, it became clear that Hydro One’s predictions about the impact of the system change on the call centre were drastically wrong. Problems associated with the changeover soon led to an unprecedented outpouring of customer confusion, frustration, and outrage, resulting in a dramatic increase in complaint volumes and average handling times. As one call centre manager told us, the original projected targets “were blown out of the water.”
- 38** By February 2014, when I launched my investigation, Hydro One could no longer ignore the fact that it was facing major systemic problems and widespread public distrust.

## Egregious Errors and Baffling Bills

- 39** Hydro One installed the new customer information system to address historical issues relating to its billing and account management programs. However, the

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<sup>6</sup> In 2012, Hydro One received a “Top Innovator in Technology” award for demonstrating “commitment to meeting customer needs while working toward building the grid of the future by completing projects that span the complete value chain of its business.”

vast majority of complaints to my Office involve billing issues – customers who received incorrect bills, multiple bills, prolonged estimated bills, large “catch-up bills,” or no bills at all. We also received complaints about a host of other issues such as improper automated bank withdrawals, disconnection notices and poor customer service.

- 40 Some customers eventually resolved their concerns and even received some goodwill credits equal to monthly service charges, but usually this took sustained effort on their part. Many told us they made multiple calls to Hydro One’s call centre and repeatedly had their complaints escalated to managers – only to receive confusing, conflicted, delayed and inadequate responses.
- 41 What follows are some examples from among the thousands of stories we heard during our investigation. Where possible, we have included customers’ names with their consent, but many of those who complained to us preferred to remain anonymous for a variety of reasons, including fear of repercussions.
- 42 A senior from **Timmins** first realized there was something wrong when Hydro One stopped withdrawing automatic payments from his bank account in May 2013. Then in September 2013, his bank called to say Hydro One was trying to grab more than **\$10,000** from his account. He managed to stop the payment, which Hydro One acknowledged was excessive, but was told it could take a year to resolve. Then without warning, Hydro One withdrew even more money from his bank account – including a charge for late payment. Hydro One eventually returned the money, but not before this beleaguered customer ended up on the hook for overdraft charges. The situation wasn’t resolved until January 2014, when his bill was reduced to **\$778**. He was relieved the matter was settled, but upset that he was offered no apology or clear explanation about what had happened.
- 43 An **Inglewood** man sold his property in April 2013, but spent months waiting for his final bill, which he figured was under \$100. He was gobsmacked when he received a letter from a collections company in October 2013, saying he owed **\$18,000**. He contacted Hydro One’s call centre and even managed to get through to a senior executive. In November 2013, Hydro One assured him that it was all a big mistake. Then in August 2014, a different collections company began to hound him for the money. When we intervened, we learned there was a problem during the migration of data to the new customer information system, accounting for the high usage charges. In fact, he only owed **\$56.35**. He was bewildered by the customer service nightmare he experienced, and the cavalier attitude he encountered when he tried to correct it. He described Hydro One’s customer service as “trained deflection and not really taking on the issue at hand with any genuine effort.” As he put it:

It's all rehearsed, it's all scripted... It's not the right way to do business for anyone, let alone a provincial utility.

- 44 Despite multiple calls to Hydro One, a **Huntsville** woman was getting nowhere in her efforts to find out why she received no hydro bills for nine months after April 2013 – only to receive a bill containing an excessive estimate of **\$1,800**. She complained and received another estimated bill for **\$700** less, but with no explanation. She continued to demand answers and finally learned in 2014 that because of workload backlogs, Hydro One's system had not been updated to reflect that her meter was changed in February 2013. What followed was a series of implausible meter readings that caused the system to block her bills until they could be reviewed and readjusted. Once the situation was straightened out, Hydro One credited her with nine months of service charges and put her on an interest-free repayment plan for the balance owing.
- 45 A **Kilworthy** man contacted Hydro One's call centre after not receiving a bill for a year. He was told he owed **\$3,600**. When he disputed the amount, the call centre agent blamed him for providing the wrong address, told him he owed late fees, and placed his account on the list for disconnection. He later learned his address had not been properly transferred to the new system. Eventually, Hydro One issued an apology, gave him 12 months' worth of service credits, and cancelled the disconnection notice.
- 46 In the fall of 2013, an 84-year-old **King Township** woman stopped receiving electricity bills, which had averaged \$200 a month. Then, inexplicably, she received three bills in the same month, covering the same time period, for **\$9,000** each. Distraught, she contacted Hydro One's call centre, which assured her the situation would be resolved. In February 2014, Hydro One sent her a more reasonable bill for **\$640** and offered an apology, but she was never told why she had been charged so much in one month. Hydro One told my Office the mixup was due to human error, and it provided her with five months' worth of service charge credits.
- 47 A **Sudbury** man received a bill for **\$19,152** in April 2014 after a long period of estimated bills. We learned that his meter was replaced in November 2013, but it took four months to update the system. When the actual readings from his meter arrived, the system then mistakenly charged him many multiples of what he owed. Once the error was corrected, his bill was reduced to **\$74**.
- 48 After a prolonged period of estimated bills, a **Bolton** man received no bills from June to September 2013. Then, starting in October, he received a series of confusing ones, some based on estimates and some based on actual meter

readings, with cancelled and corrected bills thrown in for good measure. After he complained to Hydro One, it sent him a new set of bills for a three-year period, with a balance owing of **\$73,385**. Horrified, he disputed this and Hydro One reduced the amount by \$8,489, but still could not explain why he still owed so much. After we intervened, Hydro One recalculated the charges, found that the final balance was actually **\$34,476.29**, and offered him a three-year payment plan to pay it off.

- 49** In July 2013, **Madeleine Fex-Tinkis**, a senior from **Lively**, received a call from Hydro One, warning her to expect a large bill. However, she did not receive any bills until October 2013, when multiple bills totaling **\$2,208** arrived, along with a warning that the money would be withdrawn from her bank in two weeks' time. She desperately tried calling Hydro One to set up a repayment plan. When she didn't hear back, she was forced to go into her line of credit to prepare for the withdrawal. Then in January 2014, she received a set of 15 bills, based on actual meter readings, covering the same billing period and indicating that she owed an additional \$540. It was only when we contacted Hydro One that it provided an explanation for its calculations. In the end, Hydro One issued her a service charge refund of \$310.05 and set up a repayment plan for the balance. Not surprisingly, the unhappy customer removed herself from Hydro One's pre-authorized payment plan.
- 50** A **Matheson** man who received no bills over the summer of 2013 was hit with six estimated bills in October that year. He called Hydro One and was assured the company would look into it, but no one did. In February 2014, without notice, it withdrew **\$1,959** from his bank account. When we asked Hydro One what happened, it reviewed its records and discovered he had overpaid on his billing plan. It refunded the money it had withdrawn, and gave him a service charge credit of **\$144**.
- 51** **William and Lise Burley** of **Porcupine** contacted us in shock after receiving a bill for **\$11,638** in February 2014. They had been paying for electricity based on estimated usage for four years and were baffled by this huge bill. After we intervened, Hydro One eventually reduced their charges to **\$2,238**.
- 52** **Shannon Lebrun** changed residences in July 2013, not long after the new customer information system was implemented. She received no bills for over a year, and then came home in November 2014 to find her electricity cut off. She had to rent a generator and, to add insult to injury, Hydro One charged her \$155 in interest and \$147 for disconnection and reconnection fees. She discovered that Hydro One had been mailing bills and disconnection notices to her old address and calling her old phone number. The call centre blamed her for not inquiring about the missing bills sooner. When my Office intervened, Hydro

One acknowledged the call centre's failure to update the system with Ms. Lebrun's new contact information. She received an apology and a 14-month service credit of **\$233** on her account. The fees associated with the disconnection were also reversed.

- 53** A **Schumacher** man was dumbstruck in June 2014 when he received a package of bills totalling **\$45,000**, covering a three-year period – some of which he had already paid for. He contacted Hydro One in a panic and was referred to a manager, whom he found arrogant and uninformed. In desperation, he wrote to anyone he could think of who could help, including my Office. He described how he was “left feeling anxious, without a voice, frustrated and bullied.” Eventually, Hydro One contacted him. He was astounded to learn that because of a mixed meter issue, he was being billed for electricity used by a nearby gold mine. By August 2014, his charges were reduced to **\$9,723.04**, he was given a 34-month service credit and enrolled in a repayment plan. Then, just as things had settled, he received two more bills within days of each other, for **\$15,000** and **\$12,000**. Hydro One assured him he could disregard them, but he told us he found “the whole experience was nothing short of abuse.”
- 54** After receiving no bills between July 2013 and March 2014, a **Waterloo** man coping with terminal cancer was stunned to find that he owed Hydro One more than **\$10,000**. The company agreed to provide him with a discount, but began threatening him with disconnection at the same time. After we intervened, the disconnection notices were cancelled. At the time this report was written, Hydro One was still reviewing his account.

## Who Are You Going to Call? Customer Complaints

- 55** When customers write or call Hydro One's 1-888 number about billing and service inquiries they are connected to the outsourced customer communications centre for response. This centre – referred to throughout this report as the “call centre” receives about 6,000 calls a day and operates out of two locations, in Markham and London, Ont. The London location deals primarily with collections and overflow calls from the Markham location.
- 56** Customers who remain dissatisfied after talking to an agent can ask to speak to a supervisor, who is expected to attempt to resolve their concerns. Unresolved complaints can be referred to Hydro One's in-house customer relations centre. This centre also deals with communications from Members of Provincial Parliament, the Ontario Energy Board, my Office, or from customers involved with any of them.

- 57 Hydro One’s new customer information system had an impact on the call centre locations and the customer relations centre that verged on the catastrophic.

### **Post-Launch Calls and Complaints**

- 58 In May 2013, the number of billing-related calls to the call centre was **55,147**. The first month after the new system was introduced the call volume relating to billing issues jumped to **84,966** – a **54%** increase, well above the estimate of **20%** used during the planning stages for the project. By September 2013, the volume of calls about billing was still exceptionally high – around **73,000**. It took the better part of a year before call levels returned to normal.
- 59 The volume of complaints escalated to managers within the call centre also increased significantly. In April 2013, there were **1,370** escalated complaints. Once the new system was installed in May, the volume steadily increased. In September 2013, managers were trying to address **3,428** escalated complaints. By February 2014, they were coping with an influx of **3,970** unresolved complaints, almost triple the regular load.
- 60 When my investigators toured the Markham call centre location in February 2014, they were told there were 220 staff in Markham and 80 in London. This was after a 40% staffing increase, put into place before the new system was implemented, in anticipation of higher call volumes. Mandatory overtime was also instituted intermittently from April through October 2013, and again in March and April 2014. We were told that management originally planned to lay off the extra workers in November 2013, but because of the deluge of customer calls, those layoffs never materialized.
- 61 In December 2013, a senior call centre official said in an email to Hydro One management:

(W)e’re struggling with the sheer volume of complaints. Under normal circumstances, we have approximately 8-9 staff assigned to escalations. We currently have in the range of 20 and we’re still struggling to answer a high % of the calls. [...]

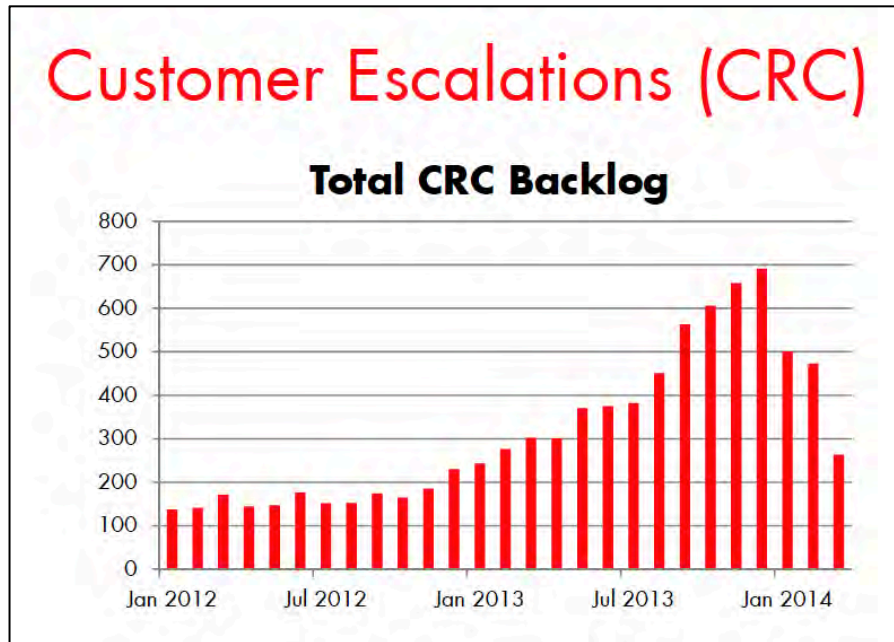
We’re doing our best to balance all of these resource demands with a resource pool that is currently maxed out. At the heart of the issue is our ongoing billing and exceptions issues. We need to find a way to quickly address the issues that are continuing to drive calls and complaints.

- 62 In February 2014, after my investigation was launched, approval was given to increase call centre staff to **435**, and to **569** by May 2014. Mandatory overtime was reintroduced in March 2014.
- 63 However, call centre staff continued to be overwhelmed by the volume and complexity of customer inquiries. According to internal emails we reviewed, one Hydro One manager learned at a March meeting with Ontario Energy Board officials that some call centre staff were suggesting to customers that “the only way their billing problem will be resolved in a timely fashion” was to contact the Board. Another official described the situation at the call centre as “a cry for help.”
- 64 In April 2014, Hydro One established a special handling desk, operated by trained call centre agents to deal with customer calls about high bills. This desk answered 885 calls in the first two days of its operation.

### **Customer Relations Centre Backlog**

- 65 The month before the new system was installed, Hydro One’s in-house customer relations centre had a backlog of about **300** complaints. By December 2013, it had soared to **691**. One Hydro One official told us that by the end of 2013, “we were not able to dip into that volume, we were just barely treading water.” Most complaints came from customers who received no bills or unusually high bills. Resolution of many complaints was delayed four months or more.
- 66 The customer relations centre had historically been staffed by eight people. In planning for the new system, it was projected that three additional employees would temporarily be needed to handle complaints. However, in late fall 2013 and into 2014, staff at the centre was more than doubled to deal with the complaint influx. It was only in March 2014 that the centre was able to make any inroads in reducing the backlog.





**Figure 2: Chart showing the backlog of complaints escalated to Hydro One's in-house customer relations centre, between January 2012 and January 2014.**  
**Source: Internal Hydro One document.**

## Technical Glitches

- 67** Many of the complaints generated by the switch to the new system arose from technical glitches affecting billing. These problems, identified as “defects” and “exceptions,” resulted in the all-too-common customer experiences of receiving estimated bills for prolonged periods, sudden large and/or multiple bills, or no bills at all. Our review of Hydro One emails revealed a series of mishaps.

### **Defects Detected**

- 68** In the installation and operation of data systems, it is common for “defects” to crop up, such as coding or data errors that require technical fixes and workarounds. Hydro One told us that at the time the customer information system was launched, there were no “severity 1 defects” – that is, problems that would critically compromise its operation or the data generated. However, there were **232** defects at the outset, varying in severity. According to an internal email, between May 21, 2013 and September 20, 2013, **6,509** defects were logged. By February 2014, there was a backlog of **618** requiring resolution. The

number of new defects since my investigation began is more than **1,000**. In several cases, the same issues had to be fixed more than once.

- 69** According to Hydro One records, system defects affected the ability of call centre agents and customer relations centre staff to resolve customer concerns. Agents had difficulty viewing customer history on their computer screens, frustrating their efforts to resolve or explain the billing and meter issues that came up. Customer relations centre staff also could not access some data without assistance from the call centres. Most cases involving no bills being issued or bad estimated bills could also not be readily resolved due to systems defects, contributing to extensive backlogs.
- 70** Hydro One told us it could not confirm how many customer accounts were affected by each defect. However, in May 2014, we learned through our review of Hydro One’s records that there were **101,244** in all, **49,894** of which required billing corrections.
- 71** Problems with the system appeared soon after it was implemented. Within days, an account was flagged that had been billed \$11,000 although the customer’s normal electricity usage was \$300. Hydro One internal emails on May 24, 2013 refer to a defect resulting in excessive electronic fund withdrawals from **140** customers’ bank accounts. The defect related to previous bill cancellations that were transferred over from the old system. One account was debited **\$58,000** by mistake. A retail customer had **\$50,000** withdrawn in error. On May 31, 2013, the company discovered that the system was generating duplicate and confusing installment plan letters, as well as some letters with incomplete addresses, and others with no meter information.
- 72** In June 2013, thousands of customers were affected by a variety of defects. On June 5, there were more than **3,000** bills showing zero charges. On June 11, Hydro One identified more than **40,000** retail accounts with overly high estimates. One retailer received six grossly overestimated bills due to one defect – including one for more than **\$3 million**. On June 18, the system mistakenly estimated **27,575** accounts for which actual usage data was available.
- 73** In July 2013, an issue arose with customers on installment plans being unaccountably charged for late payments. One retailer had **\$163,000** automatically withdrawn from the bank even though the bill in question had been paid. These charges were later reversed and corrected, and agents were instructed to tell callers complaining about this issue: “We are extremely sorry for this error.”

- 74 In August 2013, **8,200** accounts were affected by a defect that improperly added previous electricity consumption onto new bills. A Hydro One staff member also alerted management to a defect that resulted in an attempt to automatically withdraw \$10,000 from the bank account of his father-in-law’s church. “I think we need to ask ourselves how an invoice 200 times larger than normal got through all the checks and balances,” he wrote in an email.
- 75 Some **48,000** customers were also affected by a defect that resulted in their bills showing a total kilowatt usage for the billing period that did not correspond with their time-of-use information. This resulted in **21,014** customers being under-billed and **20,912** being overbilled.
- 76 Defects resulting in erroneous automatic withdrawals and inaccurate estimated bills persisted though the fall of 2013. Hydro One also reported in September that there were 12 privacy breaches relating to customers being billed under the wrong names.
- 77 System errors continued well into 2014. In February, a defect involving incorrect time-of-use information inflated bills. Another defect resulted in incorrect first bills for some **30,000** new customers. One customer was billed more than **\$35,000** for a vacant farm, when the real amount owing was only **\$122**. In April, a combination of factors led to a corporate customer receiving a bill for more than **\$15 million** rather than the **\$4,034.47** owed. In May, Hydro One withdrew **\$9,000** from a customer’s account without first checking why the system was showing exceptionally high electrical usage for two months.
- 78 In June 2014, a customer was mistakenly billed **\$20,087.64** instead of **\$1,309.71**, and the Canadian Army’s Garrison Petawawa was wrongly billed more than **\$50 million**. A month later, a company was issued a bill for **\$11 million** in error.

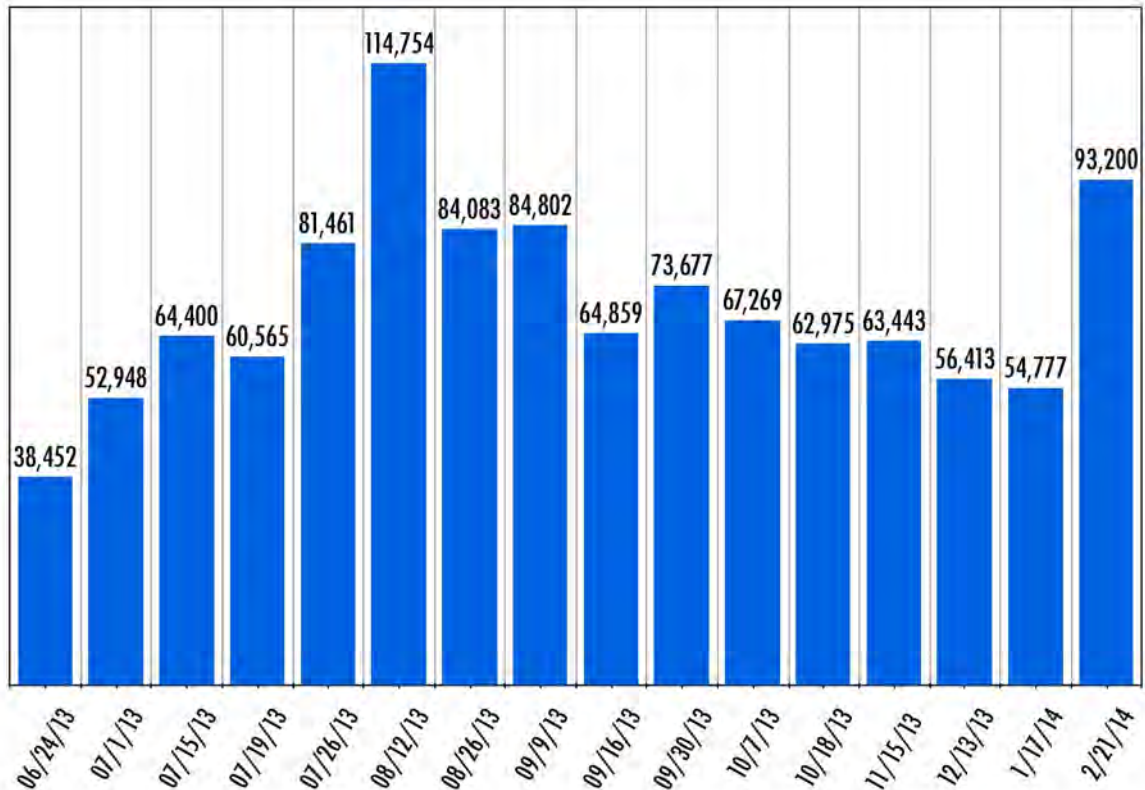
<b>Here's what you owe</b>	
Balance forward	\$4,428.80
Your new charges	\$50,747,089.25
<b>Total amount you owe</b>	<b>\$50,751,518.05</b>
The total amount you owe, as indicated on this bill, is due on the billing date. Your payment for this invoice is due on <b>July 8, 2014</b> (the Required Payment Date).	

**Figure 3: Excerpt from Garrison Petawawa's erroneous bill for \$50.7 million.**

- 79 In November 2014, Hydro One told us that **32,766** accounts were inaccurately billed: **13,650** were underbilled an average of \$46.84 (\$639,460 in total), and 19,160 were overbilled an average of \$26.32 (\$504,410 in total). The company eventually decided to write off the charges for the underbilled accounts.

### **Exceptions Prove the Rule**

- 80 Most Hydro One customers are billed on a monthly basis. Bills are generated by the customer information system, mainly based on electrical consumption data that is gathered and transmitted electronically to the company by the so-called “smart” meter on the property. If usage information is not received – for instance, because a meter is not communicating data for some reason – the bill will be based on an estimate. When an error is identified in the calculation of a bill, the system cancels and reissues the bill.
- 81 If there are problems or errors, such as incomplete or questionable meter readings, the system creates an “exception.” Exceptions can be triggered at various points within the system. The system is designed to automatically detect large numbers of exceptions and prevent accounts from being processed until they are resolved. Hydro One told us it is normal for the system to generate exceptions, and they are not problematic unless they are not cleared within the billing cycle.
- 82 One of the intended benefits of the new customer information system was that it would reduce billing-related exceptions to 400,000 a year. Instead, there were even more than before. As the accompanying chart shows, the number of exceptions relating to “customer care” peaked at **114,754** during the week of August 12, 2013. On February 13, 2014, Hydro One’s Chief Executive Officer reported to the board of directors that **700,000** billing exceptions had been cleared. However, he did not refer to the number of outstanding exceptions, which stood at **93,200** as of February 21. In April 2014, there was a backlog of **84,300** exceptions awaiting resolution.



**Figure 4: Chart compiled from figures in internal Hydro One documents, showing the backlog of exceptions relating to “customer care” between June 2013 and February 2014.**

**83** Hydro One officials and call centre staff told us that the rising volume of system exceptions contributed to instances of human error, resulting in inaccurate bills being released instead of being held back for correction.

**84** The number of technical support staff to deal with systems issues was initially increased from 40 to 132, and increased to 152 in May 2014. By December 2014, the exceptions backlog had been reduced to a more manageable **12,717**.

### **No Bills**

**85** According to Hydro One documents, it was common in the past for a relatively small number of customers not to receive regular bills – some 6,000-8000 per month. Just prior to the new system launch, there were 12,000 accounts not receiving bills. When the new system was implemented, there was a surge in “no bills” cases. In June 2013, the number of accounts coming within this category was **89,107**. The volume of these cases fluctuated over time, as the

accompanying chart shows, but it was consistently and significantly higher than under the former system.

- 86 Initially, Hydro One management was not overly concerned about this issue, as the number of “no bills” accounts gradually dropped. The company focused on deploying technical staff to work through the exceptions and resolve the underlying problems that were preventing bills from being sent out. These efforts proved successful in releasing thousands of bills after many months. Unfortunately, in concentrating on clearing technical glitches, Hydro One failed to factor in the impact on customers, who suddenly received a flurry of large “catch-up” bills, and in some cases had large sums automatically withdrawn from their bank accounts without advance warning or explanation.
- 87 As complaints flooded the call centres in the summer of 2013, Hydro One was slow to connect the dots. One official told us that she first started to hear about “no bills” in September 2013, when there were more escalated complaints and more calls from MPPs. She said, “these were some of the warning bells, in my mind, that things weren’t working right.”

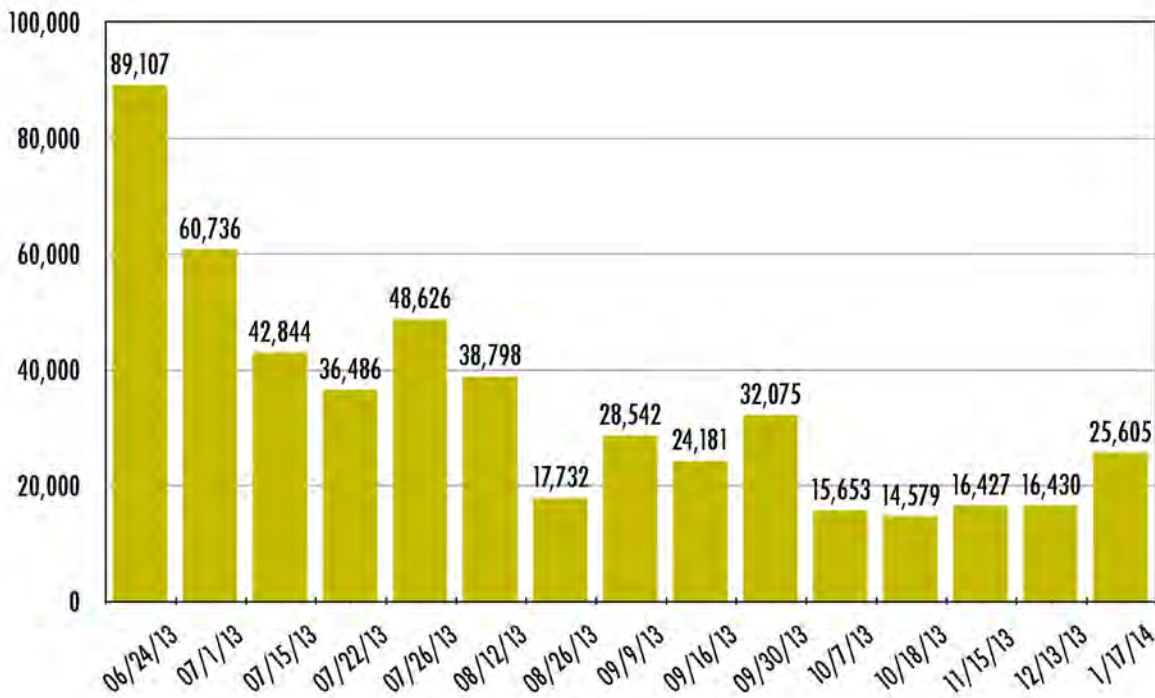


Figure 5: Chart compiled from figures in Hydro One executive committee briefing materials, showing the volume of "no bills" cases between June 2013 and January 2014.



- 88 When I announced my investigation, Hydro One was still wrestling with the “no bills” problem. In March 2014, the volume of “no bill accounts” was 53,000. On April 11, 2014, Hydro One told us this was down to 47,100 and the company was taking several steps to reduce the backlog further, including adding technical staff and creating a dedicated “SWAT” team to address root causes. By December 2014, the volume of “no bill” accounts had decreased to **2,636**.

### **Wrongly Addressed Bills**

- 89 After the system changeover, there were some **68,000** customers whose bills were issued with incorrect addresses because of a data migration problem when the old system was replaced. A technical fix was implemented in October 2013, but address errors continued to cause problems for close to 2,000 customers. Hydro One staff assured us in January 2015 that the company immediately corrects any wrong addresses after receiving returned mail. However, when bills are not returned, the company simply relies on customers to call if they don’t receive bills and correct any wrong address information.

### **Never Billed**

- 90 In addition to the thousands of accounts whose bills were generated but delayed by the new system, there were also many whose bills stopped altogether after it was implemented. Those customers never received a bill after May 2013. On August 13, 2013, Hydro One reported internally that there were some **23,550** customers in this category. In November 2013, the company was contacted by a municipality that estimated it owed more than \$1 million, but had never received a bill. The matter still had not been resolved months later.
- 91 Hydro One officials told us that considerable effort was invested in getting this situation resolved, and by December 2013, all accounts had been billed under the new system. However, we later learned that the “never billed” accounts were simply lumped in with the “no bills” accounts. Hydro One records indicate that as of February 2014, there were still **2,000** accounts where customers had not received a bill under the new system, but where the system had issued and then cancelled the bill.

### **Estimated Bills**

- 92 Hydro One officials told us some customers receive estimated bills until actual hydro usage can be confirmed and the bill is “trued up.” Estimated bills are typically used to address situations where meters are not receiving and



transmitting usage data – for instance, in rural areas where heavy leaf cover in the summer may interfere with meter transmissions. Once the accurate meter data is available, the bills are corrected, sometimes resulting in large “trued-up” bills. Under the old information system, approximately 3% of Hydro One’s time-of-use customers were issued estimated bills.

- 93 On February 10, 2014, the Ontario Energy Board notified Hydro One that it was receiving a significant number of billing-related complaints about trued-up bills. It called on Hydro One to limit estimated billing to a period of 90 days. In response, a Hydro One executive, after noting that “estimated reads are a reality in the utility industry,” set out the remedial steps the company would take, emphasizing that the highest priority for the company was to resolve the customer information system issues that were contributing to persistent bill estimation.
- 94 During our investigation, Hydro One told us that 3% of its customers, approximately **39,000**, were still receiving estimated bills for longer than 90 days.

## Electric Personality – Inward-Facing Culture

- 95 Corporate culture is a fascinating subject. I have had the opportunity to study a variety of organizational personalities in the course of my work. I have found that public corporations in the business of selling a commodity or exercising monopolistic technical expertise often reflect a private sector mentality. They have a tendency to emphasize business goals, profit motives, and technological excellence over the public interest and concern for individual customers.
- 96 Hydro One is the only game in town when it comes to billing for electricity in many rural and remote communities. It has expertise in delivering electric power and takes pride in its technological achievements and status as an award-winning utility. Hydro One is also closely aligned with private-sector business models, delivering a large portion of its customer service through a third-party private provider. Although outsourcing customer service operations may make financial sense, it has left Hydro One detached and distanced from those it serves. As one individual previously involved with project implementation at Hydro One put it to us:

If the lifeblood of the company is taking care of the customers – and I don’t know whose company isn’t like that – I don’t know why on earth you’d give it to somebody else to do for you.

- 97 Several current and former Hydro One officials noted to us that Hydro One is also physically out of touch with its customer base, with its head office and about 1,000 staff located in downtown Toronto. Given its history and present circumstances, it is perhaps unsurprising that Hydro One has found itself disconnected from its customers.
- 98 Several former and current Hydro One representatives, as well as others who have worked closely with the company, shared their insights with us about its corporate character. They recognized that Hydro One’s distinct workplace culture had a direct influence on how officials approached problem solving and customer relations. A member of a stakeholder group representing energy consumers, described Hydro One as having “a very inward culture” reminiscent of the private sector, and great “pride” in its technical ability, which he said sometimes results in “hubris.” He added: “They’re not good at listening on the outside.”
- 99 A former Hydro One official candidly told us that some of Hydro One’s problems with the new customer information system stemmed from an overly technical focus. He suggested that the company sought system solutions instead of working on customer relationships, and failed to treat customers fairly, understand what they were experiencing and manage their expectations. He noted:
- I still contend that some of our biggest root causes are customer attitude root causes. That we created many of our own upset customers by our own stupidity. Sure, there were going to be system root causes, but unless you understood what the root cause effect on a customer was, you had the wrong mindset.
- 100 A Hydro One executive also acknowledged that the company stressed the technical aspects of its operations and the importance of complying with technical and regulator standards, observing:
- We’ve always been very inward focused and we’ve always been very compliance-focused... Compliance-driven cultures also tend to not deal with their problems very well. You’re complying with something, but you’re not changing something or fixing something or making something better.

## Poor Customer Service: A Symptom, Not the Disease

- 101** The technical problems accompanying the transition to the new customer information system were not the cause of Hydro One’s organizational culture. The system change, accompanied as it was by a spectacular increase in complaints, simply brought Hydro One’s cultural failings into sharper focus.
- 102** Well before the system change, my Office encountered cases of abysmal customer service at Hydro One. In 2010, it removed more than **\$11,000** from **Alan Skeoch**’s bank account without notice or clear explanation. He had received estimated bills for two years for his **Wellington County** property, then was hit with a huge bill once his actual electricity usage was confirmed. He went through six different call centre agents and got nowhere, until he went to the local media about his plight. A senior Hydro One official finally agreed to meet with him and work out a payment plan. He told us the Hydro One executive “promised me that this would never happen again... that this is really an anomalous situation.” He added:

And then suddenly, this is 2014, and here it is in the paper again. People in the same situation I was in, treated in a very cavalier manner by a huge corporation.

- 103** In 2012, Hydro One threatened **Rebecca Carter** of **Demorestville** with disconnection for unpaid hydro charges, although the amount wrongly included a period when her home was destroyed by fire. That same year, an **Ottawa** man was charged **\$11,000** by mistake when his meter was changed and the company rebilled him for five years of electricity he had already paid for. It took him over a year, some 40 calls to the call centre, five escalated complaints to managers, and ultimately the intervention of our Office to get the mess sorted out. Customers also regularly complained to us about the insensitive and rude attitude of Hydro One officials and the “baffle-gab” they were subjected to when they tried to get absurd bills straightened out.
- 104** Hydro One readily admits that it had billing problems under the old information system. Indeed, that is the key reason it was replaced. However, the issues we encountered before the system change had more to do with attitudinal barriers to good public service than outdated technology.
- 105** Here are just a few of the comments customers shared with us about their demoralizing and dehumanizing experiences in dealing with Hydro One:

*They're telling me, "oh, just pay whatever you think." What kind of an answer is that? That's customer service – they need to give you a better answer than that.*

*All I make of it is that their apologies are completely hollow... it's actions, not words. It's nice to say "oh, we're sorry" and send you off a form letter, and say, "we're sorry about that and will try and do better," but they don't. All they do is send us a higher bill next time.... It's extremely frustrating.*

*I am left feeling anxious, without a voice, frustrated, and bullied... It was just so wrong, so spurious, that I knew that there had to be an explanation that somebody would figure out.*

*[A service charge credit] certainly doesn't pay for all the anxiety and sleepless nights that I went through. I don't have a big pension and mainly I live a lot on my old age security and my CPP.*

*The onus was placed on me to keep following up, keep following up because they were busy, that was the message. They were busy, they were backlogged, they were busy and they couldn't deal with me right now.*

*I think it was the most stressful time I think I've had in many years. Nobody would listen and nobody cared. And I had a different person every time. And every time that I called, I documented their name and their PIN number... I think I did get a supervisor one time and he was just rude... so I left it.*

*I actually was treated very rudely a couple of times – that they would contact me, that I did not need to contact them so much. I don't think they realized my level of frustration, and I'm normally a very calm person. I really just want it to be resolved. I didn't want a conflict. I just want to pay my bill and get on with my life. And I didn't want this [hanging] over my head.*

- 106** Ultimately, it was Hydro One's corporate culture that led it to overlook the human face of its customers when implementing its new customer information system, and generated the toxic atmosphere of customer distrust.

## From A+ to Failing Grade – Systems versus People

- 107** The technical mindset prevalent in Hydro One’s culture had a strong influence in the planning and implementation stages of the customer information system project. Hydro One executives repeatedly told us they were unaware of customer service issues until late fall 2013, and that the full extent of the problem was not apparent until after my investigation was launched. Some attributed this to having the wrong people in charge of the project. According to one official, the project leaders were “more about technical solutions rather than dealing with people. We’ve lost sight of the people and that was a big mistake.” Those most intimately involved with the new system did not seem to recognize or appreciate the potential impact on customers. Their focus remained on technical fixes and operational issues. As one executive told us:

You get very, very focused on how the project is doing and how you’re dealing with issues and problems. Where I believe our failure is, and you’ll hear us say this time and again, it was how we resolved the problems. That we were not making customer-centric decisions.

- 108** Another Hydro One official told us that at the end of January 2014, while staff were busy congratulating themselves on reducing various billing backlogs, no one was considering the customer:

What they were celebrating was fixing a technical solution that allowed us to get bills out the door, but what they didn’t focus on was that there were people who haven’t had bills in eight, 10 months, who were part of that backlog that all of a sudden got big bills with no explanation. Catch-up bills. No call to them ... saying what the bill was for, why you’d get it; no offer of waiver of service charges, none of that kind of stuff... What we did was create a massive customer service problem by not thinking about the people at the other end.

- 109** A senior official also told us that in trying to address technical problems such as the “no bills” situation, the company failed to recognize the potential “downstream” effects on customers, such as multiple bills and huge catch-up bills suddenly arriving in the mail.

- 110** After I launched my investigation, some Hydro One staff suggested that the problems with billing and customer service were overblown in the media and inflamed by my announcement. It was as if they believed that if I had not called attention to the issues, they would have been resolved through technical fixes and quietly vanished from public view. They thought we were making a mountain out of a molehill.

- 111** Until recently, Hydro One officials collectively emphasized that, for the “majority” of the company’s customers, the transition to the new customer information system was a resounding success. From an empirical technical perspective, Hydro One thought it was doing great. It was completely unaware that it was failing miserably from a human perspective. In internal discussions, board of director briefings and in media interviews, Hydro One management typically downplayed billing and service problems, referring dismissively to the “small” number of customers involved. They also used varying percentages instead of referring to the actual number of customers affected. For instance, an internal email on December 20, 2013 noted that the Chief Executive Officer stated in a media interview that technical issues affected “less than 1% of our customers.” On January 9, 2014, a Hydro One representative told the media that only “0.8% of [the company’s] 1.3 million customers,” had never received bills under the new system, and that it had “since resolved that issue.”<sup>7</sup> Even when the figures later climbed to 5% and then to 6% of Hydro One’s customers, the company still selectively used figures to distract from the suffering of individual Ontarians. In terms of percentages, the figures touted by Hydro One appeared small, but in terms of people, they were significant – 6% of 1.3 million customers equates to **78,000** people.
- 112** Since February 2014, Hydro One’s management has publicly acknowledged that it was wrong to disregard the tens of thousands of individuals inconvenienced and frustrated by billing and customer service issues. The company has also committed to considering customer impacts from a human rather than a statistical perspective. In October 2014, the Chief Executive Officer said in a presentation<sup>8</sup> that in installing the new customer information system:

(T)he goal was to beat customers’ expectations using the latest technology. We wanted to be the best utility in terms of customer service in Canada. We were replacing an unsupported and dying system with a modern one, and by any technical standard it was a successful implementation. We won awards.

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<sup>7</sup> “Hydro One billing mismanaged: MPP,” Peterborough Examiner, January 9, 2014:

<http://www.thepeterboroughexaminer.com/2014/01/10/hydro-one-billing-mismanaged-mpp>

<sup>8</sup> The October 22 presentation, to the Ontario Energy Network, can be viewed on YouTube here:

<https://www.youtube.com/watch?v=SyWW8i4rTa8>

- 113 In hindsight, he admitted that the company should not have been satisfied with its statistical success rate:

Sure, 95% had no issue. If that was a math test, that'd be an A+. [But] 5% of your customer base having a problem is not even a passing grade. It's awful.<sup>9</sup>

- 114 When undertaking similar projects in future, Hydro One should ensure that the impact on customers is considered and factored into all phases of planning and implementation.

### Recommendation 1

**Hydro One Inc. should ensure that it considers the impact on customers as its first priority throughout all project planning phases and develops appropriate mitigation strategies and contingency plans.**

- 115 In both its internal and external communications, Hydro One also described billing problems in vague and shifting terms. For instance, it insisted that as of December 2013, the problem of never-billed accounts was eliminated – when in fact it simply moved 2,000 such bills to the “no bill” delayed billing category because the system had invoiced the accounts but quickly cancelled them. In February 2014, one Hydro One official suggested in an internal email that there should be greater transparency with respect to this distinction and that it should be disclosed “from the customer’s point of view.” Another senior manager responded, in connection with a memo being prepared for the board of directors:

I doubt they are going to ask about Never Bills. .... The 2,000 Never Bill numbers are counted in [the] No Bill number anyways, so no need to distinguish anymore.

- 116 In addition, in citing the number of customers affected by various issues, Hydro One typically referred only to how many customers were affected at distinct points in time, not the total since the system change. For example, in June 2013, the company’s records indicate **89,107** customers had not received bills; in February 2014, **83,000** customers were affected by delayed or prolonged estimated bills. However, we did not find any cumulative total showing the aggregate number of customers affected by billing problems. The figures for the number of customers affected by various billing issues did not always add up, which made it challenging for our investigators to verify them. By providing

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<sup>9</sup> Ontario Energy Network presentation, *ibid.*



statistics in isolation, Hydro One obscured the full extent of the service problems experienced by its customers. In future, it should ensure that it tracks and discloses the running total of individuals affected by various systems problems, and that descriptions of problem categories are clear, accurate and constant.

## Recommendation 2

**Hydro One Inc. should ensure that it keeps track of the cumulative total of customers affected by various systems issues and provides clear, accurate and constant descriptions of the various problem categories.**

## Communications Gap

- 117** Hydro One’s organizational persona has played a pivotal role in its relationships with its customers and other stakeholders, particularly in corporate communications. The communications strategy relating to the new customer information system was planned well in advance. Hydro One’s records reflect that it was determined to avoid the negative media coverage and complaints that marked Toronto Hydro’s migration to a new system and its own experience with the technology system change in 1998. From March to May 2013, Hydro One proactively notified its customers that it was transitioning to a new system through its newsletter. It was a good-news piece, full of smiling faces, promising that the system was “designed to meet the future needs of our customers by delivering services more tailored to customer needs and preferences.”



**Figure 6: Hydro One newsletter, Spring 2013.**

- 118** From April to May 2013, Hydro One also sent a letter to 837,200 customers about the system changes. The only issue of potential customer concern it had identified prior to the new system launch was the elimination of a 13-day billing delay.<sup>10</sup> This change was addressed in some of its communications with customers.
- 119** Hydro One did develop communications responses based on worst-case scenarios, but it sought to shield the public from negative messages. According to internal communications materials, insiders could talk amongst themselves about “major billing issues” and “system failure,” but external audiences could only be told that “some customers” had been affected by “some issues” with the system.
- 120** When problems arose soon after the system change, Hydro One concentrated on addressing individual issues discreetly as they came up, making private apology calls and sending letters to customers. For example, on June 4, 2013, Hydro One notified **500** retail customers by letter that the transition to the new system had caused an error that omitted consumption charges from their bills. On June 5, it sent some customers notice that the new system caused a pre-authorized payment error on their accounts. On August 29, **2,000** customers whose meters had been changed at the time the data migrated to the new system were notified that they were not billed for consumption before or after the meter change. Another **12,000** letters went out in August and September 2013 to customers who had never received a bill under the new system, offering a six-month, interest-free, fee-free billing payment plan. Additional letters were sent out to **5,000** customers in this category from October through December 2013, offering a one-month service charge credit as a goodwill gesture.
- 121** Hydro One’s piecemeal and reactive communications approach reflected an attempt to institute damage control and insulate the company from any criticism about its award-winning customer information system. The language used to convey the message was closely vetted. For instance, when crafting the letter to 12,000 never-billed customers, officials decided to remove any reference to the system. One official noted:

I am concerned about the ... references to CIS [the customer information system] below creating some spin and undue nervousness.

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<sup>10</sup> The 13-day delay was designed to allow for the final spot price to be received from the Independent Electricity System Operator. The delay was obsolete for most customers once a fixed price was introduced in December 2002.

In the end, the letter simply said the company was “currently experiencing some issues which have prevented us from issuing your bill.”

- 122** When the new customer information system was first rolled out, call centre agents were instructed not to attribute billing issues to the transition to the new system, and to stay away from negative words like “defects.” Call centre staff were instructed in training materials that the word was “an internal term that should not be discussed with the customer.” As one senior call centre manager explained to us:

(T)here were a lot of debates around messaging that should go to customers, and there was a reluctance for a long period of time for anybody to indicate that there were system problems or [time of use] issues... I think everybody was worried about it hitting the media and it would be a firestorm.

- 123** Unfortunately, Hydro One’s communications planning appears to have been influenced by a sense of organizational positivism that was not borne out by reality. The company was left scrambling to contain the damage when problems began to surface publicly. When faced with negative publicity, Hydro One’s overriding priority became managing its public relations image. With all its frenetic spinning, it neglected the real impact it was having on tens of thousands of Ontario’s citizens.

## Keeping Outsiders in the Dark

- 124** Senior Hydro One officials told us that it took several months for them to realize the full extent of the billing and customer service issues, but corporate records suggest that at least some were sensitive to the problems much earlier. Internal email communications from July 2013 discussed accounts that had not been billed under the new system, noting the need for “ensuring we do not go to the media.” News was also slowly filtering into the public domain. A newspaper article listing a slew of billing and customer service issues<sup>11</sup> set off a chain of internal email communications at Hydro One, including this comment:

I know Corporate Communications does not recommend responding to these types of articles, but this one may need us to do something to repair damage to our reputation.

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<sup>11</sup> “Hydro One Customers fume over long-standing billing mess,” Hugh Adami, *Ottawa Citizen*, July 31, 2013.

- 125** Another official responded that he had talked to a communications executive and got “the sense they want to wait it out.” Senior executives undertook to raise the issue with the board of directors’ regulatory and public policy committee. However, the information we obtained from this committee made no reference to this issue.

### **Obstructing the Ombudsman**

- 126** Hydro One’s tactic of avoiding external communications about its problems with the new system appears to have extended to my Office. In July 2013, senior officials from my Office and Hydro One met to discuss the significant growth in the number of complaints we were seeing about meters and billing. My Office also raised concerns about the increasing delays we were experiencing in getting answers from the customer relations centre staff. In some cases, it was taking two to four months to obtain substantive responses.
- 127** At the meeting, Hydro One representatives provided an overview of some of the technical issues with meters and various aspects of the billing process, but they scrupulously avoided any reference to the customer information system. There was no mention of the struggles Hydro One was encountering with system defects and exceptions, the increased volume of calls from frustrated customers, or the complexity of the billing problems. Instead, they played up the positive features of the new system.
- 128** We later learned from internal emails that Hydro One deliberately sanitized the script it used at that meeting, to ensure it contained more “confidence-boosting content.” The emails indicate a decision was made to avoid reference to the new system and its impact on billing and customer complaints. It was suggested that reference to the new system be omitted until it had “stabilized,” or that it be mentioned “as little as possible, and only on a reactive basis.” One official warned:

(I)t can get dangerous if we offer up too much info, or if we state too many benefits... we don't want this to be the new topic for review and discussion. If we simply state that we are essentially in line with expected customer reaction... that’s a healthy story.

- 129** A month later, after my staff called a customer relations centre staffer about a customer who had not received bills for some time, the Hydro One employee wrote in an email to a supervisor:

... [Ombudsman staff] started to ask if we were having a lot of accounts that are not billing, to which I stated that I wasn't aware that there was a problem except with a couple that I was working with. ... I basically told her that we hadn't heard that there was any issue and we moved onto another account.

- 130** In response, the manager praised the employee's discretion and circulated the comments to other Hydro One officials, saying:

Thanks for the heads up... good warning in case they come knocking. Please keep holding the line with messages like you conveyed – I think this is appropriate given that we have the majority of our customers (over 96%) billing with no issues but there is work to be done. If you get the feeling that they're going to investigate more aggressively or escalate, let us know.

- 131** Rather than acknowledge that tens of thousands of its customers were experiencing billing issues, Hydro One continued to stress to outsiders that there was nothing to be concerned about, deflecting concern with evasive, misleading and upbeat messaging. We received similar vacant assurances when we asked about the impact of "exceptions" on billing in November 2013. A Hydro One official told us that exceptions are a normal product of billing and collections processes and that the exceptions relating to the new system were "not unexpected for a project of this nature." This was simply misleading and disingenuous.
- 132** Hydro One's failed attempts to hide the extent of the impact of its billing systems errors even from my Office is reflective of an organization that cares more about its corporate facade than its obligations to its customers or to its provincial overseers.

### **Obfuscating the Ontario Energy Board**

- 133** On August 22, 2013, Ontario Energy Board officials toured the Markham call centre with Hydro One officials, who failed to enlighten them about the problems associated with the new customer information system. In September 2013, the board sent an email inquiry to Hydro One, asking about billing concerns it was hearing about from MPPs. A Hydro One official responded that about 10,000 customers had not received bills since the transition to the new customer information system, and mentioned that there were other "small groupings of issues related to budget billing, but other than that, nothing

systemic.” Hydro One minimized the problem, assuring the board that bills would be out by the end of September, if not before.

- 134** When the problem of estimated bills persisted, the board wrote to Hydro One again on October 23, 2013, expressing concern. It acknowledged Hydro One’s offer to affected customers of a six-month, interest-free billing plan, but noted that it was still receiving an increasing number of complaints about billing and metering. The Ontario Energy Board has continued to monitor Hydro One’s progress in addressing areas it identified for corrective action.

### ***Mollifying the Minister’s Office***

- 135** By fall 2013, the Minister of Energy was also concerned about the situation at Hydro One, including its delays in responding to inquiries from MPPs. Internal Hydro One documents indicate that in October 2013, the company accepted a recommendation from the Minister’s office that it proactively offer a service charge credit to customers who had never received a bill under the new system, for every month after September that they were not billed.
- 136** On December 17, 2013, the Minister of Energy’s chief of staff wrote in an email to Hydro One’s Chief Executive Officer:

Hate to have to bring this to your attention, but we have seen a really inexcusable uptick in customer service complaints these past several months that are really untenable...

- 137** Hydro One’s Chief Executive Officer responded the next day, stressing the low number of customers – 22,000, or less than 2% – who had submitted complaints. He also explained that it was taking time to address the 180 MPP requests that had been received.
- 138** Although the Chief Executive Officer’s response remained positive, an internal email from another senior official in December referred to the company entering “crisis mode with respect to the growing backlog of [customer relations centre] complaints.”

### ***Befuddling the Board of Directors***

- 139** Hydro One’s board of directors is responsible for hiring the Chief Executive Officer to manage Hydro One and general oversight of its operations. It relies on the company’s executives to keep it informed of problematic issues. When we



interviewed the former chair of the board, who was at the helm when the new customer information system was introduced, he said my investigation came as an unpleasant surprise. In November 2013, the board's business transformation committee was briefed about the high volume of customer complaints, but management assured them the root causes were being investigated and mitigated, and that the complaints were just "a statistical issue" that was under control and getting better. "Management... in whom we had confidence at that point, presented a positive, 'we're in control of the situation, don't worry' point of view," he said.

**140** Minutes from the November 13, 2013 meeting confirm that committee members were told the company had received about four times the normal number of complaints, most about billing issues. The committee was assured that mitigation measures were underway and that survey results showed the company had scored 80% for customer satisfaction.

**141** The former chair said management regaled the board in December 2013 about "the fantastic year that had just finished," including "the great success" of the new customer information system. He said the board had no idea that the Ontario Energy Board had raised concerns in October, and it was news to him when the Minister's Office expressed dismay about delays in responding to requests from MPPs:

(T)he board was not aware that there was something abnormal happening here. ... We thought that we were [at] a statistically acceptable level and that people were dealing with it. What we didn't realize [was] that there were these bizarre bills ...

**142** As to why the board was not informed about the brewing controversy, he said:

Basically, there are only two interpretations: Either that management didn't know or didn't understand what was going on, or that they were wilfully misleading all of us as to what was going on. And I don't think that was the case... I don't know how it could have evolved the way it did.

**143** In hindsight, he reflected that management might have been "overly self-confident," insensitive to the information they were seeing, and failed to ask the right questions. He also suggested that the information gap might have arisen because of longstanding unresolved issues with operational silos within the company's management.



## Inside Crisis – Outside Calm

- 144** Based on our interviews with Hydro One executives, it is clear that by December 2013, senior managers were fully aware of the significant billing and customer service issues plaguing the company. By then, Hydro One had started to implement internal mitigation measures, adding staff and devoting increasing attention to fixing technical problems. It stopped charging interest on all late payments because of the continuing problems, and, starting in December, it quietly suspended collection activity on select accounts where arrears were attributable to systems issues. Internal documents indicate that on December 22, 2013, Hydro One staff requested a full shutdown of the “dunning process” on an urgent basis to address the wave of customer complaints.<sup>12</sup> On January 24, 2014, Hydro One decided to create a “dunning lock” in the customer information system to “trap” accounts with three or more consecutive estimated bills and those with no bills for more than 90 days. Suspension of collection efforts cost the company \$1.6 million a month and forgiveness of late payment charges another \$900,000 a month.
- 145** As internal and external pressures increased and Hydro One horror stories hit the media, the company could no longer maintain radio silence about its system problems. However, it continued to emphasize the positive, minimizing the scope of the problem, and stressing that the transition to the new system was a success for most customers.

### **Light Bulb Moment: Too Late to Apologize?**

- 146** When the story of **Mountain** cattle farmers **Nancy and Bob Zwarts’** ordeal with Hydro One hit the news on December 18, 2013, the company was forced to react publicly. The couple’s saga of faulty smart meters, delayed billing, exorbitant charges, and poor call centre service attracted considerable attention.<sup>13</sup> On December 20, 2013, Hydro One’s Chief Executive Officer issued the first of what would become a succession of public apologies for the company’s substandard service. He promised, “we will learn from this and we will do better.”

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<sup>12</sup> Dunning refers to the collections process from communicating gentle reminders to involving collections agencies to threatening disconnection to restricting or cutting off a customer’s hydro for non-payment.

<sup>13</sup> “Cattle farmers Nancy and her husband Bob Zwarts are having a Hydro One nightmare,” Wayne Cuddington, *Ottawa Citizen*, December 18, 2013. Online: <http://www.ottawacitizen.com/technology/Cattle+farmers+Nancy+husband+Zwarts+having+Hydro+nightmare+because+their+smart+meter+transmitting+data+utility/9307585/story.html>

- 147** After coping with the December 2013 ice storm, Hydro One faced 2014 with the hope that it could avoid further public airing of concerns with its services. However, on January 7, 2014, MPP Laurie Scott (Haliburton-Kawartha Lakes-Brock – PC) brought customer complaints back into the spotlight when she wrote an open letter to the Minister of Energy.<sup>14</sup> In it, she referred to Hydro One customers in her riding as “the victims of Hydro One’s billing fiasco and pathetic customer service practices,” and described constituents who had received huge bills, threats of disconnection, and inaccurate information from rude and condescending call centre staff.
- 148** Two days later, a Hydro One spokesperson issued an apology on behalf of the company for call centre service “below the company’s standard” and assured the public that things were coming under control with the addition of extra resources. However, stories about abysmal customer service and absurd billing mixups continued to emerge.

### **An “Innocuous” \$30-Million Error**

- 149** On January 22, 2014, a newspaper article appeared about a ski club<sup>15</sup> that Hydro One billed **\$37,000** in error. According to the article, after obtaining an apology and a promise to resolve the situation from Hydro One, the club received a revised bill for almost **\$37 million** (\$36,658,510.75, to be exact). Hydro One’s vice-president for corporate relations then apologized publicly. Although the company appeared remorseful externally, internal communications suggest that some executives still could not comprehend why external stakeholders were making such a fuss. One official opined in an email that the article was a “good example of how something innocuous takes on a life of its own.”

### **Ombudsman Intervention**

- 150** Through the summer and fall of 2013, my Office received increasing complaints about Hydro One billing and customer service. Despite numerous phone calls during this period, Hydro One persistently delayed in responding to us on individual cases, and provided incomplete information. Meetings with executive and senior Hydro One staff failed to shed light on the situation, and I was left

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<sup>14</sup> The letter is available online here: <http://lauriescottmpp.com/feature>

<sup>15</sup> “Hydro One’s \$36-million bill to ski club highlights utility’s billing glitches,” Adam Radwanski, *Globe and Mail*. Online: <http://www.theglobeandmail.com/news/national/hydro-ones-billing-glitches-fuel-ontarians-energy-angst/article16443803/>

with no practical option but to launch a systemic investigation to get to the root of the problems.

- 151** I provided notice of my investigation to Hydro One and the Ministry of Energy on February 3, 2014, and publicly announced it the next morning. By that afternoon, the Chief Executive Officer of Hydro One had issued yet another public apology.<sup>16</sup> It said:

(W)e know that approximately 3% of our customers have received estimated bills for too long and about another 2% have gone for more than 90 days without receiving a bill. While the vast majority of our customers continue to receive normal bills, some of our customers have not had a positive experience. We know that this level of service isn't acceptable to our customers and it's not acceptable to Hydro One. We have taken aggressive steps to fix the issues. We are reaching out to our customers, we are fixing the exceptions and we have brought in additional staff to listen to customers and help work through their billing inquiries...

## Reputation Rehabilitation Begins

- 152** The day Hydro One learned of my investigation, it launched a “customer service recovery plan,” targeted at resolving technical and operational issues and repairing its flagging reputation. Hydro One was intent on getting beyond what one internal document called the “perfect storm” – the media stories, the December 2013 ice storm, and announcement of my investigation – that led to its “current crisis of confidence.”
- 153** The Chief Executive Officer rallied the troops. He sent out an all-staff email on February 7, 2014, acknowledging that there was no doubt that the move to a new and complicated billing system had created “some customer challenges and issues.” He also emphasized that “although these challenges are affecting a small number of customers, they jeopardize our corporate reputation and public trust.” He relayed four key messages to Hydro One and call centre staff:

I do not want our customers to worry.

I want them to know implicitly that if we have sent them a bad bill, we will correct it.

I don't want them to worry that they will have to pay charges or interest when we have not delivered a timely bill.

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<sup>16</sup> Available on Hydro One's website here:

<http://www.hydroone.com/OurCommitment/Documents/Letter%20to%20Our%20Customers.pdf>

I want them to trust that they will ultimately only pay for the energy they consume.

- 154 The customer service recovery plan included retaining an external advisor to assist with crisis management, introducing policy changes, and developing customer commitments. External consultants were also employed to provide advice on the development of crisis communications plans and strategies.
- 155 Staffing levels were also increased to tackle the exceptions backlog and the persistently high call volumes. Call centre agents received additional training and new scripts. A project team was established to correct defects and enhance the customer information system, and work processes were reorganized to better identify early warnings relating to potential data or billing issues.
- 156 While Hydro One had previously addressed issues somewhat on an ad hoc basis, the customer recovery plan was a more organized response to billing and customer service problems. Beginning in February 2014, technical fixes were put into place to hold bills until they could be released with minimum negative impact on customers.
- 157 At the beginning of February, a technical “trap” was set on accounts that had not received bills for multiple months and were due to receive a large true-up bill covering three or more months. Letters of explanation were included with bills mailed to **35,025** customers. Some customers were called proactively and automatically enrolled on an interest-free installment plan. By the end of 2014, Hydro One had paid out **\$7.3 million** worth of service credits – a credit for every month customers did not receive a bill.
- 158 On February 14, 2014 a message was added to all bills with credit balances, telling customers they could call if they would prefer to get money back, rather than credit. This was in direct response to concerns raised by my Office about customers who were told they could only obtain credit – not refunds – if they had overpaid or been overcharged by Hydro One. By June 2014, **5,112** refund cheques had been issued, valued at \$5.1 million.
- 159 On February 21, 2014, another “trap” was set to stop large catch-up bills from being issued to customers who had received estimated bills for prolonged periods. Beginning March 4, proactive calls were made to **10,203** of these customers, and **10,794** letters were sent, explaining the situation and offering an interest-free payment plan.
- 160 At the same time, accounts due to receive multiple bills as a result of adjustments were held by the system until they could be sent to customers in a

single package to minimize confusion. Starting March 3, **26,821** multiple bill packages were sent out, along with a letter clearly explaining the amounts owing.

- 161** Another trap was set for **4,341** bills that were due to trigger large automatic bank withdrawals. The affected customers were called to confirm whether they consented to the withdrawal, or would prefer to enter into a payment plan. Explanatory letters were also sent out with the bills.
- 162** Hydro One suspended late payment charges incurred by customers as a result of billing errors as well. It continued the suspension of collections it had temporarily and selectively applied in December 2013, and clarified that it would not disconnect customers in cases where Hydro One was to blame for the billing issue.
- 163** February 2014 was also when the company created a SWAT team to work with my Office on cases we flagged, and established a liaison to resolve concerns brought forward by members of provincial parliament.
- 164** In April 2014, Hydro One introduced a commitment that it would resolve customer concerns or confirm a date for resolution within 10 days. It also announced that it was creating a customer service advisory panel composed of stakeholder representatives, reporting to the Chief Executive Officer in an independent advisory capacity.

### **Centering on Customers**

- 165** Hydro One’s customer service recovery plan included repositioning its communications to be more “customer-centric.” The company moved quickly to exchange its reactive communications strategy for a more direct approach.
- 166** The day after I announced my investigation, senior officials began compiling a “top 10 irritants” list, based on media questions and coverage. Internal emails indicate that plan was to have the Chief Executive Officer announce decisions he had made to resolve at least five of the issues, referred to as “low-hanging fruit.” The list was as follows:

Top 10 Irritants:

- 1. Months on estimates without an actual [meter reading]
- 2. Large true-up bills with no payment plan communication attached
- 3. Large true-up bills being withdrawn through accounts – sometimes >\$10K for residential customers

4. Several bills arriving in one month – all different amounts, no explanation
5. No bills arriving at all
6. No offer of a refund; just a credit
7. Long delays in getting answers from the call centre/CRC; sometimes several months
8. Inaccurate statements/bad advice – such as “don’t pay until you see a bill.”
9. Issues argued by agent rather than investigated – e.g., customer found neighbour’s [smart meter] serial # on their own bill and vice-versa
10. MPPs calling in issues but not getting a response – follow-up only going to customer even when proper consent provided

**167** Hydro One began in earnest to renovate its image and stanch the flow of negative publicity. It reached out to customers and other stakeholders through traditional and social media. On February 7, 2014, the Chief Executive Officer revealed several planned initiatives to support customers: Introduction of a customers’ bill of rights (later referred to as “customer commitments”), provisions of refunds where necessary, and a pledge not to charge interest or cut off electricity on accounts affected by Hydro One’s billing errors.

**168** The company’s “reputational recovery plan” was discussed on February 11, 2014 at a joint meeting of two board of directors committees. A communications strategy was tabled that outlined the company’s recommended approach to reposition Hydro One as the “primary advocate for its customers and restore the level of trust customers have in Hydro One’s ability to manage their issues.” The first phase of the plan called for the company to acknowledge its customer service issues, apologize, and explain how issues could be resolved. The next phase involved communicating resolution of the issues through “customer-direct” communications and by equipping frontline staff with communications tools. According to Hydro One documents, the next phase would also implement a strategy “to get ahead of the Ombudsman report by proactively communicating initiatives.”

**169** Starting in mid-February 2014, the Chief Executive Officer issued a series of letters to customers, the media and MPPs, containing soothing phrases and positive commitments. These were also posted on Hydro One’s website. In a February 12, 2014 letter to the editor, sent to multiple newspapers across the province, he acknowledged that call centre agents had struggled with the new system and stated:

The last thing I want is for our customers to worry. They deserve bills that are clear, timely and accurate. So, I want your readers – our customers – to know that they will only pay for the electricity they use. If they receive a catch-up bill because they have been billed on estimates or have not received a bill, we will work with them to arrange a reasonable payment plan. If we have made a mistake on a bill, we will not charge interest and we will not apply service charges or fees. If we find that we have overbilled an account, we will notify our customers and offer them a refund cheque.

We are improving training at our call centre to make sure our agents have the information they need to answer more of your questions on the first call.<sup>17</sup>

- 170** Hydro One began sending out more than 1 million apology letters to all residential, seasonal and general service customers on February 20. The Chief Executive Officer also personally called MPPs in Hydro One’s service territory. In April 2014, he sent them an update on the progress made; I received a similar letter.
- 171** Hydro One also revised its website in March 2014, adding a section for correspondence and policy changes related to my investigation, as well as one entitled “Working to Get Better.” It posted videos answering various billing and service-related questions. In addition, the company held three telephone “town hall” meetings – one in April and two in November 2014 – which allowed some 60,000 customers to call in to get their questions answered by the Chief Executive Officer and senior managers.
- 172** The public also heard from the then-chair of the board of directors, who vowed to hold management accountable. He noted in a February 2014 media interview that Hydro One “may not have been quite as customer-oriented as we would like it to be or as people frankly demand in today’s world.”<sup>18</sup> On March 7, 2014, the government announced that the chair would be replaced as of April 1 that year.

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<sup>17</sup> Available online here: <http://www.hydroone.com/Ombudsman/Pages/LettertotheEditor.aspx>

<sup>18</sup> “Hydro One chair vows to fix erratic billing system,” Adrian Morrow, *Globe and Mail*, February 10, 2014. Online: <http://www.theglobeandmail.com/news/national/hydro-one-chair-vows-to-fix-erratic-billing-system/article16793395/>



## Corrupted Communications Culture

- 173** In Ontario’s public sector, transparency, openness and accountability are highly prized, particularly when it comes to its communications with stakeholders. Unfortunately, prior to my investigation, Hydro One’s external communications approach was the antithesis of these democratic values. Its public messaging was opaque, disingenuous, and self-serving. It reflected a corporate mindset suffused with technocratic superiority and fondness for private-sector practices.
- 174** Instead of honestly and promptly explaining that it had systems problems that were affecting customer service, Hydro One officials engaged in a reactive campaign of deflection and deceit. Its representatives effectively lied through omission when dealing with my Office, the Ontario Energy Board, its customers and other stakeholders. It was only after the situation was finally exposed that it began desperately trying to regain customer trust and credibility.
- 175** The former chair of the board of directors, who oversaw the company during the customer information system transition, was of the view that senior management did not consciously mislead the board or others. It is certainly possible that Hydro One executives were so blinkered by their faith in the new computer technology and their overreliance on statistics that they simply missed the significance of the litany of technical glitches and the rising complaints. Even so, it is extremely disturbing and indicative of an insular and malignant organizational culture.
- 176** Our review of internal Hydro One documents also clearly shows that at least some management staff deliberately accentuated the positive aspects of the new computer system, while concealing information about billing problems and customer complaints that would cast the company in a bad light.
- 177** In future, Hydro One should commit to a communications strategy that is transparent, open, and accountable to the public. It should adopt a proactive approach to communicating with stakeholders, as well as oversight and regulatory bodies. It should tell the truth about issues affecting the delivery of its services, and it should do so in a timely way. It should also ensure that private-sector entities carrying out services on its behalf are held to the same communications standards.

### **Recommendation 3**

**Hydro One Inc. should adopt a proactive, transparent, open and accountable approach to communications with stakeholders and oversight and regulatory bodies.**

#### **Recommendation 4**

**Hydro One Inc. should ensure that any provider of outsourced services communicates with stakeholders and oversight and regulatory bodies in a transparent, open, and accountable manner.**

#### **Recommendation 5**

**Hydro One Inc. should monitor call centre communications to ensure that they reflect the transparency, openness and accountability expected of a provider of public services.**

## **Operational Missteps**

- 178** While Hydro One’s culture and communications played a significant role in inciting customer distrust, mismanagement of several planning and operational issues also contributed to the company’s billing and customer service problems.

### **Training Wreck**

- 179** Hydro One recognized that one of the key elements required for successful implementation of the new customer information system was staff training. However, a delay in completing systems testing prior to the changeover affected the training schedule. Staff training was a moving target as the “go live” date shifted from October 2012 to March 2013, and finally to the May 2013 long weekend.
- 180** In January 2013, an internal risk assessment identified a problem with staff readiness. In February, emails referred to the training team “struggling to get their course materials finalized.” Training of call centre staff had begun by March, but internal email communications identify concerns with the adequacy of the training and the training environment, which was overcrowded and uncomfortable. The electronic training system was apparently also unstable, often crashing and interfering with exercises. A March “go live” target date was abandoned in part because of the risk that poor training would lead to increased call handling time and customer frustration.
- 181** Some 1,293 staff were trained on the new system, including 330 from the call centre, between March 11 and May 17, 2013. Several call centre staff we interviewed told us the training materials were incomplete and disjointed, and the information changed daily as new defects and exceptions were discovered.

They also said the instruction was quite basic and left them unprepared to answer customer calls when the system went live. Several permanent call centre staff expressed concern that only temporary staff were trained on resolving system “exceptions.” They said they would have been able to provide better service if they had been trained in more functions. We were also told that delays in training on the various “exceptions” arising with the new system contributed to backlogs in clearing them.

- 182** Hydro One’s customer relations centre staff, who handle escalated inquiries, received compressed three-day training instead of the weeks of training provided to call centre agents. They did not receive training on exceptions, which meant they had to get call centre assistance to resolve complaints about them, causing further delays.
- 183** A December 2013 study conducted for Hydro One by a consultant identified various training problems, including that agents found work instructions too long and difficult to follow and lacked sufficient information about the system and various processes. More training was recommended.
- 184** An internal audit in April 2014 also found that the training did not adequately prepare agents, was rushed, and was not provided to everyone who needed it. In a post-training survey of 300 call centre staff, 43% said they felt unprepared to apply the new skills and tools successfully.
- 185** One of the common complaints we heard from both Hydro One customers and call centre staff was that agents had limited understanding of the technical aspects of billing and system issues. This led to overreliance on technical support staff and meant complaints often had to be escalated to managers.
- 186** In our interview with the Chief Executive Officer, he acknowledged:
- I think as a whole we were failing the agents ... we didn’t give them the tools they needed. I don’t support that that’s the way to do it, but that’s a failing on our part in our system, and I think that was a wakeup call.
- 187** Internal emails show that after the billing and customer service controversy hit the news, additional “empathy training,” focusing on understanding and acknowledging customer’s situations, feelings and needs and quickly identifying resolution paths, was provided to call centre staff in January 2014. Refresher training for call centre agents also took place in March 2015.
- 188** In preparing for the new customer information system, Hydro One failed to ensure that staff responsible for dealing with customer concerns were adequately

trained. In future, before it introduces initiatives directly affecting customer service, Hydro One should provide comprehensive training for relevant staff and outsourced agents. It should also consult and obtain timely feedback from frontline staff to gauge training effectiveness, and provide supplementary training if necessary.

- 189** Hydro One should also consider providing more detailed training to call centre and customer relations centre staff so that they are better equipped to explore and respond to customer concerns about the billing process. Hydro One places much stock in “first call resolution” and evaluates call centre agents on their ability to satisfy customers in one call. However, unless those answering the phones have a clear understanding of the technical issues and trends affecting billing and other services, frequent escalations will continue to frustrate agents and customers.

#### **Recommendation 6**

**Hydro One Inc. should ensure that it implements comprehensive staff training before introducing any initiatives with potential impact on customers.**

#### **Recommendation 7**

**Hydro One Inc. should consult with and obtain timely feedback from individuals responsible for contact with customers to ensure that training is effective and supplemented if necessary.**

#### **Recommendation 8**

**Hydro One Inc. should consider providing additional training to call centre and customer relations centre staff in technical and other operational issues to enable them to resolve customer service concerns more effectively.**

- 190** Call centre staff also told us they were concerned about the adequacy of the scripts and work instructions they were given to address customer issues. Hydro One’s records show that a technical staff member identified several inaccuracies in materials provided to call centre staff. An internal Hydro One audit in April 2014 confirmed that the scripts provided to staff were insufficient as they did not address the system problems that were encountered. By May 2014, 50 call centre agents had received refresher training on billing inquiries and scripts were reviewed and updated.
- 191** The quality of the information that call centre agents provide to customers is only as good as the information Hydro One gives to them. Accordingly, Hydro One should ensure call centre agents have accurate and up-to-date information,

so they can address billing and other customer service issues as they arise. In addition, Hydro One should consult with technical and frontline staff to ensure that the scripts provided to them are useful and allow them to respond effectively to customer queries.

#### **Recommendation 9**

**Hydro One Inc. should ensure that it regularly provides clear, timely and accurate scripts for use by call centre staff to address billing and other customer service issues as they arise.**

#### **Recommendation 10**

**Hydro One Inc. should consult technical and front line call centre staff in the development of scripts to ensure that it provides the tools necessary to ensure effective customer communications.**

### **It's Alive!!! – System Implementation**

- 192** As Hydro One was preparing for the changeover of its customer information system, it relied on a “business readiness assurance team” to provide an independent opinion to the Chief Executive Officer about its state of readiness, to mitigate associated risks. However, the team was not responsible for assessing the fitness of the system itself.
- 193** A colour scale was used to describe the status of the project. In February 2013, the business readiness assurance team reported that the state of readiness for system implementation was “orange” – between red and yellow, meaning not ready. The team also observed that better communication was required amongst the project team and relevant directors. In an April 2013 report, it put the state of readiness at “yellow,” but supported the May target for system implementation. However, the team never interviewed any of the call centre agents or the trainers to obtain their views on whether agents were sufficiently prepared to address customer service issues that might arise.
- 194** Hydro One’s Chief Executive Officer made the call to continue with the plan to implement the new system in May 2013. A Hydro One internal audit document observed that while there were some unresolved problems with system applications, “it was considered a good business decision to [launch the new system] and manage the customer issues and fix the remaining software shortly afterwards.” Business reasons supporting this move included continuing concerns with the degradation of the existing system, which was slow, had memory problems, and was at risk of crashing. With the benefit of hindsight, the

Chief Executive Officer told us he would still have pushed forward with the May 2013 launch, but he would have taken a different approach, including more rigorous attention to the billing problems and their effect on customers:

I would have had a contingency plan around customer impacts... things like no bills and estimated bills and everything around that... I think that's the fundamental piece... I would've asked more questions around testing and the implications... I think I would have still gone live with a much more robust plan [to address problems].

- 195** In future, the company should include an evaluation of whether its staff and outsourced resources are fully prepared, as part of any business readiness assessments preceding major system changes.

### **Recommendation 11**

**Hydro One Inc. should ensure that evaluation of staff and call centre agents readiness is included in pre-implementation business readiness assessments preceding major system changes that impact customers.**

## Call Centre / Pressure Cooker

- 196** Although Hydro One's call centre is outsourced to a private-sector provider, it is the face and voice of the corporation for most of its customers. Increased stress on call centre staff inevitably filters down to Hydro One's customers. Unfortunately, Hydro One managers appeared oblivious to this fact after the new customer information system was installed and call centre staff were flooded with calls.
- 197** One of the criteria that Hydro One uses to assess call centre effectiveness is the "average handle time" for customer calls. This is a common metric employed to measure call centre efficiency. Hydro One's call centre provider is contractually bound to ensure 80% of calls are answered within **20-30 seconds**. The shorter the average call length, the more likely the provider will meet this service level. If service levels are not met, Hydro One can levy a financial penalty on the provider.
- 198** Hydro One officials monitor the average handle time closely. In planning for the system changeover, it was anticipated that call volumes and average handle time would initially increase but gradually normalize. Instead, call volumes were substantially greater than predicted, as was the average call length. Under the

old system, the average call lasted **305** seconds (**five minutes**); this jumped to upwards of **450** seconds (**7.5 minutes**) with the new system.

- 199** Despite rising call volumes and the complexity of billing inquiries, Hydro One’s senior managers continued to exert pressure on the call centre to bring it in line with earlier projections and the contractual service level. Just three months after the new system launched, one Hydro One manager expressed concern to the call centre leadership in an email about the increasing length of time it was taking call centre staff to handle customer calls. Instead of addressing the reasons for the longer calls, he urged that efforts be made to shorten them, suggesting that a reduced target would “light fires.” Emailing in response, a senior call centre official cautioned that what Hydro One was suggesting would only make the situation worse. He noted:

(T)o be frank, we’re not going to be able to drive through that sort of reduction simply by coaching our agents. In fact, you run the risk of increasing complaints if we push agents hard to push customers off the phone quickly. We have a lot of very irate customers. We need to work through this as a larger team so that we work through some of the underlying causes...

All that I’m saying is that there are a host of problems that are driving the high [average handle time] and we need to address the underlying causes that are at the root of the problem.

- 200** Hydro One’s push for reduced call handling times continued through the fall of 2013. A senior executive told us there was enormous pressure on the provider to bring the situation back to normal:

(T)here was a lot of pressure to try and push [average handle time] down. From our perspective, it was the underlying billing issues that you really need to get fixed. Resolve that issue, because pushing customers off the phone is not going to be delivering a positive message.

- 201** Agents who fail to meet average handle time expectations can face disciplinary measures from the outsourced call centre management. Several employees filed grievances relating to this issue after the new system was introduced. During our interviews, call centre staff expressed frustration about the unrelenting emphasis on average handle time during this difficult period. They noted that calls about bills, particularly when they involve complicated issues, are typically lengthy, and many of the calls after the system changeover related to complex billing matters.



- 202** One agent candidly admitted that the unrealistic demand to keep the average handle time down spurred atrocious treatment of customers:

There just is no way to meet [the average handle time]. So that agent that you will be presented with has crafted some way to fudge numbers to make it look like they have a good [average handle time], and/or they are hanging up on customers, being rude to customers, pretending that they don't see an issue in the account when they clearly do.

- 203** A former call centre team coach told us call quality was continually sacrificed for the sake of shorter handling times:

For an agent on the floor, their average handle time is everything. It's their job. They're threatened. They're [held to] unrealistic expectations... Everybody's counting numbers and there's a financial penalty that [the provider] will incur if they don't meet those service levels, so numbers are everything. Quality? Quality was secondary...

If it took 15 times for the customer to call to get something done, they don't care. It's as long as the call got answered promptly and they're off the phone again to take the next call. It's about making sure that the service level is always met. It doesn't matter if that customer has to call 15 times.

- 204** Some call centre agents told us they felt that their task wasn't to solve customer problems, but to get customers off the phone. As a Hydro One employee put it: "How do I get rid of a second? I don't say hello. How do you screw up a phone call for somebody who has been on hold for 17 minutes? Don't say hello."
- 205** As the workload stress increased on call centre staff, so did complaints about agent conduct. Once customer concerns hit the media, call centre management provided agents with additional "empathy training" and threatened a zero-tolerance policy for poor behaviour. Call centre staff told us these developments further contributed to plummeting morale.
- 206** After I launched my investigation, Hydro One management began to realize that shaving seconds off a customer call was not its prime concern. Less emphasis was placed on average handle time and more attention devoted to the quality of customer interaction.
- 207** By stressing average call handle time, Hydro One kept the focus on the technical process of answering and terminating calls, not on their content. Customer concerns and quality of service took a back seat to statistics. Consistent with its

renewed commitment to customer service, Hydro One should conduct research of call intake best practices and re-evaluate the measures that it uses to assess the customer service provided by its contracted call centre. In doing so, it should look beyond the private and utilities sectors and consider customer service benchmarks within the provincial public sector. It should also shift the spotlight from average handling time to the quality of contact and actual outcomes for its customers.

### **Recommendation 12**

**Hydro One Inc. should conduct research on call intake practices, and revise its performance measures to reflect public sector best practices and greater emphasis on the quality of calls and customer outcomes.**

## Call Quality Assurance, Please Hold

- 208** Under its contractual agreement, the call centre’s private-sector operator is required to provide monthly reports to Hydro One. Representatives of the two companies also meet monthly to discuss these reports and whether the provider is meeting required service levels. The call centre has quality auditors, who monitor recorded calls and assess them against call evaluation and quality scoring standards. In turn, Hydro One has assigned an in-house customer service analyst to review a sample of the audited calls to ensure they meet the standards. If the call centre fails to meet specified service quality levels, a penalty will be assessed against the operator. In fall 2012, Hydro One suspended its quality monitoring to free up staff for other activities. Monitoring resumed in April 2014. The call centre also stopped monitoring calls after the new customer information system was launched, until October 2013.
- 209** Call monitoring is essential for identifying customer service concerns, systemic issues, and staff training needs. Hydro One’s failure to ensure that call quality was monitored during the system launch period was significant. As an internal audit report later noted:
- The suspension of Hydro One call monitoring eliminated the one true source of truth with respect to customer satisfaction at this critical time.
- 210** Our investigation also revealed several flaws with the monitoring program. For instance, until the summer of 2014, only 10% of call centre calls were recorded. While all calls are now recorded, call centre auditors only review a fraction of these, about 250 each month. Audits are supposed to take place soon after the

calls occur. However, quality assurance auditors told us increased call volumes resulted in audits taking place up to a week later. Auditors are also expected to only spend a maximum of 20 minutes per call audit. This means more difficult, complex and lengthy calls are often skipped.

- 211** As well, we discovered that call centre audit results could be manipulated to paint an overly rosy picture. Some staff told us they “cherry pick” the calls they audit, selecting short calls that meet average handle time expectations. One candidly explained:

If we get close to the end of the month and the quality is not where it should be, then we have to work to get the quality to where it should be. We choose the calls...

- 212** On Hydro One’s side, only one customer service analyst performs call quality auditing. She does not independently monitor live calls, but listens to about 50 calls a month from those already audited by the call centre. As long as the scores given in both audits come within 5% of each other, an audited call is considered satisfactory. Any discrepancies are discussed at “calibration sessions” between the two organizations.
- 213** At present, Hydro One’s call quality monitoring efforts are limited. It should be conducting more robust monitoring to satisfy itself that customers are receiving the respectful, courteous and professional service they deserve. It should not simply rely on auditing calls previously selected and reviewed by the call centre. Rather, it should engage in independent and random auditing of recorded calls and develop a process for live auditing of calls.
- 214** Internal documents indicate that some Hydro One officials and their family members relayed their own experiences with poor call centre service after the system change. In February 2014, there was also some discussion concerning making a few “secret shopper” calls to test call centre performance. Hydro One does not have a formal “secret shopper” program (i.e., people posing as customers to test the responsiveness and quality of the call centre), but should consider instituting such a program to gain more practical insight into call quality in real time.

### **Recommendation 13**

**Hydro One Inc. should engage in more robust monitoring of the quality of call centre calls through more extensive sampling of recorded calls, live call monitoring, random spot checks, and the introduction of “secret shopper” calls.**

- 215 Although the call centre should be expected to monitor its own calls, it is not a disinterested party. To mitigate the risk that call centre audits may reflect overly positive outcomes, Hydro One should consider retaining an independent agency to conduct call audits.

**Recommendation 14**

**Hydro One Inc. should engage an independent external third party to assist in conducting random audits of call quality.**

- 216 Hydro One's call evaluation and call quality scoring standards have not been updated since April 2009. As part of its new emphasis on customer-centered service, the company should review and update these standards to ensure that they reflect this new focus.

**Recommendation 15**

**Hydro One Inc. should review and update its call evaluation and call quality scoring standards to ensure that they reflect its goal of customer-centered service.**

- 217 One glaring omission in Hydro One's call monitoring program is that it does not apply to its in-house customer relations centre, which handles escalated customer calls and those from stakeholders like MPPs, the Ontario Energy Board, and my Office. Hydro One is missing out on an opportunity to ensure that its own staff are appropriately responding to escalated complaints. It should develop quality standards for the customer relations centre that reflect the goal of customer-centered service. It should also record customer relations centre calls and introduce a call monitoring program with features such as live call monitoring, random spot checks, and secret shopper inquiries.

**Recommendation 16**

**Hydro One Inc. should develop customer service quality standards for the customer relations centre.**

**Recommendation 17**

**Hydro One Inc. should record customer relations centre calls and develop a call monitoring program for the centre, including live call monitoring, random spot checks and secret shopper calls.**

- 218 Hydro One owns most of the assets that are used to deliver outsourced services, and the two call centre locations are in Hydro One facilities. However, despite their close physical connection, Hydro One managers responsible for overseeing the call centre have tended to keep their distance from its day-to-day operation. It was only in late March 2014 that Hydro One managers set up a physical presence in the main Markham call centre, to provide more strategic oversight, operational direction, policy advice and guidance. This included listening in on calls to monitor quality and provide feedback. In addition, daily check-in calls were established amongst senior Hydro One managers to keep informed about call centre issues.
- 219 The company should ensure that managers continue to have a physical presence in the main call centre and engage in robust on-site monitoring of call centre activities.

### **Recommendation 18**

**Hydro One Inc. should continue to have managers located in the main call centre to ensure robust on-site monitoring.**

## Surveying the Situation

- 220 Another tool that Hydro One uses to evaluate customer satisfaction are surveys, which are carried out by private research companies. These surveys include residential and small business customers, large distribution customers and customers who connect their own generators to the distribution system.
- 221 One company surveys customers within a few days of their contact with the call centre, to determine their overall satisfaction with the transaction, and such issues as response time, information quality, skill and attitude of staff, and ease of access. The survey results for 2013 – the year of the customer information system fiasco – were reported in February 2014. They indicated an 82% overall satisfaction rating – a decline of just 2% from 2012. Until recently, the survey reviewed 100 customer transactions each month. That number recently increased to 600 a month. Shortly after our investigation began, Hydro One also started a short survey of call centre customers, which asks them to “rate your experience” by indicating whether the representative they spoke to was knowledgeable and understood their needs, and whether the call was resolved to their satisfaction.
- 222 Another company tracks residential and small business customer satisfaction and perceptions of the company. It surveys about 2,400 customers per year

about such things as overall satisfaction, customer service, hydro rates, billing and payments, service reliability, outage management and communication. This survey reported in October 2013 on overall satisfaction with Hydro One in 2012 and 2013 and found it actually increased during the year of the customer information system change – from 78% in 2012 to 80% in 2013.

- 223** After the introduction of the new customer information system, the perception surveys continued to produce positive results, and even the monthly transaction surveys did not signal any substantial customer service problems. While some measures saw occasional dips in the satisfaction ratings, these were not particularly unusual when compared to the results from previous years.
- 224** Key survey statistics are reported to senior Hydro One management. Regular reports and presentations are provided to the relevant managers. High-level survey results are also shared with the Ontario Energy Board, which uses this information to publish “scorecards” on its website.
- 225** Hydro One reported an overall 87% customer satisfaction rate for 2013. It told us that customer satisfaction “is an equally weighted composite index of the three distribution customer segments: residential and small business, large distribution customer accounts and distribution connected generators.” The overall customer satisfaction rate is also posted on the company’s scorecard on the Ontario Energy Board’s website.
- 226** Given the escalating billing and customer service issues the system changeover in May 2013 spawned, it seems perverse that Hydro One scored so highly in customer satisfaction. It suggests that the surveys conducted that year were of no real value in identifying problem trends. The recent moves to increase the number of transaction surveys and survey call centre customers might help the company obtain better insight into emerging issues. However, Hydro One should conduct research and consult with customers and other stakeholders to determine if there are other, more effective and accurate means of measuring and reporting customer satisfaction.

#### **Recommendation 19**

**Hydro One Inc. should conduct research and consult with customers and other stakeholders to evaluate whether there are other, more accurate means of measuring and reporting on customer satisfaction, and change its survey and reporting practices accordingly.**

- 227** According to Hydro One records, the last customer satisfaction survey to gauge the quality of its customer relations centre was conducted 15 years ago. After the centre scored just 36%, the survey was abandoned. Hydro One should implement a survey program to evaluate satisfaction levels with this centre.

**Recommendation 20**

**Hydro One Inc. should conduct customer satisfaction surveys of those using the customer relations centre and use the results to plan for operational improvements.**

## Knowing the Real Score: Performance-Based Compensation

- 228** Hydro One also publishes corporate scorecards every year that measure its success in meeting strategic objectives. Its non-bargaining unit employees, including the Chief Executive Officer and senior executives, enter into annual performance agreements that reflect their individual goals. Performance targets for senior officials are normally linked to the indicators on the corporate scorecard. Employees can qualify for a yearly short-term incentive payment depending on their performance and ability to achieve their targets.
- 229** For 2013, Hydro One’s scorecard displays its customer satisfaction rate as 87%, based on survey results. This is clearly incongruous with the billing and customer service issues experienced by the company from May 2013 onward. In its Annual Information Form, published March 31, 2014, Hydro One acknowledged that in assessing the performance of three executives, it factored in “certain negative prolonged billing and related services issues concerning the Customer Information System.”<sup>19</sup> In the case of the Chief Executive Officer, it observed: “The [board of directors] also gave significant weight to his overall responsibility for such negative issues related to the Customer Information System.” Some incentive payments were awarded to reflect staff performance in 2013, but the board reduced those provided to the Chief Executive Officer and other key individuals in light of the problems that arose with the system implementation.
- 230** Hydro One’s Chief Executive Officer has publicly shouldered personal responsibility for the billing and customer service fiasco, but others have shared

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<sup>19</sup> The form is available online here:

[http://www.hydroone.com/InvestorRelations/Documents/Annual\\_Information\\_Forms/Hydro\\_One\\_Annual\\_Information\\_Form\\_2013\\_ENG.pdf](http://www.hydroone.com/InvestorRelations/Documents/Annual_Information_Forms/Hydro_One_Annual_Information_Form_2013_ENG.pdf)



the blame. After my investigation was launched, one senior official precipitously retired and another's service was terminated.

- 231** The company's most recent scorecard is for 2014, published in its February 27, 2015 Annual Information Form. It shows customer satisfaction down slightly, from the previous year, to 85%. The scorecard also includes some new measurement categories for customer satisfaction, including "unscheduled estimated bills" and "no bill volume." Hydro One exceeded its targets in these two areas, with only 1.2% of its total bills fitting into the first and only **2,600** customers in the "no bill" category.
- 232** The 2014 scorecard also includes a new strategic objective: "Maintaining a commercial culture that increases shareholder value." This includes reference to the customer service recovery cost of **\$88.3 million** – significantly more than the \$47.8 million they had initially projected. It states that Hydro One accomplished a "concerted and successful response, through the customer service recovery project, to the billing issues that arose from the Customer Information System..." The company's net income was down \$54 million from the year before, but it notes that it exceeded the net income goal it set for itself, bringing in **\$749 million** in 2014.
- 233** Hydro One is in the business of generating hundreds of millions of dollars for provincial coffers, and its financial success is undoubtedly beneficial to Ontario's citizens. However, I am concerned that in relying primarily on surveys to gauge customer satisfaction, and in stressing its commercial culture, the company is perpetuating the organizational attitudes that led it to reputational ruin in early 2014. In future, Hydro One's objectives should relate to changing its organizational culture to clearly embrace public sector values. It should evaluate its ability to communicate with customers and other stakeholders proactively, and in accordance with the principles of openness, transparency and accountability. It should also assess its policies and practices to ensure customers are treated fairly, reasonably and with respect.

### **Recommendation 21**

**Hydro One Inc. should establish strategic objectives for its corporate scorecard, as well as for individual managers, related to changing its organizational culture to reflect public sector values.**

## Lessons Unlearned

**234** Hydro One completed several risk workshops and internal audits as it was preparing to implement the new customer information system. However, the last risk assessment took place in January 2013. There was no evaluation of risks associated with billing and customer service after the system was introduced in May 2013. Unlike in earlier phases of the information systems transformation project, no formal “lessons learned” evaluation was done after the system was introduced. By failing to conduct audits and evaluate risks after the launch, Hydro One lost a valuable opportunity to identify and address problems affecting customers.

**235** Interestingly, in November 2013, the Chief Executive Officer and another executive delivered their own version of “lessons learned” from the system refresh in a presentation they gave to a major construction company. According to notes from the presentation, it included such sage wisdom as:

The post-go-live valley of despair can be deep and long. Get ready for it. Measure your way out of it. If you are planning for a three-month dip in performance, triple it; and

Have a rock-solid post-go-live support structure. Expect process gaps, training gaps, system gaps, data gaps. Triage it and fix it. Keep everyone calm.

It is apparent that their focus was on technical challenges associated with the transition, not on its effect on customers.

**236** After my investigation was announced in February 2014, Hydro One’s then-chair directed that an internal audit of customer service scheduled for later in the year be commenced “expeditiously.” An internal audit submission was made to the board’s business transformation committee on March 25, 2014. It said “formal risk assessments would have helped identify and raise awareness that better actions and communication were essential.” Committee members were also told:

During the last few months of 2013, insufficient attention appears to have been paid by all concerned to the ongoing high number of problems in billing, higher than manageable number of ... exceptions, higher than usual number of bills being produced with estimated usage rather than actual [time-of-use] usage measured from the smart meters, and to the resulting escalating trends in customer complaints.

- 237** In the wake of my investigation, Hydro One’s board also spent \$310,000 to have an external consultant (PricewaterhouseCoopers) conduct a “lessons learned” exercise. The consultant’s final report was issued on December 2014.<sup>20</sup> Its conclusions were consistent with the information we obtained during our investigation.
- 238** The PricewaterhouseCoopers report identified eight root causes for the problems associated with the implementation of the new customer information system, starting with an overly ambitious implementation timeline. Other concerns identified included inconsistent use of internal audit and risk assessment teams over the course of the project (particularly once the system was launched), and significant turnover in the project teams and at the project management office, resulting in the loss of continuity.
- 239** The report also commented on the fact that the executive and board of directors’ committees overseeing the project did not retain an independent third party to provide an objective view of the project’s progress. It found that reliance on the project team resulted in information about risks and concerns never reaching the relevant oversight committees.
- 240** The consultants also observed that the quality of reporting on the system dropped off as key team members left the project, and after the system was implemented. It found that until February 2014, there was insufficient operational reporting to allow the executive and board of directors’ committees to appreciate the “severity of the operational issues and the associated impacts to the customers...”
- 241** Hydro One’s senior managers acknowledged to us that those leading the system implementation were not necessarily the best suited to this role. The “lessons learned” report also identified this as an issue and observed that the project was led by a new set of Hydro One executives with limited experience in leading large, complex, transformational projects. Other problems cited were resourcing challenges and ineffective vendor management.
- 242** We were told that the project planning called for a cascading series of tests. However, as time pressures increased, testing was overlapped. The report characterized this as a “high-risk” practice. It noted that testing occurred up to the night before the system launch, and there was insufficient time to familiarize or train those responsible for sustaining the system.

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<sup>20</sup> PricewaterhouseCoopers, *Hydro One Customer Service and Billing Issues – Lessons Learned*, December 2014. Online: [http://www.hydroone.com/OurCompany/governance/Documents/Hydro\\_One\\_-\\_CIS\\_Lessons\\_Learned\\_Report.pdf](http://www.hydroone.com/OurCompany/governance/Documents/Hydro_One_-_CIS_Lessons_Learned_Report.pdf)

- 243** Although the report focused primarily on the planning, implementation and monitoring of the new customer information system, it also briefly addressed the “reactive customer response.” It noted that Hydro One failed to appreciate the “bill shock” experienced by customers who suddenly received large bills after prolonged periods of no bills.
- 244** The consultants also recognized that Hydro One’s culture required a customer service reorientation. They wrote:
- Had Hydro One been more proactive and timely with these customer-focused changes it may not have experienced the level of customer frustration and negative media attention. A more customer focused cultural transformation will require ongoing support and investment to become fully institutionalized across the organization and within its outsourced service providers.
- 245** The report concluded that several factors impaired Hydro One’s operational nimbleness, such as the fact that new defects kept cropping up and workarounds were being implemented to deal with them right up to the “go-live” date, resulting in billing staff not being fully trained prior to the launch.
- 246** It made eight recommendations, which Hydro One management accepted:
1. Establish a discovery phase for large-scale projects before confirming project scope and concluding contracts;
  2. Engage a broad cross-section of executives, functions and stakeholders in decision-making;
  3. Ensure that testing phases and windows of projects are protected;
  4. Continue the practice of formal project risk assessments and internal audits at key stages of projects;
  5. Improve vendor oversight and management and hold project vendors to account;
  6. Ensure project leaders and team members possess the right skills and experience;
  7. Maintain project tracking and documentation rigour always;
  8. Ensure the right number of people with the right expertise and experience are put in place until the system is fully stable.
- 247** Hydro One’s board of directors can be credited with retaining an external resource to conduct this exercise. However, it was done well after the project was implemented and the problems associated with the new system had snowballed and drawn abundant negative public attention. In addition, Hydro One has never carried out an in-depth exercise to examine its failure to consider

customers during all stages of its project planning, implementation and stabilization. It has never engaged in any evaluation of the failed communications strategy employed after billing and customer service problems emerged. The “lessons learned” report identified what went wrong with the system planning, implementation and “post-go-live” response from the perspective of improving internal business practices. However, the impact on customers was only addressed summarily, and not for the purpose of making concrete recommendations to ensure a better customer experience overall.

- 248 Hydro One should ensure in future that whenever projects are undertaken, timely risk assessments and evaluations are carried out that specifically consider whether the impact on customers has been adequately reviewed and addressed.

### **Recommendation 22**

**Hydro One Inc. should ensure that timely risk assessments and “lessons learned” evaluations take place throughout all stages of project planning, implementation and stabilization. It should consider whether the impact on customers has been appropriately identified and addressed through mitigation and contingency planning, as well as communication strategies.**

## Sunny Days Are Here Again

- 249 During our investigation, we heard the term “sunny day reports” to describe the overly optimistic and positive project reporting that was used at Hydro One’s executive and board of director levels to evaluate the progress of the new customer information system. Hydro One managers were well aware that the Ministry of Energy and the Ontario Energy Board were concerned about increased complaints and delayed responses from the company. Staff also knew they were struggling with an unprecedented volume of customer complaints and backlogged technical fixes. However, executive management and the board of directors apparently remained oblivious to these warning indicators until the situation was explosive.
- 250 In future, Hydro One should ensure there are clear early warning mechanisms in place to alert executive management and the board of directors to percolating problems. Its executive managers and the board of directors should be frequently briefed about resolved and unresolved customer service and billing issues. Sufficient background information about the nature of these issues should be provided to enable a true understanding of the impact on customers. Progress reports should also include cumulative statistical information to provide a comprehensive view of systemic concerns.

- 251 Hydro One must also minimize the opportunities for statistical information to be manipulated to present an overly bright picture of its operational health. While the executive committee and the board of directors were shown charts and graphs displaying a dramatic rise in the backlog of complaints at the customer relations centre, they failed to grasp their import because of how the information was presented. As Ontario’s Auditor General recommended in her December 2014 report on the smart metering initiative, the company needs to improve its tracking of inquiries and complaints. It should compile information about all complaints and inquiries received and identify the source of complaints – customers, the media, my Office, the Ontario Energy Board, the Ministry of Energy and other stakeholders. This information should be carefully analyzed to identify problem trends and to highlight individual cases involving egregious customer treatment and errors. Executive management and the board should be fully and regularly briefed on these trends, along with individual cases demonstrating significant impacts on customers. Statistics only tell half the story. Hydro One and its board of directors need a more realistic picture of the true impact of its operations on individual customers and stakeholders.
- 252 Hydro One should continually reinforce for its staff, through training and direction, that the purpose of preparing billing and customer service statistics is to enable the company to have a clear, objective and accurate understanding of how well it is serving its customers. We found that Hydro One’s statistics shifted over time and were difficult to reconcile. Its statistics should appear in a consistent, clear, and standardized format. They should also be accompanied by meaningful and honest analysis reflecting the actual state of affairs, not public relations spin.

### **Recommendation 23**

**Hydro One Inc. should ensure that executive management and the board of directors are immediately alerted to any signs of systemic customer service and billing problems, including rising complaint levels.**

### **Recommendation 24**

**Hydro One Inc. should ensure that, in addition to regular briefings on complaint statistics, its executive management and board of directors routinely receive information about complaints and inquiries from all sources, as well as details of problem trends and individual cases reflecting egregious customer service and errors.**

**Recommendation 25**

**Hydro One Inc. should ensure that executive managers and the board of directors are regularly and fully briefed about the cumulative impact and nature of customer service and billing issues.**

**Recommendation 26**

**Hydro One Inc. should continually reinforce for its staff, through training and direction, that the purpose of preparing billing and customer service statistics is to enable the company to have a clear, objective and accurate understanding of how well it is serving its customers.**

**Recommendation 27**

**Hydro One Inc. should prepare statistics in a consistent, clear, and standardized format, accompanied by meaningful and honest analysis.**

- 253 One senior Hydro One executive we interviewed told us that the board of directors was considering creating a customer service committee. Establishing such a committee would enable the board to concentrate more directly on customer service issues, and I encourage the company to proceed with this initiative. The committee should also look for opportunities to hear directly from customers and customer groups about issues that have impacted them.
- 254 In order to appreciate the relevance of various operational issues and statistics in the context of customer service, Hydro One’s board of directors should also receive training on technical matters and the measures used to evaluate customer service performance. Such training would help board members ask the right questions and provide more active oversight.

**Recommendation 28**

**Hydro One Inc. should create a customer service committee of the board of directors to highlight the significance of issues affecting its customers, meet with customers and customer groups to gain a better understanding of customer service issues, and effectively address systemic concerns.**

**Recommendation 29**

**Hydro One Inc. should ensure that its board of directors receives sufficient training to understand technical aspects of the company’s operations, key performance indicators and other information relevant to customer service.**



- 255 Hydro One must also learn to act with urgency when customer service issues arise. It should not focus on the percentage of customers affected, but on the individuals who have been poorly served, and ensure that adequate resources are allocated to meet operational demands. As an internal audit report noted in April 2014, the company was slow in addressing backlogged requests in the customer relations centre. A few staff members were added in May 2013, and a few more in January 2014, but it was not until February 2014 that the complement rose to 50 to help with the bulging backlog.
- 256 Hydro One officials acknowledged to us that they drastically underestimated the resources required to cope with the issues arising from the implementation of the new customer information system. However, the company also delayed authorizing additional staffing for several months, after it was aware that the scope of technical and customer service issues far outstripped the ability of human resources to cope with them. In future, Hydro One should ensure that it has sufficient resources to address problems as they arise.

### **Recommendation 30**

**Hydro One Inc. should ensure that it has adequate customer service and technical resources to address customer service issues.**

### Refund or Discredit

- 257 One of the issues I mentioned at my press conference announcing my investigation was that we had been hearing from customers that Hydro One was not refunding overpayments, but insisting that customers would only be credited for excess payments. Hydro One immediately took to Twitter to tell customers: “If you have a credit on your Hydro One account, you can request a refund...”
- 258 During our investigation, call centre staff routinely told us that refunds might be available in some cases, but only if a customer expressly asked for one. A Hydro One executive also confirmed that the company’s practice was to offer credits, not refunds. The company placed greater emphasis on offering refunds for overpayments after my investigation began. However, we were told that the production of refund cheques was delayed for a time because of a technical malfunction.
- 259 In March 2014, **Elaine Crilly**, a senior from **Mildmay**, contacted us when a call centre agent told her she could not get a full refund for an overpayment. Hydro One later agreed to provide a refund, but told her it would take four to six weeks.

It eventually gave her a four-month credit, and assured us that as of late April 2014, refunds should only take three to five business days to process.

- 260** Despite this commitment, the problem persisted for months. In July 2014, the family of a widow from **Killaloe** incurred overdraft fees and other bank charges because Hydro One unexpectedly withdrew **\$5,500** in payment of her account. After we intervened, the company arranged a refund and gave her a further credit of **\$660.60**. I remain concerned that Hydro One still does not have a clear and consistent practice in place for ensuring that timely refunds are available to customers.

### **Recommendation 31**

**Hydro One Inc. should develop a system to ensure that timely refunds are available to customers who have overpaid their accounts, through inadvertence or system error.**

## Unclear Bills

- 261** Another issue that customers have repeatedly raised is that their bills are confusing and unclear. In summer 2014, Hydro One officials told us there was no plan to redesign the bills to make them more user-friendly. By November 2014, we were told that Hydro One was evaluating some “bill presentment alternatives for the future,” but had no plan for changes. By December, we were told bills were being redesigned to make them clearer.
- 262** For most customers, the primary communication they receive from Hydro One is their bill. The fact that the company has only recently realized that it should revise its bills to make them more customer-friendly is concerning. Hydro One should pursue bill redesign with a view to ensuring that information is presented for maximum clarity. In the process, it should consult with customers and consider best practices from other utilities.
- 263** During the billing crisis, many customers were frustrated and confused when they received a flurry of multiple bills, sometimes as many as 20 at once. Even Hydro One staff were often flummoxed when asked to explain how this happened. When Hydro One must reissue bills because of mistakes, prolonged estimates or otherwise, it should prepare a single itemized bill, along with a letter clearly and simply explaining the account reconciliations and the reasons for them.

**Recommendation 32**

**Hydro One Inc. should redesign its bills to ensure maximum clarity.**

**Recommendation 33**

**Hydro One Inc. should consider best billing practices and consult its customers and other stakeholders in redesigning its bills to ensure that any revisions actually meet customer needs.**

**Recommendation 34**

**Hydro One Inc. should prepare a single itemized bill, rather than multiple bills, to address rebilling because of mistakes, prolonged estimates or other circumstances, along with accompanying correspondence setting out a clear explanation as to why the account has been reconciled.**

## Confusing Complaints Process

- 264** Several Hydro One customers expressed confusion about its complaint escalation process. Many were unaware of the difference between Hydro One’s customer relations centre and the outsourced call centre. Although there is a section on disputes embedded in Hydro One’s conditions of service, it is not readily accessible and there is no clear explanation of the complaint process on the company’s website. To assist its customers, Hydro One should post a plainly worded description of the various levels of its complaint process on its website.
- 265** Many customers also told us that despite their continuing dissatisfaction with the information Hydro One provided to them, they were never referred to the Ontario Energy Board or my Office. Hydro One should include reference to external avenues of complaint on its website and ensure that customer relations centre staff consistently make referrals to outside agencies when appropriate.

**Recommendation 35**

**Hydro One Inc. should post a clear explanation of the complaint process, including information about call centre and customer relations centre escalations, and reference to external referrals.**

**Recommendation 36**

**Hydro One Inc. should ensure that the customer relations centre staff consistently provide external referrals to the Ontario Energy Board, the Ontario Ombudsman and other relevant bodies where appropriate.**

## The Power of Apology

- 266** Hydro One sent out form letters to apologize for individual problems encountered with the new customer information system, and when the media storm hit in February 2014, senior officials were quick to apologize publicly for poor service. However, the company does not follow a consistent practice in its oral or written apologies. We found some cases where customers received heartfelt apologies, while others who were equally inconvenienced heard nothing. One frustrated customer commented to us that this should be a matter of common courtesy:

Be considerate. If people keep phoning back over and over and over, have somebody in authority call them back. Explain what is going on. Apologize.

- 267** Ontario's *Apology Act* encourages the use of apologies, insulating them from admission in civil, administrative and arbitral proceedings. Apologizing for errors, delays and misunderstandings is expected from public service agencies. Accordingly, Hydro One should develop a procedure to ensure that customers who experience substandard service receive sincere apologies as well as clear, detailed and accurate explanations for the problems they encountered.

### **Recommendation 37**

**Hydro One Inc. should develop a procedure to ensure that customers are consistently offered clear, detailed and accurate explanations as well as apologies for poor service.**

## Crossed Wires – Billing Resolution Duplication

- 268** Several teams at Hydro One worked independently to implement technical fixes to resolve customer billing concerns. Unfortunately, lack of communication and co-ordination amongst the groups sometimes put them at cross purposes. For instance, the customer relations centre might resolve a customer complaint by cancelling a customer's bill and revising it, only to have a SWAT team member repeat the process. Several Hydro One staff we interviewed confirmed that failure to communicate amongst the teams exacerbated customer service problems.
- 269** Hydro One's internal emails from June 2014 refer to six cases where one team's work cancelled out the work of another. One Hydro One manager attempted to

downplay the significance of the lack of co-ordination between these groups, assuring us that the number of bills affected was quite small. However, other staff expressed concern that overlapping responsibilities served to further frustrate customers. One SWAT case worker observed:

We're trying to gain their trust back and the same sort of scenario just happened. They just got a duplicate set of bills again, so it makes them wonder what's going on... it's not a good situation.

- 270 Hydro One should ensure that different work areas co-ordinate and communicate to avoid duplication, inconsistency and poor customer service when trying to resolve billing issues.

### **Recommendation 38**

**Hydro One Inc. should ensure that its efforts to resolve billing issues are adequately monitored and co-ordinated to prevent duplication, inconsistency and negative impact on its customers.**

## **Cultural Differences: Failing the Culture Change Test**

- 271 Hydro One's Chief Executive Officer has been in his present role since January 2013, but he has worked for the company for decades. His senior managers agree that he has made concerted efforts to improve the company's culture and make it more transparent. One manager told us the Chief Executive Officer was trying to get the company "out of the compliance mindset." Others said he is trying to get more "outside vision."
- 272 After my investigation began, the Chief Executive Officer encouraged senior managers to make direct contact with customers, and he even took a turn at the call centre, answering calls. Since the summer of 2014, he has also asked Hydro One staff to carry a "core values" card that sets out five values, including "customer caring." The card states that Hydro One sees its work through the eyes of customers, and keeps its promises, sharing information and offering advice. The card also reminds staff: "Serving customers is why we are here."



**Figure 7: Hydro One's "Core Values" card.**

- 273** Hydro One told us that its core values were recently incorporated into the call centre's quality training and related quality monitoring program. This includes greater attention to listening, empathy, education and assistance to customers.
- 274** Adopting corporate values and symbolic gestures to improve employees' appreciation of customer experiences are well-intentioned and positive measures. However, they are meaningless if they don't translate into real attitudinal change. Remnants of Hydro One's introspective culture remain – and one clear illustration of this is that the core values are nowhere to be found on the company's website.
- 275** After I announced my investigation, Hydro One pledged to change its culture to become more customer-focused. The Chief Executive Officer predicted in his October 2014 presentation to the Ontario Energy Network that "by the time the [Ombudsman's] report comes out, we will be a different company." The then-chair of the board of directors echoed that view, vowing that Hydro One would

become “customer-driven”<sup>21</sup> and later expressing the hope that by the time my investigation was finished, I would be “reporting on a historical point in time within Hydro One.”<sup>22</sup>

- 276** Hydro One’s executives maintain the company is providing very different customer service than it was in 2013 or early 2014. However, the litmus test for cultural change is whether the company has followed through on its promises. Regrettably, during my investigation, I saw few concrete signs that Hydro One had moved beyond its cultural comfort zone. I am not convinced that the company is significantly different than it was when we started.

## Committing to Customer Commitments

- 277** On October 22, 2014, Hydro One’s Chief Executive Officer wrote and told me that a draft “customer commitment document” would be posted to the company’s website that very day. He indicated that Hydro One would seek input on its commitments from its customers, employees, stakeholders and the newly established customer service advisory panel. He further pledged that once the document was finalized, the company would establish metrics that would relate directly to the commitments, and form the basis of a public scorecard that would measure how Hydro One’s performance “stacks up against our stated commitments.” The letter to me was posted on the company’s website.<sup>23</sup> However, in March 2015, when my investigators inquired about the whereabouts of the commitment document, it took seven business days to arrive – and what we were sent turned out to be a draft that is still a work in progress, under review by the customer service advisory panel. As of the writing of this report, there is still no customer commitment document on the company’s website.
- 278** I am somewhat skeptical of customer charters, bills of rights and similar documents. It is my experience that sometimes the agencies with the most impressive value statements are the worst at living up to them. I was prepared to give Hydro One the benefit of the doubt when it announced that it would make formal commitments to its customers. However, the fact that the promised document is still missing in action six months after the Chief Executive Officer promoted this initiative is concerning.

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<sup>21</sup>“Sandra Pupatello named chairwoman of Hydro One,” Dave Waddell, *Windsor Star*, March 7, 2014.

Online: <http://blogs.windsorstar.com/news/sandra-pupatello-named-chairwoman-of-hydro-one>

<sup>22</sup> “At Hydro One helm, Pupatello vows to put customers first,” Ashley Csanady, *Queen’s Park Briefing*, March 14, 2014.

<sup>23</sup> The letter can be found here:

[http://www.hydroone.com/Ombudsman/Documents/Andre\\_Marin\\_File\\_No\\_276184\\_October\\_22\\_2014.pdf](http://www.hydroone.com/Ombudsman/Documents/Andre_Marin_File_No_276184_October_22_2014.pdf)



**279** The draft document that was finally sent to us in March 2015 consists of eight simple pledges:

1. We will **provide** you with a clear, timely and accurate bill.
2. We will **deliver** a reliable supply of electricity.
3. We will **treat** you with courtesy and respect.
4. We will **accommodate** your circumstances if you have special needs or if you are having a hard time financially.
5. We will **make it easy** to access your account information.
6. We will **respect** your property.
7. We will **help** you manage your electricity use and costs.
8. We will **keep** our promises.

Hydro One’s website indicates that 60,000 customers were consulted about the commitments through online and telephone surveys. The company told us the customer service advisory panel is still determining how each commitment will be interpreted and measured.

**280** To follow through on its commitment to customers, Hydro One should establish timelines and monitor progress of this initiative at the executive level. Its website states that it will publicly share detailed findings relating to the commitments in “early 2015,” but it had not done so as of the writing of this report. To remedy this, it should post status updates on the commitments on its website. In creating service metrics and customer service scorecards to evaluate whether it has lived up to customer commitments, Hydro One should use simple, straightforward and clear measures and publish accurate statistics that plainly describe what they mean. To enhance organizational learning and public accountability and transparency, it should also publicize concrete examples of situations where it has both met and failed to achieve the standards it has set for itself. Hydro One must not return to “sunny day” reports and statistical sleight of hand. Ontarians deserve the plain truth, not a feel-good promotional exercise.

### **Recommendation 39**

**Hydro One Inc. should ensure that its customer commitment initiative has strong senior leadership and robust project planning, monitoring and reporting.**

### **Recommendation 40**

**Hydro One Inc. should post regular status updates on the progress of its customer commitment initiative on a prominent place on its website for public consultation.**

**Recommendation 41**

**Hydro One Inc. should post the final customer commitment document in a prominent place on its website.**

**Recommendation 42**

**Hydro One Inc. should set timelines for the completion of the service metrics and public scorecard to accompany the customer commitment document, and ensure that these are prepared on an expedited basis.**

**Recommendation 43**

**Hydro One Inc. should post service metrics and the public scorecard related to the customer commitment document prominently on its website and ensure that these are regularly updated.**

**Recommendation 44**

**Hydro One Inc. should ensure that it provides clear and transparent explanations for the statistical information and other evaluations that it posts about its success in meeting its customer commitments.**

**Recommendation 45**

**Hydro One Inc. should post examples of cases where it has met and/or failed to meet its commitments to promote organizational learning, public accountability and transparency.**

- 281** The delay in developing and posting the customer commitments also leads me to question how effectively Hydro One will make use of the customer service advisory panel it established in October 2014. This body is in addition to the customer advisory board, a stakeholder group that has been around since September 2002, and which also provides advice to management on how best to provide services to Hydro One customers. The customer advisory board meets about four times a year, and the board member we interviewed indicated the company has rarely given serious consideration to its advice. Hydro One should ensure that the customer service advisory panel is provided with sufficient information and opportunities to provide its insights. The public should also be informed about the panel's activities and any progress the company has made as a result of its contributions.

**Recommendation 46**

**Hydro One Inc. should ensure that the customer service advisory panel is provided with sufficient information and opportunities to enable it to function effectively.**

#### **Recommendation 47**

**Hydro One Inc. should publish information about the customer service advisory panel’s activities and the contribution it has made to customer service initiatives.**

### That’s Cold - Winter of Our Disconnect

- 282** In my view, the most persuasive evidence that Hydro One still lacks any real understanding of what it means to reflect a public sector ethos lies in its winter disconnection notices. Hydro One supplies a service that customers are obligated to pay for. There is no question that Hydro One is entitled to collect on unpaid bills, and, in appropriate circumstances, disconnect electrical service to those who fail to pay for it. However, I found the way that Hydro One approached collection in winter abhorrent and shocking.
- 283** In December 2013, the company temporarily suspended its collections program. This continued as part of its February 2014 strategy to restore customer trust in response to my investigation. But by mid-September 2014, the collections program was back in force, which included sending disconnection warning notices to customers with overdue payments. In October 2014, there were **96,000** accounts in the collections program; of those, **33,000** were sent disconnection warning notices, **2,600** were the subject of disconnection orders issued, and **364** actual disconnections were completed.
- 284** As Ontarians are well aware, winter here can be long and cruel, with temperatures dipping well below freezing for extended periods. For those who rely on electricity to help heat their homes, going without can have devastating consequences. In recognition of this, Hydro One has a winter disconnection moratorium, the timing of which varies depending on local geography. It does not disconnect residential customers with unpaid bills during the winter months. Instead, it restricts their electricity usage through a “load limiter” device. Although the winter disconnection moratorium has been in place for many years, Hydro One deliberately kept this practice secret. It continued to send disconnection warnings and threats to cut off power throughout the winter – including over the December holiday season – to coerce customers to pay up.
- 285** During the winter of 2014-2015, my Office received about **75** complaints – including in February 2015, the coldest recorded month in Ontario’s history – from desperate individuals who had been threatened with disconnection.
- 286** A senior couple living on a farm in **Mountain** received a notice in December 2014, warning that they would be disconnected if they didn’t pay their bill in three days. Distraught, they pleaded with Hydro One for a reprieve until their

Canada Pension Plan cheques arrived at the end of the month. After my Office intervened, Hydro One allowed the couple time to obtain financial assistance and pay the remaining balance.

- 287** A woman from **Red Lake** had experienced multiple billing issues in the wake of the new system. She was sent a bill with the wrong address in July 2013, did not receive bills for months, and then received several contradictory bills. In December 2014, she found a disconnection notice in the mail. She called our Office, confused and fearful. After we raised the case with Hydro One, it agreed to stop the disconnection process, refund her 16 months of service charges, and allow her two years to repay the outstanding balance of **\$1,226.29**.
- 288** A senior in **Portland** who was already having difficulty in making her hydro payments was hospitalized in December 2014 and diagnosed with cancer. When her partner discovered a disconnection notice in the mail in January 2015, he asked Hydro One for an extension, but was refused because his name wasn't listed on the account. Attempts by a community support worker to intercede on the customer's behalf were also rebuffed. We were able to facilitate a resolution, including a reasonable payment plan and an end to further collection activity.
- 289** An **Ilderton** man with a newborn baby and six-year-old son contacted us in February 2015 when Hydro One threatening to disconnect his electricity if he didn't pay the full balance of his **\$3,278** bill. He was worried that disconnection would leave his family homeless. He eventually borrowed money and entered into a repayment plan.
- 290** Although it is not against the law to disconnect customers in winter, it is clearly against Hydro One's longstanding policy. Despite this, all of these people were sent form letters threatening that if their overdue payments were not received by a set date, their electricity service "may be disconnected." The form letter also warned:

Hydro One Networks will assume no responsibility for any injury or damages that may occur to persons or property, including any equipment or appliances, as a result of any interruption of electricity service. We may disconnect your service even if you are not present at the time of disconnection or we may disconnect your service remotely without visiting your property or we may install a load-limiting device.

- 291** The standard form disconnection notice also referred recipients to financial assistance programs, including Hydro One's own Low-Income Energy Assistance Program (LEAP), administered through the United Way of Greater Simcoe County. As well, somewhat ominously, it included a fire safety notice

from the Ministry of Community Safety and Correctional Services about taking care when using alternative lighting, cooking and heating equipment.

- 292 For people who are already paying off arrears by installment and happen to miss a payment, the notice leaves no doubt about disconnection. It states:

If payment of these outstanding amounts is not received by the effective date, the Arrears Instalment Plan will be cancelled and ***an order will be issued to disconnect electricity*** at your service address as noted above. If the electricity is disconnected, payment of the full past due balance will be required before we will reconnect your service. [*emphasis added*]

- 293 We confirmed with Hydro One that it would not cut the electricity to any of these people, despite what it had misled them to believe. We also helped where we could, facilitating repayment plans and bill adjustments. However, our attempts to convince Hydro One to reconsider its callous winter strategy of terrifying customers into settling their accounts were initially met with resistance.
- 294 In late January 2015, senior staff from my Office raised this matter with Hydro One executives and emphasized that its approach lacked the transparency expected of a public body. Hydro One officials defended the practice as consistent with that of other utility companies. They resisted the suggestion that they should publish information about the winter disconnection moratorium, saying it would be a disincentive to customers paying their bills on time. They also said the company's practice complied with the distribution service code approved by the Ontario Energy Board. In fact, the board has established minimum requirements for disconnection notices, but nowhere does it direct utilities to mislead customers about the spectre of disconnection.
- 295 I found the rationale Hydro One gave to justify lying about its intentions to support its collection efforts morally repugnant. On February 20, 2015, I met with the Chief Executive Officer to strongly voice my objection to a practice I considered both dishonest and disingenuous. I also pointed to several jurisdictions in the United States, such as Massachusetts, that specifically and publicly prohibit disconnections in winter. The Chief Executive Officer acknowledged that the tactic of sending disconnection notices was an empty threat, but would not commit to a change in practice on the spot. He indicated he would consider the matter further and provide me with a response as soon as possible. Six days later, a Hydro One executive assured my Office that a response was being drafted and should arrive the next day. It did not.
- 296 The first week of March, we were told that the response was in progress. As

time passed and I continued to hear from vulnerable people who were frightened by the prospect of losing their electricity in the continuing cold, I became increasingly concerned. Finally, tired of waiting, on the morning of Tuesday, March 10, 2015, I announced that I would issue a public update on my investigation at a press conference the next day. This move inspired Hydro One to respond at 4:55 p.m. on March 10. It advised us it had stopped sending out the residential disconnection notice the preceding Friday (March 6). It also enclosed a draft of a new letter, with the heading “URGENT NOTICE – SERVICE INTERRUPTION.” Unfortunately, the revised notice still held out the possibility of disconnection – it simply left the timing uncertain and dependent on vagaries of the weather, noting, “depending on weather conditions, we may either install a load limiter to limit the flow of electricity to your property or disconnect the service altogether.”

- 297** Just short of two hours before I was to hold my press conference on March 11, Hydro One sent another message, explaining that it had engaged a North American expert to look at credit and collections best practices across a range of industries so that it could develop strategies and tools, with a view to helping its customers stay current. It expected to have a new approach developed in the next couple of months and intended to engage various stakeholders, including my Office, in the process. Another revised disconnection notice was also attached. While somewhat simplified, it still stressed that the weather would determine if the customer would be disconnected or not.
- 298** After my press conference, Hydro One invited me through Twitter to rewrite the warning letter with them. It said: “We hear [the Ombudsman’s] concerns. Hydro One would like to sit down with him and write the disconnection letter to his satisfaction.”
- 299** The company also issued a press release,<sup>24</sup> plugging improvements it had made since my investigation began, and stressing that it was:

(R)evueing and revising its disconnection communications to ensure that they are a clear and accurate reflection of our policies and easy for our customers to understand.

The release noted, “We will work with the Ombudsman to resolve this issue.” For the first time, Hydro One also admitted publicly: “We do not disconnect during the winter months.”

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<sup>24</sup> The press release is available online here: <http://hydroone.mediaroom.com/2015-03-11-Hydro-One-provides-up-date-on-Customer-Recovery>

300 The next day, the Chief Executive Officer wrote to me personally to let me know the language in the letter had been revisited and revised.<sup>25</sup> The latest version of the “Urgent Collections Notice” now explicitly states:

**Out of concern for the safety of our customers, we do not disconnect residential customers during the winter months or periods of extreme cold.**

301 The Chief Executive Officer also noted that Hydro One’s collections expert had advised them, based on his initial assessment, that the company’s “collections practices are consistent with electrical utility industry, but Hydro One provides customers with more time and leeway to manage their accounts than is typical.” He indicated that he had asked the expert to look beyond the utility sector for best practices.

302 I am pleased that Hydro One has finally moved to take action to stop collection efforts through intimidation and deceit, and that it has finally come clean about its winter disconnection moratorium. However, its protracted and reticent response to this issue suggests that it still clings to the vestiges of a private-sector mentality and lacks a public service vision.

303 Several North American jurisdictions let consumers know when there is no possibility of being disconnected.<sup>26</sup> For example, Massachusetts prohibits disconnections between November and March. Hydro One should publish moratorium dates every year, refer to them in customer collections communications during the winter months, and abide by them.

#### **Recommendation 48**

**Hydro One Inc. should publish disconnection moratorium dates annually, refer to them in communications about collections during the winter months, and abide by them.**

304 Many of those who contacted us about threatened disconnection were coping with extremely challenging personal situations. They included low-income seniors, families with small children, and individuals with disabilities and significant illness, who were callously dismissed and disregarded by call centre agents. At times, when our Office asked that Hydro One show compassion for

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<sup>25</sup> The letter is available online here:

[http://www.hydroone.com/WorkingtoGetBetter/Documents/Letter\\_to\\_Ombudsman\\_March12\\_2015.pdf](http://www.hydroone.com/WorkingtoGetBetter/Documents/Letter_to_Ombudsman_March12_2015.pdf)

<sup>26</sup> A list of utility policies for various U.S. states can be found online here:

<http://www.liheapch.acf.hhs.gov/Disconnect/disconnect.htm>



people in difficult and tragic circumstances, we received insensitive responses, some suggesting that to give one person a break would ultimately cost other customers more. Hydro One should develop clear and consistent guidelines, policies and procedures for dealing with disconnection cases to ensure that individual circumstances are taken into account in negotiating payment plans and extensions, as befits a public sector organization. Referring people to financial resources in compliance with the Ontario Energy Board requirements is not enough. Hydro One should ensure that customers are treated with compassion and common sense, not left to face an insensitive bureaucratic wall.

**Recommendation 49**

**Hydro One Inc. should develop a process that ensures individual circumstances are consistently and fairly taken into account when resolving collection matters.**

## Credit Collection – Owing an Apology

- 305** During the height of its billing and customer service crisis, Hydro One stopped collection of overdue accounts. When collections resumed in the fall of 2014, customers who had experienced billing system issues were supposed to be excluded from the collection process for 12 months. Several Hydro One insiders approached my Office on a confidential basis to raise concerns about the adequacy of testing and training that was done before collections resumed. Their comments proved prescient, as the call centre was soon deluged with calls from irate and confused customers. An internal Hydro One briefing note, dated October 20, 2014, confirmed that the reactivation of the collections process had “driven a much higher-than-expected volume of inbound calls to Hydro One’s call centre,” resulting in long wait times on the phone.
- 306** In November 2014, Hydro One had to suspend collection efforts for a few days when it discovered that **2,308** accounts were wrongly flagged for collection. Hydro One responded by calling some customers, reinforcing staff training, enhancing coding, and adding a second review of accounts before they enter the collection process.
- 307** Unfortunately, this error was evocative of the earlier problems encountered with the customer information system. It reflected a failure to ensure that customer interests were given priority and that sufficient safeguards were established to minimize impacts on them.

## **Recommendation 50**

**Hydro One Inc. should ensure that all changes in bill collection initiatives are thoroughly researched and planned, and include pre-implementation consideration of customer service impacts, risks and mitigation strategies.**

### Relying on Technicalities – Customer Beware

- 308** Hydro One’s technical and introspective mindset also continues to be evidenced in its “buyer beware” approach to issues relating to billing classifications and rates. Some customers have suggested that the company has managed to profit from unsuspecting consumers who overpay for service because they are unfamiliar with technical terminology.

### ***It's a Little Dense - Density Classifications***

- 309** Customers pay different rates for electricity, depending on the type of service they receive. Residential properties are classified as urban high, medium or low density, according to the number of electricity consumers in an area, and those in different density areas may pay different rates. Generally, the higher the density of an area, the lower overall amount the customer pays – and vice-versa. Sometimes Hydro One inadvertently misclassifies a property’s density. However, there are also circumstances that can lead to a change in density, such as growth of a subdivision, or renovation of a property to accommodate multiple users. We received more than 50 complaints from customers about their density classification.
- 310** A senior couple from **Moorefield** told us that they contacted Hydro One numerous times to get their density changed from low to medium, to match the classification for their neighborhood. They waited for a promised readjustment for months before contacting our Office.
- 311** A woman from **Brockville** compared her Hydro One bill with her mother’s, and discovered that although they lived only 3.5 kilometers apart, she was paying considerably more for hydro, based on a low-density classification. After numerous fruitless calls to the call centre, she contacted our Office in October 2013. We determined she had been wrongly classified, but it still took Hydro One months to correct the error.
- 312** Historically, Hydro One has not engaged in proactive review of density classifications. Instead, it has relied on customers to come forward and complain. Even then, it has only adjusted classifications for those who request a review,

not for anyone else in the area. We received several complaints from members of a retirement community in **Stouffville** who discovered that they were paying significantly more for electricity than their neighbours. They found out that those who moved in during the early phases of the development were charged residential low-density rates, while later arrivals qualified for lower-priced medium-density rates. Some customers complained and Hydro One adjusted their classification. However, other residents who were unaware of this possibility continued to overpay their accounts for years.

- 313** Hydro One told us that in the past, it had no practical way to capture changes in density. However, as a result of refinements to its geographic information system tool, it can now more readily access this data. Recently, Hydro One applied to the Ontario Energy Board for approval to reclassify 11% (134,568) of its customers based on density. Beginning in April 2014, Hydro One quietly stopped reviewing requests for density reclassification, pending the results of the board application. We were told customers who raised concerns during this moratorium would have their classifications adjusted back to the date of the complaint, should the board find in their favour. The board issued its decision on the rate application on March 12, 2015, and set rates for the next three years. As a result, approximately 9% of Hydro One’s customer base will be reclassified based on lower density, and the remainder will pay higher rates.
- 314** Since the Ontario Energy Board decision, Hydro One has been negotiating with customers who had previously raised concerns about retroactive rate readjustment. However, its treatment of this issue again demonstrates its failure to provide customers with sufficient information. Hydro One’s website contains no information explaining to customers that they can challenge their rate classification based on density.
- 315** Hydro One’s persistent failure to alert customers to the fact that they might be paying more for their electricity because of a wrong density classification reflects a lack of appreciation for the principles of transparency, openness and accountability. To remedy this, the company should publish clear and easily accessible information on its website, explaining the relationship between density classification and rates and setting out the process that customers can follow to have their density reviewed. Hydro One should also adopt a clear, consistent and fair retroactive adjustment policy. It should also abandon its practice of placing the onus on individual customers to come forward. In future, if a customer raises a substantiated concern about density, Hydro One should ensure that similarly situated neighbours receive the same adjustment.

**Recommendation 51**

**Hydro One Inc. should post clear and easily accessible information on its website informing customers about the significance of different density classifications and their relationship to rates.**

**Recommendation 52**

**Hydro One Inc. should post information about the density classification review process on its website.**

**Recommendation 53**

**Hydro One Inc. should develop a clear, consistent and fair policy for retroactive adjustment of accounts that have been subject to an inaccurate density classification.**

**Recommendation 54**

**Hydro One Inc. should ensure that whenever a customer request results in a density reclassification, neighbouring properties are reviewed to assess whether the same adjustment should apply to them.**

***General Disservice – General Service Billing***

- 316** Another example that Hydro One is operating on the “gotcha” principle when it comes to billing technicalities is apparent in its approach to the category of “general service” accounts. Several individuals complained to us about Hydro One’s misclassification of their accounts this way. Most were unaware of the significance of this term until they became frustrated with paying consistently high bills.
- 317** The “general service” rate classification is intended to cover non-residential properties, such as commercial, industrial, educational, administrative, auxiliary and government-type services.
- 318** “General service” is a term of art in the utility industry. Its meaning is not readily apparent to the average consumer, but it generally results in customers paying higher rates than residential customers. Many customers told us that they simply assumed the phrase described normal residential hydro service.
- 319** A **Carleton Place** man contacted our Office in February 2014 to complain that he had not received a bill since September 2013. In the course of resolving his billing problems, we learned that his account was classified as general service. Although he had used the property as a residence for 20 years, the former owners had run an antique business from it. We were able to help him get the classification changed, but Hydro One refused to adjust his account retroactively.

- 320** **Rebecca Sharpe** had been paying the general service rate for years on her residential property in **Shedden**, but only learned of this when she called Hydro One to complain about high delivery charges on her bills. Her home’s prior owners had used it for business purposes. Hydro One changed the classification, but initially refused to recalculate her charges. It eventually adjusted her account retroactively for two years and gave her a credit for five months of service charges.
- 321** A **Johnstown** woman realized that her rates were too high after five years in her home. She told us she spent more than 15 frustrating hours on the phone with the call centre to get the situation sorted out. She said she was repeatedly placed on hold, had to explain to seven different people what the problem was, and despite her efforts, no one was prepared to help. Our inquiries revealed that a prior owner had used the premises for a woodworking business. Hers was one of the few cases in which Hydro One agreed to recalculate her bills back to the date she moved in.
- 322** A widow from **Goderich** only realized that something was wrong with her rate classification when she compared bills with her neighbors. She had set up a new account in June 2013 in her name after her husband died, and Hydro One had mistakenly reclassified the property as general service. Despite numerous phone calls and three letters, it did not correct the account and issue her a credit until January 2014.
- 323** **Walter and Betty Klassen’s** home in **Schreiber** was mistakenly classified as a recreational park – and therefore a general service account – for four years. They told us they first complained about high rates in December 2012, but Hydro One had no record of this and only responded with a classification change and a nominal goodwill credit after they complained again in August 2013.
- 324** Hydro One told us that when a property classified as general service changes hands, normally the classification continues. Staff are not instructed to ask the new owners/customers whether the general service account will be changing to residential. Call centre and customer relations centre staff acknowledged in our interviews that customers might not understand or necessarily question what the general service classification means, even if they notice the reference to “general service” on their bills. There is also no information on Hydro One’s website to alert customers about what they can do if they believe their property is misclassified.
- 325** Hydro One does not provide customers with adequate information about classification differences or how to challenge wrong classifications, leaving

many to pay higher rates unwittingly, sometimes for years. When customers do manage to identify a classification error, its approach to retroactive adjustments is inconsistent. Typically, it is reluctant to credit customers for past overpayments based on misclassification.

- 326** Hydro One should provide clear information about the different rate classifications to customers, both in general terms and with respect to their individual accounts. It should also explain to customers how they can dispute rate classifications. In addition, Hydro One should take steps to mitigate the risk that accounts set up online or through the call centre will be misclassified. For example, it should instruct call centre agents to confirm the details of a property's usage whenever a new account is established or an account is transferred to another customer. It should also develop and consistently apply criteria for providing retroactive account adjustment in cases of misclassification.

**Recommendation 55**

**Hydro One Inc. should inform individual customers, in clear language, of the significance of their rate classifications in terms of billing, and include information about how to request a change in classification if they believe their property is misclassified.**

**Recommendation 56**

**Hydro One Inc. should post clear information about the different rate classifications (such as general service) and their impact on billing on its website, and include information about how customers can request a change in classification if they believe their property is misclassified.**

**Recommendation 57**

**Hydro One Inc. should ensure that call centre agents are instructed to confirm the use being made of the property when setting up or transferring accounts that are classified as general service, to ensure proper classification.**

**Recommendation 58**

**Hydro One Inc. should ensure that when accounts are created online, the nature of the service is confirmed to ensure proper classification.**

**Recommendation 59**

**Hydro One Inc. should develop a transparent and consistent process for providing retroactive credits and refunds when it is discovered that an account has been misclassified, and post information about this process on its website.**

## Two Years Too Late – Retroactive Charges

- 327** Under the Ontario Energy Board’s *Retail Settlement Code*<sup>27</sup> and Hydro One’s conditions of service, if a billing error results in prolonged underbilling through no fault of a residential customer, Hydro One can only require the customer to make up the difference on up to two years’ worth of charges. However, we found several cases where Hydro One had not applied this restriction until my staff pointed it out.
- 328** **Brenda Parkin** of **Holland Landing** told us that in September 2013, her elderly father suddenly received three bills for differing amounts. After she complained, the bills were cancelled and three more were issued, showing credits. In July 2014, a package containing 20 bills arrived, showing an outstanding balance of **\$2,150**. Ms. Parkin believes the aggravation of trying to decipher these bills aggravated her father’s heart condition and led to his being hospitalized the next day. Hydro One initially offered a discount of **\$215**. We discovered that the bills wrongly included charges for periods dating back more than two years. Hydro One ultimately applied a further credit of more than **\$1,200** to the account.
- 329** A **Flesherton** woman received a trued-up bill in May 2014 for **\$21,771.31** after receiving estimated bills for more than three years (39 months). It was only after we intervened that Hydro One realized it had billed her for periods beyond two years and her account was adjusted, reducing her arrears by **\$8,373.58**.
- 330** A **Woodlawn** family received a large catch-up bill and three packages of bills dating back three years. Hydro One only adjusted the account after we found that this violated the *Retail Settlement Code*.
- 331** A **Schumacher** man who was rebilled well beyond the two-year limit told us his attempt to address the retroactive charges with Hydro One agents was met with rudeness and refusal. He described it as follows:

I said, not only have you retroactively billed me for three years, which is, like, ridiculous, but you’ve changed bills that I’ve already paid... The individual I spoke with at the customer service line advised me that it was basically my tough luck, and that I should just pay up, and that was that. Honestly, it was as abrupt and rude as that. I said, “You can’t do that.” She goes, “Yeah, we can.”

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<sup>27</sup> S.7.7.7 Retail Settlement Code. Online:  
[http://www.ontarioenergyboard.ca/oeb/Documents/Regulatory/Retail\\_Settlement\\_Code.pdf](http://www.ontarioenergyboard.ca/oeb/Documents/Regulatory/Retail_Settlement_Code.pdf)



- 332 Hydro rates are already a source of concern for many Ontarians. Receiving delayed and excessive retroactive bills can cause extreme hardship for customers. Hydro One should scrupulously ensure that it does not issue bills to customers in contravention of the *Retail Settlement Code*, and that it trains staff to ensure that they are aware of and consistently apply the two-year restriction.
- 333 Hydro One should also ensure that information about this restriction is more clearly and prominently posted on its website.

#### **Recommendation 60**

**Hydro One Inc. should ensure that it does not issue retroactive bills in contravention of the *Retail Settlement Code*, and should train call centre and customer relations centre staff so that they understand and apply the two-year billing limit.**

#### **Recommendation 61**

**Hydro One Inc. should prominently post information on its website about the two-year restriction for collecting charges from residential customers for underbilling.**

### ***Giving Credit Where it is Due***

- 334 Beginning in October 2013, at the Minister’s suggestion, Hydro One offered customers who had never been billed under the new system a “fixed flat charge,” or service charge credit for each month they went without bills. The service charge represents the flat distribution charge, which varies depending on the customer’s classification. During our investigation, the monthly service charge for residential customers ranged from \$16.64 to \$29.11. According to Hydro One, this fee pays for the costs of billing, meter reading, customer service, and 24-hour power restoration services. Call centre agents also have the authority to offer “goodwill” credits, waiving the monthly service charge at their discretion to resolve customer disputes. However, we found that goodwill service credits were inconsistently applied. Four months after my investigation began – June 2014 – Hydro One issued a final goodwill credits policy, emphasizing that customers are to be treated in a fair, consistent, and sensitive manner.
- 335 Hydro One should change its vocabulary in these cases. It should appreciate that waiving service charges is not a “goodwill” gesture, but compensation for failing to provide acceptable service. It does not deserve a service charge when it has not delivered decent service. Some customers we interviewed felt it was offensive to be offered a goodwill credit after the frustration they had endured. As one put it, “that’s very insulting – there’s no goodwill.” Hydro One should

revise its policy to eliminate the reference to “goodwill” and acknowledge that it should not charge for substandard service. It should also publish its credits policy and ensure it is consistently applied. In addition, failure to issue bills or providing customers with erroneous ones is unacceptable. With this in mind, Hydro One should take steps to amend its conditions of service to incorporate a right for customers to automatically receive service charge credits whenever they do not receive bills, or receive inaccurate bills.

#### **Recommendation 62**

**Hydro One Inc. should revise its goodwill credits policy to eliminate reference to “goodwill,” post the revised document on its website, and ensure that it is applied consistently.**

#### **Recommendation 63**

**Hydro One Inc. should take steps to revise its conditions of service to provide customers with a right to receive service charge credits if they do not receive bills, or receive erroneous bills.**

### Still Looking on the Bright Side

- 336** Hydro One has paid a steep financial price in its effort to recover from its crisis of confidence. Internal records reflect that by November 2014, it had paid out **\$5.1 million** in service credits, written off **\$23.8 million** in net bad debts, and forgone **\$11.2 million** in revenue from late payment charges. Its customer service recovery costs total **\$88.3 million**. The fallout from the customer service nightmare also contributed to a **\$54-million** decrease in its net income for 2014.
- 337** Today, the company’s goal of reaping a **\$172-million** financial benefit within seven years of the installation of the new customer information system appears unrealistic. Hydro One has paid an astounding premium for its failure to adequately plan for the system and factor in its impact on customers. Still, it continues to look on the bright side.
- 338** In February 2015, Hydro One began to proclaim publicly that it had fixed the problems that plagued its billing since the launch of the new customer information system.<sup>28</sup> When we asked for clarification, it responded:

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<sup>28</sup> One example can be found under the heading “Hydro Billing” in this “Sudbury Daystarter,” article at CBC.ca: <http://www.cbc.ca/news/canada/sudbury/sudbury-daystarter-news-weather-to-start-your-friday-1.2946912>

The majority of the underlying issues affecting the billing system have been resolved. This is most clearly demonstrated by the fact that no-bill volumes have declined and are now below pre-go-live levels. In addition, bills with unscheduled estimated usage reached a low of 1.2% in December. For any remaining billing system issues, additional resources, workarounds and safety nets are in place to minimize and/or eliminate any customer impacts.

**339** We were also told that the customer information system stabilization would continue into March 2015 and that as of January 19, 2015, **7,600** customers still remained affected by issues, with **1,400** still not receiving bills for over 90 days, and **6,200** receiving estimated bills for more than three billing cycles.

**340** As one representative told us, the vast majority of issues are under control, but there are still problems. He used the metaphor of a duck viewed from above the water:

Looks all calm ... but underneath, the legs are frantically paddling to keep it going. So yes, certainly internally there's additional activities, effort, labour, scrutiny being put towards it, but from the customer-facing aspect, the vast majority of items have stabilized.

**341** In a March 11, 2015 press release, issued in response to my investigation update of the same day, Hydro One stressed its successes and set out various statistics demonstrating improvement. These can now also be found on its website in a section entitled "Our Customer Service: Then and Now."<sup>29</sup> Hydro One has a penchant for describing the number of those affected by billing issues as small, and using only percentages. This announcement was one of the rare occasions when it also used actual numbers of customers affected. It noted that a year after my investigation was launched, the tally of customers who hadn't received a bill for more than three months had dropped from 5% (**53,495**) to 0.1% (**475**). Its complaints backlog had also been reduced from 513 to 104, and only **4,681** customers were receiving estimated bills for a prolonged period of time, as opposed to **30,899** in February 2014. Its public message ended on a positive and poetic note:

Going forward, we continue to make things right for our customers, one customer at a time.

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<sup>29</sup> <http://www.hydroone.com/OurCompany/News/Pages/Customer-service-then-and-now.aspx>

**342** In a letter to me on March 12, 2015, the Chief Executive Officer also wrote:

(T)he technical issues associated with our billing system are now resolved. The system is operating normally and performing better than the system it replaced. With those issues behind us, we are now focused on transforming our culture and building positive, constructive relationships with our customers.

**343** There is no doubt that Hydro One’s billing and customer service situation has improved since I commenced my investigation in February 2014. However, I hesitate to agree that Hydro One’s problems have been fully resolved. The company has highlighted its success since February 2014, when there were **84,394** customers either not receiving bills or receiving estimated bills for a prolonged period. However, if one adds up the customers affected by errors and defects experienced since May 2013, the number climbs to well over **100,000**. While the rate of billing problems has diminished significantly, according to the company there are still more than **5,000** customers faced with the frustration of going months without bills or receiving multiple bills based on estimates, leading to the prospect of large catch-up bills in future. This might not seem like a big number to Hydro One, and it isn’t necessarily a large percentage of its total customer base, but it represents thousands of individuals who are not receiving dependable and predictable customer service. In fact, it’s a larger number than the population of many municipalities in Ontario.

**344** As well, although we did not investigate high electricity rates or general concerns about the various charges included in hydro bills, their impact cannot be overlooked. The billing crisis that followed the installation of the customer information system exacerbated an already difficult financial situation for many Hydro One customers. We encountered seniors on fixed incomes, people with disabilities and families with young children, all facing dire financial straits. Offers of interest-free payment plans and service charge credits were of limited value to those struggling with the choice of paying for food and rent or for electricity. The high rates, billing errors, delays and large catch-up bills, coupled with an exceedingly long and frigid winter, placed many in an untenable position, particularly those who were thrown into panic when threatened with disconnection. Hydro One’s customers deserve better.

**345** Fewer complaints about Hydro One are arriving at my Office now, but there is still a steady stream of about a dozen a day. Many of the latest cases are no less egregious than those we heard about in fall 2013. For instance, a **Pickle Lake** woman told us she received 12 high bills in June 2014, which made no sense to her. Then in December she received 18 bills, all for different amounts. The total owing was **\$49,578.23**, even though she normally pays about \$4,000

per year. She called Hydro One to dispute the amount and was told that it would set up a payment plan for her. The matter was recently resolved. After billing adjustments and the application of service credits, the woman now owes \$4,244.54 and has been offered an interest-free installment payment plan to satisfy the balance.

- 346** Unfortunately, Hydro One’s organizational hubris is still apparent in the way it continues to tout its success in recovering from crisis, rather than entering into sober reflection on the morass it is still working to escape. Hydro One has not yet finished learning its lessons from the corporate catastrophe of the new customer information system. One of the first subjects for instruction is the need for humility and greater insight regarding the needs of those it serves. It must jettison its monopolistic tunnel vision and see each customer concern as singularly important and potentially reflective of systemic malfunction.
- 347** Hydro One should use this experience, as well as my observations and recommendations, to instruct its executive, managers and staff to help ensure that the future of hydro services is truly brighter for Ontario’s citizens and radiates the public sector values of openness, transparency and accountability.

**Recommendation 64**

**Hydro One Inc. should use the customer relations fallout associated with the new customer information system as a learning tool for its managers.**

- 348** I also intend to closely monitor Hydro One’s progress in implementing my recommendations to ensure that the momentum for change continues.

**Recommendation 65**

**Hydro One Inc. should report back to my Office in six months’ time on the progress in implementing my recommendations, and at six-month intervals thereafter until such time as I am satisfied that adequate steps have been taken to address them.**

## Current Events and Hydro One's Future

- 349** The Ontario government recently announced plans to significantly modernize Hydro One, including disposing of 60% of the utility, while retaining a 40% ownership interest. A new chair of the board of directors was also appointed in April 2015. The government has indicated that its proposed changes would require Hydro One to create a dedicated ombudsman to replace the independent oversight of my Office.
- 350** The government's decision to privatize Hydro One and insulate it from my investigative authority has not been without criticism from opposition members of provincial parliament and members of the public. In the wake of the billing and customer service fiasco chronicled in this report, relying on an in-house complaint body to resolve customer concerns when it is beholden to its corporate employer hardly inspires confidence for the future provision of hydro-electric services through a privatized utility.
- 351** In recent years, Ontarians have spoken out against the limited accountability of private corporations such as Ornge and Tarion, which deliver significant public services, but operate outside of Ombudsman oversight. Given Hydro One's track record, the province should exercise caution in following the path of removing the public right to complain to my Office about billing and customer service issues.
- 352** As my investigation has demonstrated, Hydro One has historically not lived up to principles of good public administration. During its billing crisis, its conduct fell far below any reasonable standards of customer service. The government of Ontario should ensure that in introducing structural changes to Hydro One's operations, the recommendations set out in this report are taken into consideration and that the public interest in fair, timely and effective customer service is preserved, including the right of recourse to my Office.

### **Recommendation 66**

**The Government of Ontario should consider my recommendations in moving forward with any restructuring of Hydro One Inc. and ensure that the public interest in fair, timely and effective customer service is preserved, including recourse to the Ontario Ombudsman.**

## Opinion

- 353** Technical problems associated with Hydro One’s new customer information system triggered a bevy of billing errors, negatively affecting tens of thousands of its customers and leading to an outpouring of complaints. However, it was Hydro One’s lack of appreciation for its customers and what they were experiencing that eventually spawned widespread public backlash. Unfortunately, from system planning to responding to defects and errors to dealing with complaints to media spinning, Hydro One failed to identify with its customers and forgot that its primary purpose as a provincial corporation is to serve the public good. It sought refuge in subterfuge and statistical manipulation instead of promoting the principles of openness, transparency and accountability expected of a public agency.
- 354** It is my opinion that Hydro One’s conduct in planning, implementing and addressing issues relating to its new customer information system, as well as its general response to billing and customer service issues, was unreasonable and wrong under the *Ombudsman Act*.

## Recommendations

- 355** Accordingly, I am making the following recommendations to promote cultural, operational and organizational change at Hydro One, to better serve its customers.

Hydro One, Inc.

### ***Considering customers***

#### **Recommendation 1**

**Hydro One Inc. should ensure that it considers the impact on customers as its first priority throughout all project planning phases and develops appropriate mitigation strategies and contingency plans.**

#### **Recommendation 2**

**Hydro One Inc. should ensure that it keeps track of the cumulative total of customers affected by various systems issues and provides clear, accurate and constant descriptions of the various problem categories.**



## ***Communicating openly and transparently***

### **Recommendation 3**

**Hydro One Inc. should adopt a proactive, transparent, open and accountable approach to communications with stakeholders and oversight and regulatory bodies.**

### **Recommendation 4**

**Hydro One Inc. should ensure that any provider of outsourced services communicates with stakeholders and oversight and regulatory bodies in a transparent, open, and accountable manner.**

### **Recommendation 5**

**Hydro One Inc. should monitor call centre communications to ensure that they reflect the transparency, openness and accountability expected of a provider of public services.**

## ***Improving staff training and supports***

### **Recommendation 6**

**Hydro One Inc. should ensure that it implements comprehensive staff training before introducing any initiatives with potential impact on customers.**

### **Recommendation 7**

**Hydro One Inc. should consult with and obtain timely feedback from individuals responsible for contact with customers to ensure that training is effective and supplemented if necessary.**

### **Recommendation 8**

**Hydro One Inc. should consider providing additional training to call centre and customer relations centre staff in technical and other operational issues to enable them to resolve customer service concerns more effectively.**

### **Recommendation 9**

**Hydro One Inc. should ensure that it regularly provides clear, timely and accurate scripts for use by call centre staff to address billing and other customer service issues as they arise.**

### **Recommendation 10**

**Hydro One Inc. should consult technical and front line call centre staff in the development of scripts to ensure that it provides the tools necessary to ensure effective customer communications.**

**Recommendation 11**

**Hydro One Inc. should ensure that evaluation of staff and call centre agents readiness is included in pre-implementation business readiness assessments preceding major system changes that impact customers.**

***Enhancing call intake and quality monitoring***

**Recommendation 12**

**Hydro One Inc. should conduct research on call intake practices, and revise its performance measures to reflect public sector best practices and greater emphasis on the quality of calls and customer outcomes.**

**Recommendation 13**

**Hydro One Inc. should engage in more robust monitoring of the quality of call centre calls through more extensive sampling of recorded calls, live call monitoring, random spot checks, and the introduction of “secret shopper” calls.**

**Recommendation 14**

**Hydro One Inc. should engage an independent external third party to assist in conducting random audits of call quality.**

**Recommendation 15**

**Hydro One Inc. should review and update its call evaluation and call quality scoring standards to ensure that they reflect its goal of customer-centered service.**

**Recommendation 16**

**Hydro One Inc. should develop customer service quality standards for the customer relations centre.**

**Recommendation 17**

**Hydro One Inc. should record customer relations centre calls and develop a call monitoring program for the centre, including live call monitoring, random spot checks and secret shopper calls.**

**Recommendation 18**

**Hydro One Inc. should continue to have managers located in the main call centre to ensure robust on-site monitoring.**

**Recommendation 19**

**Hydro One Inc. should conduct research and consult with customers and other stakeholders to evaluate whether there are other, more accurate means of measuring and reporting on customer satisfaction, and change its survey and reporting practices accordingly.**

**Recommendation 20**

**Hydro One Inc. should conduct customer satisfaction surveys of those using the customer relations centre and use the results to plan for operational improvements.**

***Transforming corporate culture and governance***

**Recommendation 21**

**Hydro One Inc. should establish strategic objectives for its corporate scorecard, as well as for individual managers, related to changing its organizational culture to reflect public sector values.**

**Recommendation 22**

**Hydro One Inc. should ensure that timely risk assessments and “lessons learned” evaluations take place throughout all stages of project planning, implementation and stabilization. It should consider whether the impact on customers has been appropriately identified and addressed through mitigation and contingency planning, as well as communication strategies.**

**Recommendation 23**

**Hydro One Inc. should ensure that executive management and the board of directors are immediately alerted to any signs of systemic customer service and billing problems, including rising complaint levels.**

**Recommendation 24**

**Hydro One Inc. should ensure that, in addition to regular briefings on complaint statistics, its executive management and board of directors routinely receive information about complaints and inquiries from all sources, as well as details of problem trends and individual cases reflecting egregious customer service and errors.**

**Recommendation 25**

**Hydro One Inc. should ensure that executive managers and the board of directors are regularly and fully briefed about the cumulative impact and nature of customer service and billing issues.**

**Recommendation 26**

**Hydro One Inc. should continually reinforce for its staff, through training and direction, that the purpose of preparing billing and customer service statistics is to enable the company to have a clear, objective and accurate understanding of how well it is serving its customers.**

**Recommendation 27**

**Hydro One Inc. should prepare statistics in a consistent, clear, and standardized format, accompanied by meaningful and honest analysis.**

**Recommendation 28**

**Hydro One Inc. should create a customer service committee of the board of directors to highlight the significance of issues affecting its customers, meet with customers and customer groups to gain a better understanding of customer service issues, and effectively address systemic concerns.**

**Recommendation 29**

**Hydro One Inc. should ensure that its board of directors receives sufficient training to understand technical aspects of the company's operations, key performance indicators and other information relevant to customer service.**

**Recommendation 30**

**Hydro One Inc. should ensure that it has adequate customer service and technical resources to address customer service issues.**

***Improving customer service practices***

**Recommendation 31**

**Hydro One Inc. should develop a system to ensure that timely refunds are available to customers who have overpaid their accounts, through inadvertence or system error.**

**Recommendation 32**

**Hydro One Inc. should redesign its bills to ensure maximum clarity.**

**Recommendation 33**

**Hydro One Inc. should consider best billing practices and consult its customers and other stakeholders in redesigning its bills to ensure that any revisions actually meet customer needs.**

**Recommendation 34**

**Hydro One Inc. should prepare a single itemized bill, rather than multiple bills, to address rebilling because of mistakes, prolonged estimates or other circumstances, along with accompanying correspondence setting out a clear explanation as to why the account has been reconciled.**

**Recommendation 35**

**Hydro One Inc. should post a clear explanation of the complaint process, including information about call centre and customer relations centre escalations, and reference to external referrals.**

**Recommendation 36**

**Hydro One Inc. should ensure that the customer relations centre staff consistently provide external referrals to the Ontario Energy Board, the Ontario Ombudsman and other relevant bodies where appropriate.**

**Recommendation 37**

**Hydro One Inc. should develop a procedure to ensure that customers are consistently offered clear, detailed and accurate explanations as well as apologies for poor service.**

**Recommendation 38**

**Hydro One Inc. should ensure that its efforts to resolve billing issues are adequately monitored and co-ordinated to prevent duplication, inconsistency and negative impact on its customers.**

***Committing to customers***

**Recommendation 39**

**Hydro One Inc. should ensure that its customer commitments initiative has strong senior leadership and robust project planning, monitoring and reporting.**

**Recommendation 40**

**Hydro One Inc. should post regular status updates on the progress of its customer commitment initiative on a prominent place on its website for public consultation.**

**Recommendation 41**

**Hydro One Inc. should post the final customer commitment document in a prominent place on its website.**

**Recommendation 42**

**Hydro One Inc. should set timelines for the completion of the service metrics and public scorecard to accompany the customer commitment document, and ensure that these are prepared on an expedited basis.**

**Recommendation 43**

**Hydro One Inc. should post service metrics and the public scorecard related to the customer commitment document prominently on its website and ensure that these are regularly updated.**

**Recommendation 44**

**Hydro One Inc. should ensure that it provides clear and transparent explanations for the statistical information and other evaluations that it posts about its success in meeting its customer commitments.**

**Recommendation 45**

**Hydro One Inc. should post examples of cases where it has met and/or failed to meet its commitments to promote organizational learning, public accountability and transparency.**

**Recommendation 46**

**Hydro One Inc. should ensure that the customer service advisory panel is provided with sufficient information and opportunities to enable it to function effectively.**

**Recommendation 47**

**Hydro One Inc. should publish information about the customer service advisory panel's activities and the contribution it has made to customer service initiatives.**

***Improving collection practices***

**Recommendation 48**

**Hydro One Inc. should publish disconnection moratorium dates annually, refer to them in communications about collections during the winter months, and abide by them.**

**Recommendation 49**

**Hydro One Inc. should develop a process that ensures individual circumstances are consistently and fairly taken into account when resolving collection matters.**

**Recommendation 50**

**Hydro One Inc. should ensure that all changes in bill collection initiatives are thoroughly researched and planned, and include pre-implementation consideration of customer service impacts, risks and mitigation strategies.**

***Clarifying classifications***

**Recommendation 51**

**Hydro One Inc. should post clear and easily accessible information on its website informing customers about the significance of different density classifications and their relationship to rates.**

**Recommendation 52**

**Hydro One Inc. should post information about the density classification review process on its website.**

**Recommendation 53**

**Hydro One Inc. should develop a clear, consistent and fair policy for retroactive adjustment of accounts that have been subject to an inaccurate density classification.**

**Recommendation 54**

**Hydro One Inc. should ensure that whenever a customer request results in a density reclassification, neighbouring properties are reviewed to assess whether the same adjustment should apply to them.**

**Recommendation 55**

**Hydro One Inc. should inform individual customers, in clear language, of the significance of their rate classifications in terms of billing, and include information about how to request a change in classification if they believe their property is misclassified.**

**Recommendation 56**

**Hydro One Inc. should post clear information about the different rate classifications (such as general service) and their impact on billing on its website, and include information about how customers can request a change in classification if they believe their property is misclassified.**

**Recommendation 57**

**Hydro One Inc. should ensure that call centre agents are instructed to confirm the use being made of the property when setting up or transferring accounts that are classified as general service, to ensure proper classification.**

**Recommendation 58**

**Hydro One Inc. should ensure that when accounts are created online, the nature of the service is confirmed to ensure proper classification.**

**Recommendation 59**

**Hydro One Inc. should develop a transparent and consistent process for providing retroactive credits and refunds when it is discovered that an account has been misclassified, and post information about this process on its website.**

**Recommendation 60**

**Hydro One Inc. should ensure that it does not issue retroactive bills in contravention of the *Retail Settlement Code*, and should train call centre and**



**customer relations centre staff so that they understand and apply the two-year billing limit.**

**Recommendation 61**

**Hydro One Inc. should prominently post information on its website about the two-year restriction for collecting charges from residential customers for underbilling.**

**Recommendation 62**

**Hydro One Inc. should revise its goodwill credits policy to eliminate reference to “goodwill,” post the revised document on its website, and ensure that it is applied consistently.**

**Recommendation 63**

**Hydro One Inc. should take steps to revise its conditions of service to provide customers with a right to receive service charge credits if they do not receive bills, or receive erroneous bills.**

***Lessons learned***

**Recommendation 64**

**Hydro One Inc. should use the customer relations fallout associated with the new customer information system as a learning tool for its managers.**

***Progress reports***

**Recommendation 65**

**Hydro One Inc. should report back to my Office in six months’ time on the progress in implementing my recommendations, and at six-month intervals thereafter until such time as I am satisfied that adequate steps have been taken to address them.**

**Government of Ontario**

**Recommendation 66**

**The Government of Ontario should consider my recommendations in moving forward with any restructuring of Hydro One Inc. and ensure that the public interest in fair, timely and effective customer service is preserved, including recourse to the Ontario Ombudsman.**

## Response

- 356** Hydro One and the Ministry of Energy were both provided with an opportunity to review and respond to my preliminary findings, opinion, and recommendations.
- 357** On behalf of Hydro One, the President and Chief Executive Officer accepted all of the **65** recommendations addressed to the corporation. He also detailed the actions Hydro One had already taken to improve billing and customer service and that would be undertaken in future to respond to my recommendations. A copy of this response is appended to this report. I will continue to closely monitor Hydro One's progress in implementing my recommendations.
- 358** The Deputy Minister of the Ministry of Energy responded to Recommendation 66, which focuses on ensuring that momentum for the improvements I have recommended and Ombudsman oversight continues as the government's restructuring initiative progresses. He referred to the government's plan to have oversight responsibilities of the Officers of the Legislature, including my Office, "fall away with a transition period," and discussed establishment of the corporation's own "Ombudsperson's office." A copy of this response is appended to this report. I am disappointed by the Ministry's response and intend to encourage the Government of Ontario to retain independent and impartial external oversight of Hydro One through my Office and other accountability mechanisms, rather than rely on an in-house complaints office.



André Marin  
Ombudsman of Ontario

## **Appendix A – Ministry Response**



**Ministry of Energy**

Office of the Deputy Minister

Hearst Block, 4<sup>th</sup> Floor  
900 Bay Street  
Toronto, ON M7A 2E1  
Tel: 416-327-6758  
Fax: 416-327-6755

**Ministère de l'Énergie**

Bureau du sous-ministre

Édifice Hearst, 4<sup>e</sup> étage  
900, rue Bay  
Toronto, ON M7A 2E1  
Tél: 416-327-6758  
Téléc.: 416-327-6755



May 11, 2015

Mr. André Marin  
Ombudsman of Ontario  
Bell Trinity Square  
483 Bay Street  
10th Floor, South Tower  
Toronto ON M5G 2C9

Dear Mr. Marin:

Thank you for providing me with a copy of your Preliminary Report on Hydro One. I am writing to you today with the Ministry of Energy's response to Recommendation 66 of the Preliminary Report.

To allow Hydro One to operate in the same way as other publicly traded companies, the oversight and control of the company must be modified. Oversight responsibilities for Officers of the Legislature, including the Ontario Ombudsman, would fall away with a transition period. The Ombudsman would have six months to complete any outstanding reviews, but could still issue a report after that date. This will ensure that Hydro One is subject to the same rules and oversight as other publicly traded companies. Similar changes took place in other instances when ownership was broadened, including Air Canada, CN Rail, Petro-Canada and the Nova Scotia Power Company.

To maintain public trust throughout the Initial Public Offering (IPO), former Auditor General of Canada Denis Desautels has agreed to serve as Special Advisor to the Minister of Energy to provide advice about the processes related to the engagement of financial advisors and other service providers for the IPO. Hydro One would also be required to establish a dedicated Ombudsperson similar to those found at other public companies. Mr. Desautels will provide advice on how best to establish this dedicated Ombudsperson's office to ensure transparency, objectivity and accountability. In addition, the Ontario Energy Board (OEB) would continue to protect the public interest, and the powers of the OEB would be further enhanced, including the creation of a consumer advocacy role.

Thank you again for providing me with copy of your Preliminary Report on Hydro One.

Sincerely,

A handwritten signature in blue ink, appearing to read "Serge Imbrogno".

Serge Imbrogno  
Deputy Minister



## Appendix B – Hydro One Response





Hydro One Inc.  
483 Bay Street, 8th Floor  
Toronto, ON M5G 2P5  
www.hydroone.com



**Carmine Marcello**  
President & CEO

May 11, 2015

André Marin  
Ombudsman Ontario  
483 Bay Street, South Tower  
10th Floor  
Toronto, Ontario  
M5G 2C9

*Delivered by Hand*

Dear Mr. Marin,

I am writing in response to your preliminary report entitled: *Investigation into the transparency of Hydro One's billing practices and the timeliness and effectiveness of the process for responding to customer concerns.*

Hydro One appreciates the opportunity to review and comment on your preliminary report and accepts its associated recommendations. We are committed to becoming the company our customers expect us to be and I believe we are making real progress towards that achievement.

Hydro One's move to a new Customer Information System (CIS) in 2013 was a major initiative intended to improve Hydro One's efficiency, productivity and ultimately, its customer service offerings. The goal was the right one but I agree with your observation in the report that the experience of our customers in the months following the implementation of our billing system was unacceptable. In response to these issues, Hydro One has initiated a number of actions that we believe, address most of your report recommendations.

In summary, we have:

- established more rigorous tracking, monitoring, and reporting of customer service metrics and performance indicators to ensure real-time visibility of customer service health
- strengthened corporate governance and oversight of customer service performance for large-scale customer-facing projects and initiatives
- changed the service-provider that manages our call centres and call centre staff
- changed how we work with our service provider to place a stronger emphasis on the engagement and training of our call centre agents and quality monitoring of call centre operations

- launched a major call quality improvement program to improve customer service
- initiated a project to improve bill clarity, including a bill redesign project

I was pleased that your report acknowledges Hydro One's billing and call handling practices are markedly improved from where they were when you initiated your investigation. I am proud of the progress we have made so far. We have tackled the issue of customers not receiving a bill for prolonged periods of time and reduced that number from a high of 53,495 to a current result of 360. We have improved first call resolution in our call centre from 69% to 82%. We will intensely track both these measures of service health as part of our comprehensive customer monitoring program and work hard to continue improving all our customer scores.

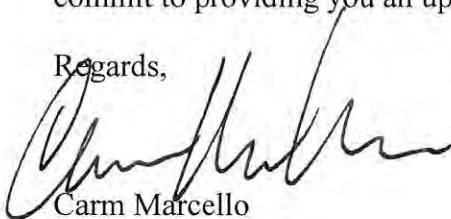
We are pleased with our progress to-date but we fully understand that meeting our customers' expectations involves much more than simply improving our billing and call centre performance. In responding to these concerns we recognized that the issues went deeper than the implementation of new technologies. We acknowledge that Hydro One's culture was at the heart of our customer service failings. We are committed to changing that culture to become one of service and pride that puts the focus on ensuring that Hydro One is the company the people of Ontario need us to be.

In the fall of 2014, Hydro One established a Customer Service Advisory Panel (the Panel). The Panel acts as an independent body that will ensure the Company is living-up to specific measureable customer service commitments. We have been working diligently with the Panel to finalize a comprehensive set of customer commitments as well as the means by which the Panel will assess and report on our progress against the commitments to ensure the Company is accountable to the highest standards. Over the longer-term, we will also look to the Panel to advise Hydro One leadership with respect to establishing and implementing new/revised customer service policies, approaches and products.

Our aim throughout this process has been to provide your investigation team with timely and open access to the people, systems and documents required to complete your investigation. I would like to acknowledge the professionalism of your investigation team as they carried out their specific duties.

Thank you for allowing Hydro One this opportunity to provide comment on your preliminary report. A copy of our responses to each of your recommendations is appended to this letter. I commit to providing you an update on our progress in the months ahead.

Regards,



Carm Marcello  
President and CEO,  
Hydro One Inc.

## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Considering Customers	1	Hydro One Inc. should ensure that it considers the impact on customers as its first priority throughout all project planning phases and develops appropriate mitigation strategies and contingency plans.	Hydro One has modified its project delivery methodology to ensure we have a more customer centric focus. In addition, the new Vice President, Customer Service founded the Customer Governance Committee in the Q3 of 2014 Committee to include leadership from all divisions in ensuring that customer impact of all actions and projects is considered at all stages and mitigation strategies are in place.
	2	Hydro One Inc. should ensure that it keeps track of the cumulative total of customers affected by various system issues and provides clear, accurate and constant descriptions of the various problem categories.	Whenever undertaking potentially customer-disruptive initiatives, Hydro One will keep track of the total number of customers affected by system issues and the nature of the disruptions.
	3	Hydro One Inc. should adopt a proactive, transparent, open and accountable approach to communications with stakeholders and oversight and regulatory bodies.	Since early 2014, Hydro One has increased the transparency and openness of interactions with stakeholders and regulators. For example, throughout the customer recovery project, Ontario Energy Board (OEB) and Hydro One staff met biweekly, to provide a close perspective and a real-time view on the issues and gave OEB staff the ability to build understanding and ask informed questions. The regulator was also invited to and took part in multiple teleconferalls with customers throughout 2014, helping them gauge the perspective of Hydro One customers.
	4	Hydro One Inc. should ensure that any provider of outsourced services communicates with stakeholders and oversight and regulatory bodies in a transparent, open, and accountable manner.	Hydro One works closely with our outsourced service provider to ensure that there is clear, transparent, open, accountable communication between our organizations. As the license holder, Hydro One Inc. is accountable for regulatory compliance, we will continue to communicate directly with regulators on matters of performance of our outsourced services.
	5	Hydro One Inc. should monitor call centre communications to ensure that they reflect transparency, openness and accountability expected of a provider of public services.	Hydro One monitors call centre communications on a continuous basis and is committed to being open and transparent with customers in every interaction. In August of 2014, Hydro One Inc. implemented 100% voice recording for all calls to the centre, allowing for monitoring of all call centre communications for conformance to performance standards.

## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Improving Staff Training and Supports	6	Hydro One Inc. should ensure that it implements comprehensive staff training before introducing any initiatives with potential impact on customers.	Hydro One now ensures full training of call centre staff for new initiatives, changes, or issues. For example, in April of 2014 Hydro One Inc. overhauled and implemented new bill literacy training for call centre agents to greatly increase their ability to have informed discussions regarding Hydro One bills in anticipation of a high volume of customer inquiries regarding bills that were larger than average due to the colder than average temperatures this past winter. Call agents can now capably explain, using an online tool, the direct relationship between temperature and electricity consumption. They now have access to an online tool that tracks daily temperature in the customer's area and correlates it directly to the customer's energy consumption.
	7	Hydro One Inc. should consult with and obtain timely feedback from individuals responsible for contact with customers to ensure that training is effective and supplemented if necessary.	Prior to overhauling "bill literacy" training in the spring of 2014 and revamping our entire quality monitoring program shortly after, input was obtained from frontline staff through focus groups and roundtable discussions. This approach has continued for all subsequent agent training materials development.
	8	Hydro One Inc. should consider providing additional training to call centre and Customer Relations Centre staff in technical and other operational issues to enable them to resolve customer service concerns more effectively.	Hydro One has provided additional training to both call centre and complaints-handling staff on technical matters as well as current or emerging issues. This began early in the spring of 2014 and continued throughout the year on topics that included larger than average bills, setup of payment arrangements, and "soft" skills for helping customers with billing concerns or particular hardships. This will be an ongoing process.
	9	Hydro One Inc. should ensure that it regularly provides clear, timely and accurate scripts for use by call centre staff to address billing and other customer service issues as they arise.	In April 2014, Hydro One undertook a full review of call centre agent scripts, with the most frequently used scripts reviewed first (i.e. payment arrangements, estimated bills). Going forward, Hydro One is providing scripts or information on any billing or customer service issues that arise as soon as they become known. Call centre agents are also more empowered to focus on the quality of the conversation and follow the spirit of the script rather than directly reading it.
	10	Hydro One Inc. should consult technical and front line call centre staff in the development of scripts to ensure that it provides the tools necessary to ensure effective customer communications.	Hydro One revamped its quality assurance program in the spring of 2014, utilizing frequent focus groups with staff in both call centres. Obtaining call agent staff feedback is now a part of Hydro One's training and scripting development process so that agents can take ownership of the scripts and guide the company's efforts to resolve customers' issues.
	11	Hydro One Inc. should ensure that evaluation of staff and call centre agents readiness is included in pre-implementation business readiness assessments proceeding major system changes that impact customers.	For major customer facing system changes, including other initiatives mentioned in this plan (such as Bill redesign), Hydro One will ensure that a readiness assessment is completed prior to changes being implemented.

## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Enhancing Call Intake and Quality Monitoring	12	Hydro One Inc. should conduct research on call intake practices, and revise its performance measures to reflect public sector best practices and greater emphasis on the quality of calls and customer outcomes.	Hydro One and its new outsourcing provider are looking to best practices to guide customer service efforts and quality assurance. Information gathering goes beyond utilities and looks to what is the highest standard. Customer Satisfaction and First Contact Resolution measures are built into the outsourcer's performance agreement and are monitored and reviewed daily by Hydro One management. The new speed-of-answer service level standard Hydro One now operates under and achieves is top quartile within the industry.
	13	Hydro One Inc. should engage in more robust monitoring of the quality of call centre calls through more extensive sampling of recorded calls, live call monitoring, random spot checks, and the introduction of "secret shopper" calls.	As early as March 2014 and throughout the year, Hydro One staff listened to and evaluated calls and engaged in "secret shopper" activities. Feedback the company collected was leveraged in updating agent scripts, training, and the revamped quality program. Hydro One's executive "Call A Customer" program, introduced in July of 2014, includes live call monitoring. Hydro One also randomly spot checks calls as a part of its recently-revamped call quality program.
	14	Hydro One Inc. should engage an independent external third party to assist in conducting random audits of call quality.	Hydro One currently has an independent quality team within its outsourcer conduct random sample audits of call quality using an agreed upon standard. Once the new quality program is mature, Hydro One will bring in a third party to audit call quality to ensure that these measures and efforts will ensure a high standard of performance.
	15	Hydro One Inc. should review and update its call evaluation and call quality scoring standards to ensure that they reflect its goal of customer-centered services.	Hydro One began revamping its quality assurance program in the spring of 2014 and the rollout of the program is nearing completion. This effort included a total redevelopment of call evaluation and call quality scoring standards to reflect a stronger focus on the customer experience.
	16	Hydro One Inc. should develop customer service quality standards for the Customer Relations Centre.	Hydro One is developing a set of standards for calls and case work in the Customer Relations Centre (CRC) with the help of external expertise. These standards will be implemented in the summer of 2015.
	17	Hydro One Inc. should record Customer Relations Centre calls and develop a call monitoring program for the call centre, including live call monitoring, random spot checks and secret shopper calls.	Call recording, live monitoring, and spot checks are being implemented in the Customer Relations Centre to support the evaluation of calls and case work to the customer service quality standards.
	18	Hydro One Inc. should continue to have managers located in the main call centre to ensure robust on-site monitoring.	Hydro One managers have been located on the call centre floor and actively engage the service provider and the call centre staff on a daily basis.
19	Hydro One Inc. should conduct research and consult with customers and other stakeholders to evaluate whether there are other, more accurate means of measuring and reporting on customer satisfaction, and change its survey and reporting practices accordingly.	Hydro One uses two established market research firms to conduct customer satisfaction transactional and perception surveys. The company continually refines these programs to ensure that they depict an accurate picture of customer experience. Hydro One now places greater emphasis on transactional surveys, so that current information on customer experience is obtained immediately after-the-fact and corrections to in-flight programs can be made. In instances where a surveyed customer says they are dissatisfied with a service or interaction, the research firms probe deeper for root cause and collect verbatim comments from the customer; this information is provided directly to Hydro One for analysis and action.	
20	Hydro One Inc. should conduct customer satisfaction surveys to those using the Customer Relations Centre and use the results to plan for operational improvements.	Starting in the week of May 10, 2014, Hydro One implemented customer satisfaction surveys for Customer Relations Centre-handled complaints.	

## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Transforming Corporate Culture and Governance	21	Hydro One Inc. should establish strategic objectives for its corporate scorecard, as well as for individual managers, related to changing its organizational culture to reflect public sector values.	In June of 2014, Hydro One's President and CEO introduced all Hydro One employees to Five Core Values: Customer Caring, Safe Workplace, Execution Excellence, People Powered and One Company. Performance Management for all management staff incorporates all five core values and they are accountable to work with their manager to set specific and measurable goals under this framework. 2015 is the first year that management performance will be measured in this new context and the company commits to improving the process to foster a positively changed corporate culture as evidenced by improved customer experience.
	22	<b>Hydro One Inc. should ensure that timely risk assessments and "lessons learned" evaluations take place throughout all stages of project planning, implementation, and stabilization.</b> It should consider whether the impact on customers has been appropriately identified and addressed throughout mitigation and contingency planning, as well as communication strategies.	Hydro One will undertake formal risk assessments at key milestones for all major customer-facing initiatives. Hydro One appointed a new Chief Risk Officer in April 2015; this position reports directly to the CEO and has accountability for ensuring compliance with this requirement. Hydro One has adjusted its risk tolerances for customer impacts to increase focus on customer risk and ensure mitigation and contingency planning.
	23	Hydro One Inc. should ensure that executive management and the board of directors are immediately alerted to any signs of systemic customer service and billing problems, including rising complaint levels.	Regular reports to the Executive Committee now include customer service "health" metrics. Board and Board Committee reporting also include emerging customer service issues and measures of customer service process "health".
	24	Hydro One Inc. should ensure that, in addition to regular briefings on complaint statistics, its executive management and board of directors routinely receive information about complaints and inquiries from all sources, as well as details of problem trends and individual cases reflecting egregious customer service and errors.	Backlog of complaints is a statistic reported regularly to the Executive and Board Committee level. Patterns and emerging trends in complaints are included as appropriate. Since March of 2014, the Vice President of Customer Service has received daily complaints statistics and any identified trends; this process will continue.
	25	Hydro One Inc. should ensure that executive managers and the board of directors are regularly and fully briefed about the cumulative impact and nature of customer service and billing issues.	Regular reports to the Executive Committee now include customer service "health" metrics, and this will continue. Board and Board Committee reporting includes emerging customer service issues and measures of customer service process "health", including volumes, complaint backlogs and other cumulative customer service impacts.
	26	Hydro One Inc. should continually reinforce for its staff, through training and direction, that the purpose of preparing billing and customer service statistics is to enable the company to have a clear, objective and accurate understanding of how well it is serving its customers.	In early 2014, the company made operational and customer statistics a core part of routine discussions and communications with staff. In the call centre this includes the display of relevant billing and call handling statistics on television screens and display boards throughout building, starting at the entrance. In addition, key related metrics such as customer satisfaction and first call resolution are part of corporate performance targets.
	27	Hydro One Inc. should prepare statistics in a consistent, clear, and standardized format, accompanied by meaningful and honest analytics.	Hydro One has standardized its method for presenting its metrics in a clear, consistent format.
	28	Hydro One Inc. should create a customer service committee of the board of directors to highlight the significance of issues affecting its customers, meet with customers and customer groups to gain a better understanding of customer service issues, and effectively address systemic concerns.	The Business Transformation Committee of Hydro One's Board of Directors currently includes customer service performance as an element of its mandate. This includes oversight of Management's activities specific to customer issues and trends. Future Board Committee mandates and structures are the purview of the Board.
	29	Hydro One Inc. should ensure that its board of directors receives <b>sufficient training to understand technical aspects of the company's</b> operations, key performance indicators and other information relevant to customer service.	Board Education on customer service operations and metrics is provided.
	30	Hydro One Inc. should ensure that it has adequate customer service and technical resources to address customer service issues.	Hydro One's Customer Service team now has the authority to pull-in additional service or technology resources from elsewhere in the company to address customer service issues as they arise. This was implemented in 2014 and was particularly valuable in resolving the backlog of complaints escalated to the Customer Relations Centre.



## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Improving Customer Service Practices	31	Hydro One Inc. should develop a system to ensure that timely refunds are available to customers who have overpaid their accounts, through inadvertence or system error.	Hydro One offers customers the option of a refund cheque or credit upon request for inadvertent or system errors. The company is taking steps to ensure that these are issued in a timely manner.
	32	Hydro One Inc. should redesign its bills to ensure maximum clarity.	Hydro One is performing an extensive review and redesign of the bill format in 2015, with a plan to implement a new bill in 2016. The bill redesign will be based on industry best practices, and will leverage significant customer and front line employee feedback to ensure maximum clarity. Note that, as this is a major customer-facing initiative, Hydro One will incorporate all the lessons learned from the recent billing issues to protect customer experience and mitigate disruption.
	33	Hydro One Inc. should consider best billing practices and consult its customers and other stakeholders in redesigning its bills to ensure that any revisions actually meet customer needs.	The 2015 bill redesign process will include multiple input opportunities and design iteration checkpoints with customers and employees. Hydro One will look to current/recent successful bill redesign initiatives in the sector for guidance.
	34	Hydro One Inc. should prepare a single itemized bill, rather than multiple bills, to address rebilling because of mistakes, prolonged estimates, or other circumstances, along with accompanying correspondence setting out a clear explanation as to why the account has been reconciled.	System changes to generate a "single itemized bill" are under evaluation, with anticipated implementation in the first quarter of 2016.
	35	Hydro One Inc. should post a clear explanation of the complaint process, including information about call centre and Customer Relations Centre escalations, and reference to external referrals.	Hydro One has a formal process for complaints management: any customer has the right to have an issue escalated. Hydro One will clarify its complaint process on its website.
	36	Hydro One Inc. should ensure that the Customer Relations Centre staff consistently provide external referrals to the OEB, the Ontario Ombudsman and other relevant bodies where appropriate.	Hydro One refers matters to external agencies responsible for relevant topics (e.g. OEB, IESO, Ombudsman) where appropriate. This is an area that has been emphasized in recent script revisions and quality training for call centre agents.
	37	Hydro One Inc. should develop a procedure to ensure that customers are consistently offered clear, detailed and accurate explanations as well as apologies for poor service.	When Hydro One revamped "bill literacy" training in the spring of 2014, these key call handling concepts and approaches were incorporated. This was rolled out to staff using a specific service model that emphasizes listening, acknowledgment, and apology as a way of recovering a situation and building rapport with customers. This was built into the revamped quality training program in 2014 and continues to be reinforced.
	38	Hydro One Inc. should ensure that its efforts to resolve billing issues are adequately monitored and coordinated to prevent duplication, inconsistency and negative impact on its customers.	Monitoring and coordination of billing resolution was implemented in April 2014 to provide visibility on all customer facing billing issues in order to drive timely resolution and a consistent customer treatment.

## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Committing to Customers	39	Hydro One Inc. should ensure that its customer commitments initiative has strong senior leadership and robust planning, monitoring, and reporting.	In the fall of 2014, Hydro One established a Customer Service Advisory Panel (the Panel). The Panel acts as an independent body that will ensure the Company is living-up to specific measurable customer service commitments. We have been working diligently with the Panel to finalize a comprehensive set of customer commitments as well as the means by which the Panel will assess and report on our progress against the commitments to ensure the Company is accountable to the highest standards. Over the longer-term, we will also look to the Panel to advise Hydro One leadership with respect to establishing and implementing new/revised customer service policies, approaches and products. Hydro One's panel includes the President of Credit Canada Debt Solutions, the President of Laurentian University, the former Chief of the Saugeen Ojibway Nation, and the President and CEO of the Forest Products Association of Canada.
	40	Hydro One Inc. should post regular status updates on the progress of its customer commitment initiative on a prominent place on its website for public consultation.	In the fall of 2014 Hydro One posted draft commitments on its website and invited customers to participate in their refinement. Over 60,000 customers responded to the survey. Once the Customer Service Advisory Panel has completed its review of Hydro One's Customer Commitments, including customer feedback obtained during this survey process, the commitments will be posted publicly.
	41	Hydro One Inc. should post the final customer commitment document in a prominent place on its website.	Once the Customer Service Advisory Panel has completed its review of Hydro One's Customer Commitments, they will be posted prominently on the company's website.
	42	Hydro One Inc. should set timelines for the completion of the service metrics and public scorecard to accompany the customer commitment document, and ensure that these are prepared on an expedited basis.	Hydro One is working very closely with our Customer Service Advisory Panel to finalize the customer commitments. Hydro One anticipates this work will be completed in mid-2015.
	43	Hydro One Inc. should post service metrics and the public scorecard related to the customer commitment document prominently on its website and ensure that these are regularly updated.	The service metrics will be posted on Hydro One's website once they are finalized. Additionally, the Panel will produce an independent report on its assessment of Hydro One's customer improvement activities.
	44	Hydro One Inc. should ensure that it provides clear and transparent explanations for the statistical information and other evaluations that it posts about success in meeting its customer commitments.	Hydro One's progress in meeting our commitments will be evaluated by the independent Customer Service Advisory Panel members. Hydro One will provide full explanations of all metrics and evaluations.
	45	Hydro One Inc. should post examples of cases where it has met and/or failed to meet its commitments to promote organizational learning, public accountability and transparency.	Hydro One's success in meeting our commitments will be evaluated by the independent Customer Service Advisory Panel members. Their conclusions will be shared publicly, to increase accountability and transparency.
	46	Hydro One Inc. should ensure that the customer service advisory panel is provided with sufficient information and opportunities to enable it to function effectively.	Education for the Customer Service Advisory Panel has been an ongoing priority since the fall of 2014. A subject matter expert on global best practices in Utility Customer Service is also serving as an advisor to the Panel to support this effort.
	47	Hydro One Inc. should publish information about the customer service <b>advisory panels' activities and the contribution it has made to customer service initiatives.</b>	Once the Customer Service Advisory Panel has completed their initial report, the findings will be shared publicly. Their ongoing contribution, the metrics and the Commitments will become a continuous improvement process.
	Improving Collection Practices	48	Hydro One Inc. should publish disconnection moratorium dates annually, refer to them in communications about collections during the winter months, and abide by them.
49		Hydro One Inc. should develop a process that ensures individual circumstances are consistently and fairly taken into account when resolving collection matters.	Hydro One's collections program needs to balance compassion for customers and fairness for all ratepayers. Steps will be taken to ensure individual circumstances are taken into account, especially customers in financial difficulty, but ultimately customers need to pay for the electricity they consume as the cost of unpaid bills is borne by other customers.
50		Hydro One Inc. should ensure that all changes in bill collection initiatives are thoroughly researched and planned, and include pre-implementation consideration of customer service impacts, risks and mitigation strategies.	As Hydro One restarts its collection program, we will ensure that the appropriate care is given to minimize customer service impacts.

## Hydro One - Response to Recommendations

Topic	#	Recommendation	Response
Clarifying Classifications	51	Hydro One Inc. should post clear and easily accessible information on its website informing customers about the significance of different density classifications and their relationship to rates.	This information is already posted on Hydro One's website at <a href="http://www.hydroone.com/MyHome/MyAccount/UnderstandMyBill/Pages/DeliverRates">www.hydroone.com/MyHome/MyAccount/UnderstandMyBill/Pages/DeliverRates</a> .
	52	Hydro One Inc. should post information about the density classification review process on its website.	Hydro One will post this information on its website.
	53	Hydro One Inc. should develop a clear, consistent and fair policy for retroactive adjustment of accounts that have been subject to inaccurate density classification.	The policy was developed in March of 2015, following the Ontario Energy Board's decision on density classification.
	54	Hydro One Inc. should ensure that whenever a customer request results in a density reclassification, neighboring properties are reviewed to assess whether the same adjustment should apply to them.	A review process is being developed, with anticipated implementation by the end of 2015.
	55	Hydro One Inc. should inform individual customers, in clear language, of the significance of their rate classifications in terms of billing, and include information about how to request a change in classification if they believe their property is misclassified.	Hydro One's Conditions of Service and other appropriate communication vehicles will be enhanced to provide additional clarity for customers.
	56	Hydro One Inc. should post clear information about the different rate classifications (such as general service) and their impact on billing on its website, and include information about how customers can request a change in reclassification if they believe their property is misclassified.	Information on rate classifications is available on Hydro One's website at <a href="http://www.hydroone.com/MyHome/MyAccount/UnderstandMyBill/Pages/ServiceTypes.aspx">http://www.hydroone.com/MyHome/MyAccount/UnderstandMyBill/Pages/ServiceTypes.aspx</a> . Hydro One will add instructions on how customers can request a review if they believe they have been incorrectly classified.
	57	Hydro One Inc. should ensure that call centre agents are instructed to confirm the use being made of the property when setting up or transferring accounts that are classified as general service to ensure proper classification.	This existing process was enhanced in January 2015.
	58	Hydro One Inc. should ensure that when accounts are created online, the nature of the service is confirmed to ensure proper classification.	Hydro One agrees with this recommendation. Hydro One will evaluate the recommendation to determine how best to implement, with anticipated implementation by the end of 2015.
	59	Hydro One Inc. should develop a transparent and consistent process for providing retroactive credits and refunds when it is discovered that an account has been misclassified, and post information about this process on its website.	Hydro One agrees with this recommendation. Hydro One will evaluate the recommendation to determine how best to implement, with anticipated implementation by the end of 2015.
	60	Hydro One Inc. should ensure that it does not issue retroactive bills in contravention of the Retail Settlements Code, and should train call centre and Customer Relations Centre staff so that they understand and apply the two-year billing limit.	An interim process was implemented in December 2014. A long term solution is scheduled to be implemented in mid-2015.
61	Hydro One Inc. should prominently post information on its website about the two-year restriction for collecting charges from residential customers for under billing.	Hydro One will post information about the two year limitation on collecting charges from customers who have been under-billed.	
62	Hydro One Inc. should revise its goodwill credits policy to eliminate reference to "goodwill", post the revised document on its website, and ensure that is it applied consistently.	Hydro One revised its policy in 2014 to provide for greater consistency in applying credits associated with failing to provide acceptable service, and will continue to monitor for consistent application of the policy.	
63	Hydro One Inc. should take steps to revise its conditions of service to provide customers with a right to receive service charge credits if they do not receive bills, or receive erroneous bills.	As noted in the Report, this has been our practice since early 2014. This will be communicated in the next revision of our Conditions of Service.	
Lessons Learned	64	Hydro One Inc. should use the customer relations fallout associated with the new CIS as a learning tool for its managers.	As noted in the Report, the "Call a Customer" executive training program was introduced in the summer of 2014. This program includes a detailed review of the CIS experience and lessons learned. To date, over 150 managers and executives have completed the program.
Progress Reports	65	<b>Hydro One Inc. should report back to my Office in six months' time on progress in implementing my recommendations, and at six-month intervals thereafter until such time as I am satisfied that adequate steps have been taken to address them.</b>	Hydro One will be open and transparent in its efforts to improve customer service and will report back to the Office of Ombudsman on this investigation as scheduled.

CASE: UM 1897  
WITNESS: ROSE ANDERSON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 500**

**Reply Testimony**

**February 12, 2018**

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**A. Qualifications**

**Q. Please state your name, occupation, and business address.**

A. My name is Rose Anderson. I am a Utility Analyst for the Public Utility Commission of Oregon (Commission or OPUC). My business address is 201 High Street SE, Salem, OR 97301.

**Q. Please describe your educational background and employment experience.**

A. My educational background and employment experience are set forth in my Witness Qualification Statement, which is provided as Exhibit Staff/501.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to examine the alleged benefits proposed in Hydro One Limited's (Hydro One or Applicant) application for authorization to exercise substantial influence (Application) over Avista Corporation (Avista or Company) and consider whether the application has met the net benefit requirement for approval of merger applications under Oregon law.

**Q. Did you prepare exhibits in support of your reply testimony?**

A. Yes. I prepared the following exhibits:  
Exhibit Staff/501 – Witness Qualification Statement  
Exhibit Staff/502 – Value of Proposed Rate Credits to Oregon Customers  
Exhibit Staff/503 – Rate Credit per Residential Customer  
Exhibit Staff/504 – Company Responses to Staff Data Requests on Efficiencies  
Exhibit Staff 505 – Staff DR 047 on Avista Charitable Contributions  
Exhibit Staff 506 -- Relevant Items from “Exhibit SMF-3 – Commitments Public Interest Chart” in the Oncor/Sempra Merger Application  
Exhibit Staff 507 – Staff DR 100 on Avista’s Economic Development

- 1 Exhibit Staff 508 – Merger Agreement language on Board  
2 composition  
3 Exhibit Staff 509 – Hydro One Governance Agreement with Province  
4 of Ontario. (Highlighting added by Staff)  
5 Exhibit Staff 510 – Responses to discovery on Hydro One’s natural  
6 gas experience  
7 Exhibit Staff 511 – Responses to discovery on governance and  
8 Commitments  
9

10 **B. Executive Summary**

11 **Q. Please provide an executive summary of your testimony.**

- 12
- 13 A. First, my testimony addresses additional risks to Avista customers beyond  
14 those risks identified in Staff/200, including post-merger governance of Avista  
15 and Hydro One’s substantial control over the Avista Board of Directors.  
16 Second, I explain that, of the numerous alleged benefits proposed by Hydro  
17 One and Avista (the Companies) in the Application, the customer rate credit is  
18 the only known benefit that would accrue to Oregon customers. However,  
19 when broken down to the actual amount that an average residential customer  
20 in Oregon would receive, the rate credit amounts to a mere 17 cents per  
21 month. Finally, the other alleged benefits in the Application are either  
22 unsubstantiated or unlikely to benefit ratepayers in Oregon. Therefore, taking  
23 the other staff testimony into consideration as well as my own, I find that as  
24 filed, the Application does not produce a net benefit to Oregon customers.  
25



## II. ANALYSIS

### A. Governance and Hydro One Control

1  
2  
3  
4  
5 **Q. What is the current state of Avista's Board of Directors (Board)?**

6 A. Avista's Board of Directors currently consists of ten members. One member  
7 serves as the Chair, currently Avista's President and CEO, Scott Morris.

8 Board members are nominated by current members of the Board and elected  
9 by Avista shareholders.<sup>1</sup> The Board acts based on a simple majority vote of a  
10 quorum.<sup>2</sup>

11 **Q. How would Avista's Board change after the proposed merger?**

12 A. After the merger, Avista's board membership would drop to nine directors.  
13 Five Board members would be designated by Hydro One and four would be  
14 designated by Avista. Of the five Hydro One designees, two would be  
15 executives of Hydro One or any of Hydro One's subsidiaries, and three would  
16 be people that live in the Pacific Northwest that are not officers, employees,  
17 or directors of Hydro One or its subsidiaries. Avista's CEO would be  
18 guaranteed a place as Chair of the Board for only one year after the close of  
19 the merger.

20 **Q. What concerns does Staff have about the proposed Avista Board of**  
21 **Directors?**

---

<sup>1</sup> Avista Corp. Corporate Governance Guidelines. Revised November 2016.  
<http://investor.avistacorp.com/corporate-governance/guidelines>

<sup>2</sup> Bylaws of Avista Corporation. (Article III. Section 7.). As Amended May 13, 2011.  
<https://www.sec.gov/Archives/edgar/data/104918/000119312511212343/dex3ii.htm>.

1 A. Staff is concerned that Hydro One would be able to appoint the majority of  
2 Avista's board members. This is especially concerning given that Hydro One  
3 is currently 50 percent owned by the Province of Ontario.<sup>3</sup> Although the  
4 Province's goal is to eventually divest to between 40 percent and 45 percent  
5 of voting securities, the Province is authorized to nominate 40 percent of  
6 Hydro One's Board members, as well as call a meeting to replace the Hydro  
7 One Directors entirely.<sup>4,5,6</sup> Staff is concerned about foreign government  
8 control of a large portion of the voting shares of Hydro One given that  
9 decisions that directly affect Avista could be influenced by Canadian political  
10 agendas. For example, in response to a request from Staff, Hydro One  
11 explained some of the primary components of its Governance Agreement with  
12 Her Majesty the Queen in Right of Ontario (the Province):

13 "The governance principles [...]do not restrict the Province in any way:  
14 (i) in relation to the regulation of Hydro One, including by the Ontario  
15 Energy Board [...] in respect of any communication regarding the  
16 Company by an individual in his or her capacity as a member of the  
17 Legislative Assembly of Ontario [...] They also do not restrict the  
18 exercise by the Province of its rights as a holder of voting securities,  
19 including its rights to vote any voting securities in its sole interest [...]"<sup>7</sup>  
20

21 If Hydro One chooses the majority of Avista's Board of Directors, a foreign  
22 government would have substantial influence over the direction of Avista.

23 Instead of ownership by diverse investors with mainly financial goals, Avista

---

<sup>3</sup> Hydro One Reports Third Quarter Results. Q3 2017. Page 22. Accessed on January 24, 2018 at <https://www.hydroone.com/investor-relations/financial-reporting>.

<sup>4</sup> Staff/509, Anderson/4.

<sup>5</sup> Staff/509, Anderson/18.

<sup>6</sup> Staff/509, Anderson/24.

<sup>7</sup> Staff Exhibit/509 (Hydro One Response to Staff DR 34).

1 would have a very large shareholder with foreign political goals. A financial  
2 investor is more likely to have goals related to operational efficiencies that are  
3 aligned with ratepayers' interests, whereas a government with political goals  
4 is more likely to support using corporate assets to serve political needs in  
5 Ontario that are unrelated to ratepayer interests in Oregon.

6 **Q. Can you provide a point of comparison on the topic of Avista's Board**  
7 **from another recent merger?**

8 A. Yes. As a point of comparison with respect to board independence, Sempra  
9 is accepting a majority independent Oncor board in its proceeding to acquire  
10 Oncor before the Texas Public Utility Commission. Seven out of thirteen  
11 members of the Board would be independent/disinterested Directors in the  
12 application filed with the Texas PUC.<sup>8</sup> In other words, the majority of board  
13 members will be independent of the Parent, whereas in the case the Hydro  
14 One-Avista merger, the majority of board members do not have to be  
15 independent of Hydro One or Hydro One interests. The Sempra merger with  
16 Oncor is a separate proceeding with unique issues, but it provides a point of  
17 comparison showing that the proposed Avista Board of Directors is highly  
18 dependent on Hydro One designees.

19 **Q. Have you identified any additional concerns related to governance as a**  
20 **result of the merger?**

21 A. Yes. In my analysis, I identified several issues with the commitments made  
22 by the Companies to supposedly protect Oregon ratepayers. Commitments

---

<sup>8</sup> Staff/506, Anderson 1-3.

1 2-15<sup>9</sup> include Governance, Business Operations, and  
2 Location/Staffing/Community commitments offered by the Companies to instill  
3 confidence that Avista's current and future customers will not be harmed. For  
4 example, Commitment 2 "seeks" to retain Avista's current executive  
5 management; Commitment 3 provides the composition of Avista's post-  
6 merger 9-member Board of Directors; Commitment 5 maintains current levels  
7 of community involvement; Commitment 9 keeps Avista's headquarters in  
8 Spokane; Commitment 11 maintains Avista's charitable contributions, and  
9 Commitment 15 maintains, or improves, Avista's current safety and reliability  
10 standards.

11 However, Commitment 1 in the Master List of Commitments expressly states:

12 "Consistent with and subject to the terms of [...] the Merger Agreement  
13 [...] decision-making authority over commitments 2-15 below is  
14 reserved to the Board of Directors of Avista Corporation ("Avista") and  
15 any change to the policies stated in commitments 2-15 requires a two-  
16 thirds (2/3) vote of the Avista Board."<sup>10</sup>

17 The language in Commitment 1 and the Merger Agreement gives Avista's  
18 post-merger Board discretion to unilaterally change many of the commitments  
19 after the merger is completed, including the standard commitments listed  
20 above. Staff asked Hydro One if Commitment 1 allows the Board to modify  
21 Commitments 2-15 after the merger closes. Hydro One responded: "Yes,

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<sup>9</sup> Found at Appendix 8 to the Application – Master List of Commitments.

<sup>10</sup> Avista/304, Thies/1.

1 pursuant to the Merger Agreement and Commitment 1, changes to  
2 Commitments 2-15 require a two-thirds (2/3) vote of the Avista Board.”<sup>11</sup> An  
3 additional response from Hydro One appeared to clarify that it understood  
4 that Avista would be subject to commitments adopted by the Commission,  
5 including processes for modification.<sup>12</sup> However, it is unclear then why the  
6 2/3 vote condition is included. If these very basic commitments to maintain  
7 current Avista standards are subject to change by a Board vote, then Oregon  
8 ratepayers are at risk of seeing these standards degrade over time. More  
9 importantly, Hydro One does not seem to understand the force of  
10 Commission-adopted commitments on both Avista and Hydro One.

11 **Q. Does Staff have other concerns about the proposed structure of the**  
12 **Board and Merger Agreement?**

13 A. Yes. The majority of Avista’s post-merger Board of Directors (Board) is  
14 comprised of Hydro One-designated directors.<sup>13</sup> Additionally, because  
15 Commitments 2-15 can be changed with a two-thirds vote of the Board, this  
16 proposed Board composition would give Hydro One designees, with the  
17 support of only one Avista designee, substantial influence to change  
18 Commitments 2-15.<sup>14</sup> Leaving these types of decisions largely to Hydro One  
19 designees conflicts with Avista’s assurance that the merger will preserve

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<sup>11</sup> Staff Exhibit/511, Anderson/3. (Hydro One Response to Staff DR 284).

<sup>12</sup> Staff Exhibit/511, Anderson/3. (Hydro One Response to Staff DR 284).

<sup>13</sup> Appendix 8 to the Application – Master List of Commitments at 2 (Commitment 2).

<sup>14</sup> Master List of Commitments in Avista/304, Thies/1. However, Staff notes that if Commitments are eventually adopted by the Commission that directly address the issues covered in Commitments 2-15, they would not be subject to change by a 2/3 vote, but would require the Companies to come before the Commission to seek amendment of the adopted Commitments.

1 “local control of Avista and the retention of Avista’s employees and  
2 management team, as well as its culture and its way of doing business.”<sup>15</sup>  
3 Hydro One attempts to mitigate this concern by requiring that three of its five  
4 Board designees be residents of the Pacific Northwest region and not a  
5 director, employee, or officer of Hydro One. However, this offers little comfort  
6 to Avista customers given that if Hydro One, in good faith, is not able to  
7 appoint a non-employee resident of the Pacific Northwest in a timely manner,  
8 it “may replace any such director with an employee of Parent or any of its  
9 Subsidiaries on an interim basis [...]”<sup>16</sup> Moreover, Staff did not find anything  
10 that restricts the Pacific Northwest designee from being a former Hydro One  
11 employee or current Hydro One investor. Staff continues to have concerns  
12 that the make up of the Board is not structured to protect Avista customer  
13 interests.

14 **Q. What are some other issues with the Merger Agreement?**

15 A. The Merger Agreement language and Master List of Commitment language  
16 regarding Avista’s Board composition, especially the important question of  
17 which party will nominate the Chair of Avista’s Board of Directors, is unclear.  
18 The Merger Agreement explains that Hydro One will appoint the Chair of  
19 Avista’s Board after one year: “following the initial one year term of the  
20 Chairman of the Board of the Surviving Corporation [Avista], Sole  
21 Shareholder [Hydro One] shall have the right to designate the Chairman of

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<sup>15</sup> Avista/100, Morris/9 at 1.

<sup>16</sup> Appendix 5 to the Application – Delegation of Authority at 1, Paragraph 2.

1 the Board of the Surviving Corporation [...].”<sup>17</sup> However, Staff is concerned  
2 the language in the Merger Agreement and Commitment 3 is unclear as to  
3 the structure of the Board after one year, when the Chair becomes a Hydro  
4 One nominee. As written, the language does not clearly specify that the  
5 Board composition would remain five Hydro One to four Avista nominees.<sup>18</sup>

6 **Q. Have you identified other concerns that would result from approval of**  
7 **the Application as filed?**

8 A. Yes. Section 8.1 of the Merger Agreement states,

9 “None of the representations and warranties in this Agreement or in  
10 any instrument delivered pursuant to this Agreement shall survive the  
11 Effective Time [...].”<sup>19</sup>

12 The “Effective Time” is the time at which Avista would merge with one of the  
13 Hydro One-owned holding companies and become the indirect subsidiary of  
14 Hydro One. Although “survival clauses” are common in merger and  
15 acquisition agreements, Staff is concerned by the length of time of the  
16 survival period.

17 **Q. Are there other concerns Staff has identified as a result of the**  
18 **Application?**

19 Another risk is the lack of access to the articles of incorporation, bylaws, and  
20 other organizational documents that will apply to Avista after the merger, or at  
21 least a draft version of bylaws to better indicate how Avista will be governed

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<sup>17</sup> Avista/303, Thies/66.

<sup>18</sup> Staff/508, Anderson/1.

<sup>19</sup> Avista/303, Ehrbar/44.



1 post-merger. This prevents staff from reviewing the core principles guiding  
2 Avista subsequent to the acquisition by Hydro One. Avista has indicated in  
3 discovery that these documents do not exist at this time, and are not available  
4 to stakeholders or the Commission for review. The Company states that the  
5 documents will be prepared when the merger transaction closes.<sup>20</sup>

6  
7 **B. Analysis of Claimed Benefits**

8 **Q. Please provide an overview of the benefits that Hydro One claims the**  
9 **transaction will provide for Avista customers.**

10 A. The benefits for Avista customers—as presented by Hydro One and Avista—  
11 include:

- 12 1. Retail rate credit to customers
- 13 2. Short term administrative savings
- 14 3. Economies of scale
- 15 4. Sharing of best practices
- 16 5. Technological platform sharing
- 17 6. Improved purchasing power
- 18 7. Cultural fit
- 19 8. Continuation of Avista's community presence

20 **Q. First, can you explain the immediate financial benefit of the retail rate**  
21 **credit?**

---

<sup>20</sup> Staff/511, Anderson/30.

1 A. Yes. For Oregon customers in aggregate, Hydro One's rate credit is worth  
2 \$244,515 per year in years one through five, and \$336,785 per year in years  
3 six through ten. On average, Oregon ratepayers would receive about  
4 \$291,000 per year, for ten years.<sup>21</sup> However, when broken down into the  
5 actual benefit received per customer, a typical residential Oregon customer  
6 would see an average bill reduction of only \$0.17 per month during the ten  
7 years after the merger.<sup>22</sup>

8 **Q. Are customers guaranteed to receive the minimal retail rate credit?**

9 A. No.

10 **Q. Please explain how, and in what ways, Hydro One can offset the rate  
11 credit to avoid paying it to Avista customers.**

12 A. Hydro One can offset part of the rate credit and avoid paying it to customers if  
13 Avista demonstrates in a rate case that it has achieved cost savings for  
14 customers as a result of the merger. The offset would reduce the rate credit  
15 by the dollar amount of savings demonstrated by the Company, all the way up  
16 to the full offsetable credit value of \$1.7 million in years one through five, and  
17 up to \$2.7 million in years six through ten.<sup>23</sup>

18 **Q. Does Staff have concerns about the rate credit as proposed in the  
19 Application?**

20 A. Yes. First, it amounts to only \$0.17 per month during the ten-year period if it  
21 is not further reduced by the offset. Second, the Application is not clear about

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<sup>21</sup> Staff/502, Anderson/1.

<sup>22</sup> Staff/503, Anderson/1.

<sup>23</sup> Avista/100, Morris/20-21.

1 whether the Oregon-allocated portion of the rate credit can only be offset by  
2 proven savings to Oregon customers. Staff is concerned that the language of  
3 the Application leaves open the possibility that the Oregon-allocated rate  
4 credit could be offset by savings that only benefit Washington customers.  
5 However, Staff has confirmed through discovery that only a rate case with the  
6 Oregon Public Utility Commission can offset the Oregon allocated rate  
7 credit.<sup>24</sup>

8 **Q. What is Staff's analysis of the offsetable portion of the rate credit?**

9 A. The rate credit offset has the counter-intuitive effect of potentially providing  
10 more value to customers than the rate credit itself. This is because the  
11 offsetable portion of the rate credit will incentivize the Companies to find long-  
12 term efficiencies and synergies that save Avista customers money, and apply  
13 them as offsets to the rate credit. If the Companies achieve ongoing, long-  
14 term savings and apply them as an offset to the rate credit, rate-payers will  
15 continue to save money even after the rate credit period terminates.

16 **Q. How effective will the offsetable rate credit be as an incentive to Hydro**  
17 **One to realize long-term cost-savings for Avista?**

18 A. The small offsetable rate credit proposed in the Application provides a  
19 minimal incentive, if anything at all, to realize longer-term efficiencies for  
20 Avista. The entire offsetable rate credit over all Avista jurisdictions in years  
21 one through five is \$1.7 million per year. But Avista has already identified  
22 \$1.7 million in administrative savings from the merger. In other words, after

---

<sup>24</sup> Staff/511, Anderson/31.

1 application of the \$1.7 million administrative savings offset, there will be no  
 2 incentive for the Companies to achieve greater efficiencies in years one  
 3 through five. In years six through ten, only one million dollars per year remain  
 4 as an offset-based incentive for the Companies to achieve longer-term  
 5 efficiencies and cost reductions. One million dollars is a small incentive to  
 6 companies with combined profits of \$858 million in 2016.<sup>25, 26</sup>

**Table 2**

	<b>Annual Credit Years 1-5</b>	<b>Annual Credit Years 6-10</b>	<b>Total Credit</b>
Total Credit	\$ 2,650,000.00	\$ 3,650,000.00	\$ 31,500,000.00
Offsetable	\$ 1,700,000.00	\$ 2,700,000.00	\$ 22,000,000.00
Non-offsetable	\$ 950,000.00	\$ 950,000.00	\$ 9,500,000.00

7

8 **Q. How do Hydro One's proposed rate credits for Oregon customers**  
 9 **compare to other U.S. utility merger and acquisition activity?**

10 A: The rate credit is approximately \$2.9 million total on an Oregon allocated  
 11 basis.<sup>27</sup> This rate credit is relatively small. To provide a few local points of  
 12 comparison, in the 1997 merger of PGE and Enron, PGE customers received  
 13 a rate credit of \$105 million.<sup>28</sup> Later, in the 2004 application of Oregon  
 14 Electric Utility Company to acquire PGE, an offsetable rate credit of  
 15 \$43 million was offered to PGE customers.<sup>29</sup> In the 2005 merger of  
 16 PacifiCorp and MEHC, Oregon PacifiCorp customers received approximately

<sup>25</sup> Avista's 2016 net income was \$137 million and Hydro One's 2016 net income was \$721 million. See Avista/301, Thies/39 and Hydro One/403, Lopez,/16.

<sup>26</sup> See Avista/301, Thies/39 and Hydro One/403, Lopez,/16.

<sup>27</sup> Staff/502, Anderson/1.

<sup>28</sup> Oregon Public Utility Commission. Order No. 97-196. Page 9.

<sup>29</sup> Order No. 05-114. Page 29. This application was not approved by the Commission.

1           \$40 million in offsetable rate credits over ten years.<sup>30</sup> When broken down on  
2           a percent of operating revenue basis, the rate credit currently offered by  
3           Hydro One is one of the smallest this Commission has seen. Further, as an  
4           example of rate credits being offered in the U.S. today, Dominion Energy is  
5           currently offering \$1,000 cash per ratepayer along with a five percent rate  
6           reduction in its proposed bid for Scana Corp.<sup>31</sup>

7           **Q. What is your conclusion regarding the rate credit benefit?**

8           A. On average, the total rate credit will provide Oregon residential customers  
9           about \$20.00 total per customer over ten years, or about \$0.17 per month.

10          This benefit, less than a quarter per month, is extremely small considering the  
11          risks and costs to customers associated with the merger identified in Staff  
12          Exhibit/100-200 and the additional risks identified in my testimony.

13          **Q. Please explain Hydro One's proposal of immediate cost savings to  
14          Avista through short-term administrative cost savings.**

15          A. The immediate cost savings that result from the merger, as described in the  
16          Application, are associated with reduced administrative costs. They are listed  
17          in Table 2 below. However, as noted above, Avista expects that these  
18          savings will be applied to offset the offsetable portion of the customer rate  
19          credit at the time of Avista's next general rate case.<sup>32</sup>

20

---

<sup>30</sup> Order No. 06-082. Page 15-16.

<sup>31</sup> Jakab, Spencer. *Utility Bid Is a Deal Maker's Delight*. Wall Street Journal. January 4, 2018.

<sup>32</sup> Avista/100, Morris/20-21.

<b>Table 2</b>		
<b><u>Estimated Immediate Cost Savings – Post-Closing</u></b>		
Board of Director Costs	\$	538,000
D&O Insurance		439,000
Investor Relations		365,000
Accounting		245,000
Proxy		200,000
Annual Report		189,000
Costs Excluded for Ratemaking		(267,000)
Total	\$	<b>1,709,000</b>

1

2

**Q. What is your conclusion regarding this alleged benefit?**

3

A. The immediate savings listed in Table 1 should not be considered a benefit separate from the customer rate credit because they will be used to offset a portion of the rate credit.

4

5

6

**Q. Please explain the “longer-term” benefits that Hydro One claims will accrue to Avista from efficiencies gained through best practices, technology, and innovation.**

7

8

9

A. Throughout the Application, Avista and Hydro One claim that they expect that the following benefits will materialize over the longer-term:

10

11

- Economies of scale;

12

- Sharing of best practices;

13

- Technological platform sharing; and

14

- Improved purchasing power.

15

Unfortunately, the Application provides few, if any, specifics about these

16

alleged benefits. Responses to Staff DRs indicate that the Companies had

1 not yet started evaluating the potential for synergies and efficiencies in supply  
2 chain, operations, information systems, and innovation at the time of the  
3 Application. Hydro One stated that, “Avista and Hydro One will establish joint  
4 working groups early in 2018 in the areas of supply chain, operations,  
5 information systems, and innovation to share information and to identify  
6 potential efficiencies.”<sup>33</sup> Even more concerning is the fact that the  
7 Companies have indicated in discovery responses that they intend to wait  
8 until *after the merger* is approved to determine the potential for, and the  
9 amount of, potential cost-savings from information technology synergies and  
10 efficiencies: “After all approvals are received and the companies merge, both  
11 companies will work together to identify, evaluate and execute on  
12 opportunities to collaborate on information technology assets/information  
13 technology systems.”<sup>34</sup> Staff cannot evaluate whether any benefits in these  
14 four areas will actually result, or are even likely to result, in reduced costs for  
15 Avista customers based on the information provided and clear lack of  
16 attention by Hydro One and Avista.

17 **Q. What experience do Hydro One executives have with natural gas**  
18 **utilities that might facilitate these longer-term synergies and**  
19 **efficiencies?**

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<sup>33</sup> Staff/504, Anderson/3.

<sup>34</sup> Staff/504, Anderson/3-5.



1 A. Although Hydro One has never owned and operated a natural gas  
2 distribution company, in discovery Hydro One explained that Hydro One  
3 has two executives with experience in natural gas utilities.<sup>35</sup>  
4 Hydro One's Chief Operating Officer Greg Kiraly "spent the first ten years  
5 of his career in engineering and leadership roles responsible for managing  
6 gas distribution operations and assets."<sup>36</sup> He worked for several years as  
7 an engineer in the gas distribution department of PSG&E in New Jersey  
8 designing and building gas distribution assets. Later as a Vice President  
9 at PG&E in California for two years, he was responsible for oversight of  
10 electric and gas maintenance, construction, and distribution in the San  
11 Francisco area.

12 Hydro One's Vice President of Strategy and Corporate Development Paul  
13 Barry previously worked at Duke Energy, an electric and natural gas utility,  
14 as Chief Development Officer, Head of Mergers & Acquisitions. Here,  
15 among other responsibilities, he "acquired, integrated, and oversaw  
16 significant gas utility assets."<sup>37</sup>

17 **Q. Does Staff have concerns about Hydro One's level of experience with**  
18 **natural gas utilities?**

19 A. Yes. Staff is concerned that Hydro One's focus on electric T&D and limited  
20 experience with natural gas utilities could cause the merger to result in  
21 savings for Avista's electric customers, without Avista's Oregon gas

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<sup>35</sup> Staff/510, Anderson/7.

<sup>36</sup> Staff/510, Anderson/5

<sup>37</sup> Staff/510, Anderson/6.

1 customers seeing similar cost decreases. It is unclear that Hydro One will  
2 be able to give sufficient attention to finding efficiencies or synergies in  
3 Avista's natural gas business when natural gas utilities, especially ones  
4 subject to foreign statutes and regulations such as Avista, are not the  
5 normal course of business.

6 **Q. Did Hydro One or Avista offer other ways to provide benefits to Avista**  
7 **such as sharing of business practices and technology?**

8 A. No. Although Hydro One generates distribution revenues from the joint  
9 use of Hydro One distribution infrastructure by telecommunications  
10 industries in Ontario,<sup>38</sup> the Companies offer no indication that they have  
11 identified potential long-term opportunities in this area. As explained in  
12 Staff Exhibit 504, the Companies will form working groups in early 2018,  
13 but do not plan to identify "specific opportunities for synergies and  
14 efficiencies" until after the merger closes.<sup>39</sup>

15 **Q. Did Hydro One describe any efforts to benefit ratepayers by bolstering**  
16 **Avista Credit ratings or improve Avista safety ratings?**

17 A. No. Proponents in prior M&As before the Commission have often provided  
18 support such as cash infusions and guarantees to improve and support the  
19 target company. For example, in the MEHC bid to acquire PacifiCorp, MEHC  
20 committed to invest \$158 million in improving system reliability.<sup>40</sup> There has  
21 been no similar offer in this proceeding.

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<sup>38</sup> Hydro One. 2016 Annual Report. Page 16.

<sup>39</sup> Staff/504, Anderson/3.

<sup>40</sup> Oregon Public Utility Commission. UM 1209 Stipulation. Exhibit 1. Page 7.

1 **Q. Are Oregon ratepayers likely to benefit from the economic development**  
2 **activities mentioned in the Application?**

3 A. No. The continuation of current levels of investment in economic  
4 development does not provide an incremental benefit to customers.  
5 Moreover, Avista has provided information in discovery showing that over the  
6 last five years only about one percent of Avista's economic development  
7 investment has been for economic development in Oregon.<sup>41</sup>

8 **Q. What is your conclusion regarding Hydro One's alleged "longer-term"**  
9 **benefits?**

10 A. These benefits are highly speculative and unsupported by the any evidence in  
11 the Companies' discovery responses. Without any evidence that the  
12 Companies evaluated the potential long-term benefits and costs savings of  
13 the merger and are actively working together to capture efficiencies, there is  
14 no reason to think that any synergies or efficiencies will materialize post-  
15 merger, let alone cause Staff to value them in the net benefit analysis when  
16 they are unsubstantiated.

17 **Q. Do you have additional thoughts on Hydro One and Avista's lack of**  
18 **commitment to identifying economies of scale and other efficiency**  
19 **savings?**

20 A. Yes. Commonly, companies without effective due diligence and integration  
21 management lose money on merger transactions instead of realizing cost  
22 savings. Timothy Galpin, Senior Lecturer of Strategy and Innovation at the

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<sup>41</sup> Staff/507, Anderson/1.

1 University of Oxford's Said Business School, discusses examples of mergers  
2 and acquisitions (M&A) that lose value for the acquirers in *The Complete*  
3 *Guide to Mergers and Acquisitions*:

4 "Overall poor M&A results [...] may be attributed to a number of factors  
5 – poor strategic or cultural fit, incomplete or haphazard due diligence,  
6 paying too much, and/or ineffective integration efforts [...]. The "real  
7 deal" is that integrating the people, processes, and systems of one  
8 business with another is inherently demanding, even for the most  
9 experienced acquirers, and the integration process must be managed  
10 exceedingly well if the effort is to succeed."<sup>42</sup>

11  
12 Risks including poor strategic and cultural fit are a concern in this merger  
13 as Hydro One, an electric transmission and distribution company privatized  
14 by the Province of Ontario only two years ago, seeks to acquire Avista, a  
15 well-established electric and gas utility thousands of miles away.

16 **Q. Please explain how Hydro One expects the merger to preserve**  
17 **Avista's culture and community presence.**

18 A. The Application states that the merger will "allow Avista to preserve its culture  
19 and the way it does business for the long-term, including the retention of its  
20 employees and management team."<sup>43</sup> The Application further states that  
21 preservation of Avista's culture includes "providing reliable service to  
22 customers and high customer satisfaction at a reasonable cost"<sup>44</sup> and will  
23 "increase the level of support provided by Avista to the local communities it

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<sup>42</sup> Galpin, Timothy. *The Complete Guide to Mergers and Acquisitions*. 2014. Page 4.

<sup>43</sup> Avista/100, Morris/10.

<sup>44</sup> Avista/100, Morris/10.

1 serves, including, among other things, charitable giving and continued  
2 support of economic development.”<sup>45</sup>

3 **Q. What is your conclusion regarding this alleged benefit?**

4 A. Preservation of Avista’s culture does not provide an incremental benefit to  
5 customers and should not be considered in the net benefit calculation for this  
6 merger application given that the appropriate comparator in ORS 757.511  
7 cases is the continued prudent management of Avista as it is run today.  
8 Further, any potential acquisition by a different suitor that supposedly could  
9 have a questionable “culture” would have to be reviewed and approved by the  
10 Commission just as is occurring in this case. Beyond these facts, Hydro  
11 One’s commitments to maintaining Avista’s culture are minimal. Subject to  
12 the terms of the Merger Agreement, many can be changed with a two-thirds  
13 vote of the board. Further, charitable giving by Avista historically does not go  
14 to Oregon or benefit Oregon ratepayers.<sup>46</sup> The commitment to support  
15 economic development is addressed in Staff Exhibit 507.

16 **Q. Please discuss the charitable contributions Hydro One proposes to**  
17 **make.**

18 A. The Merger Agreement states that Hydro One intends to give the Avista  
19 Board the discretion to maintain a \$4 million Avista annual budget for  
20 charitable contributions, make a \$7 million initial contribution to Avista’s

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<sup>45</sup> Avista/100, Morris/10.

<sup>46</sup> Staff/505, Anderson/1. Avista response to Staff DR 047.

1 charitable foundation, and make a \$2 million annual contribution to Avista's  
2 charitable foundation.

3 **Q. What is your conclusion regarding this alleged benefit?**

4 A. It is unclear whether this charitable contribution would even apply in a net  
5 benefit calculation for Oregon customers given that the Company's response  
6 to data requests indicates that from 2014 through September 2017, Avista  
7 made no contributions to any organization operating in Oregon.<sup>47</sup>

8 **Q. In sum, of all the commitments you reviewed that pertain to your  
9 topics, are there any that offer a benefit to Avista customers?**

10 A. The Master List of Commitments offers 55 commitments, or conditions, that  
11 the Companies agree to. Of the 55 commitments on the current Master List  
12 of Commitments, the only one that should be used in a calculation of net  
13 benefits to Oregon customers is the rate credit; however, the rate credit  
14 breaks down to nearly nothing. As explained previously in this testimony,  
15 none of the other commitments provide an incremental benefit to Oregon  
16 customers.

17

18

### **C. Net Benefit Analysis**

19 **Q. Has Hydro One shown that the proposed merger will result in a net  
20 benefit for Avista's Oregon ratepayers?**

21 A. No. The rate credit to Oregon customers averages \$291,000 per year, or  
22 \$0.17 per residential customer per month. However, as shown by

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<sup>47</sup> Staff/505, Anderson/1. Avista response to Staff DR 047.

1 Mr. Muldoon in Staff/100-200, the proposed merger has significant costs and  
2 risks that must be sufficiently addressed by the Companies before the merger  
3 can cause no harm to Oregon customers, let alone produce a net benefit.  
4

### 5 III. CONCLUSION

6 **Q. In summary, what concerns has Staff identified regarding the**  
7 **proposed governance structure for Avista post-merger?**

8 A. The proposed governance structure gives Hydro One Board nominees  
9 substantial influence over the way Avista does business. Staff is concerned  
10 that a majority Hydro One nominee Board with a Hydro One nominated Board  
11 Chair after one year could allow the direction of the company to be  
12 determined by Hydro One. This would be counter to the assurance to  
13 maintain Avista's culture and way of doing business. Also, because the  
14 Province of Ontario is required to maintain 40 percent to 45 percent  
15 ownership of Hydro One voting shares, Staff is concerned about potential  
16 influence of a foreign government on Avista's Board.

17 **Q. In summary, what concerns has Staff identified with the proposed**  
18 **benefits presented in Hydro One's Application?**

19 A. Staff has three main concerns with the alleged benefits presented in the  
20 Application. First, several of the commitments to maintain current standards  
21 for customers can seemingly be altered after the close of the merger by a  
22 two-thirds vote of the Board. Second, the companies have indicated they will  
23 take no action to identify potential longer-term benefits of the merger until



1 after the merger is complete. This greatly reduces the chances that these  
2 benefits, and the resulting savings for customers, will actually occur, and  
3 prevents them from being included in the net benefit calculation. Third, the  
4 total rate credit of \$0.17 per month for residential customers is such a minimal  
5 credit that it does not outweigh the substantial risk and harms identified in  
6 Staff/100-200. The small offsetable rate credit provides no incentive for the  
7 companies to pursue long-term efficiencies to apply as offsets to the rate  
8 credit within the first five years, and only provides minimal incentive for  
9 efficiencies in years six through ten.

10 **Q. What is your recommendation?**

11 A. Staff recommends that Hydro One address the sources of uncertainty around  
12 governance, as well as the alleged benefits described in the Application,  
13 including longer-term benefits to Avista's Oregon customers. The Companies  
14 must also address the significant risks and costs identified in Staff/100-200.

15 **Q. Does this conclude your testimony?**

16 A. Yes.

17

CASE: UM 1897  
WITNESS: ROSE ANDERSON

**PUBLIC UTILITY COMMISSION  
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**STAFF EXHIBIT 501**

**Witness Qualifications Statement**

**February 12, 2018**

**WITNESS QUALIFICATION STATEMENT**

NAME: Rose Anderson

EMPLOYER: Public Utility Commission of Oregon

TITLE: Utility Analyst  
Energy Rates, Finance and Audit Division

ADDRESS: 201 High Street SE. Suite 100  
Salem, OR. 97301

EDUCATION: Master of Science, Agriculture and Resource Economics,  
University of California Davis, Davis, CA

Bachelor of Arts, International Political Economy  
University of Puget Sound, Tacoma, WA

EXPERIENCE: I have been employed at the Public Utility Commission of Oregon since September of 2016. My position is Utility Analyst in the Energy Rates, Finance and Audit Division. My current responsibilities include review of power cost filings and rate case filings. Prior to working for the PUC I was a Research Associate at McCullough Research for two years. My responsibilities included economic analysis of energy markets and utilities.

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**PUBLIC UTILITY COMMISSION  
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**STAFF EXHIBIT 502**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**Value of Proposed Rate Credits  
to Oregon Customers**

Year	Average Avista Residential Customers	Average Avista Customers	Avista/702 Ehrbar/1 OR Allocated Credits	Rough US\$ Rate Credits /Customer	Year	Monthly Credit
2018	90,758	102,373	<b>\$ 244,515.00</b>	\$ 2.39	2018	\$ 0.20
2019	92,180	103,907		\$ 2.35	2019	\$ 0.20
2020	93,630	105,471		\$ 2.32	2020	\$ 0.19
2021	95,081	107,033		\$ 2.28	2021	\$ 0.19
2022	96,384	108,440		\$ 2.25	2022	\$ 0.19
2023	97,629	109,784	<b>\$ 336,785.00</b>	\$ 3.07	2023	\$ 0.26
2024	98,862	111,116		\$ 3.03	2024	\$ 0.25
2025	100,092	112,445		\$ 3.00	2025	\$ 0.25
2026	101,309	113,759		\$ 2.96	2026	\$ 0.25
2027	102,514	115,062		\$ 2.93	2027	\$ 0.24
<b>Total</b>			<b>\$ 2,906,500.00</b>			

Average Monthly Credit **\$ 0.22**

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**STAFF EXHIBIT 503**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

Year	OR rate Credit Assigned to Residential*	# Residential Customers**	\$ Per Residential Customer per Month (Offsetable)	\$ Per Residential Customer Per Month (Non-Offsetable)	\$ Per Residential Customer Per Month
2018	\$ 162,453.00	90,758	\$ 0.10	\$ 0.05	\$ 0.15
2019	\$ 162,453.00	92,180	\$ 0.09	\$ 0.05	\$ 0.15
2020	\$ 162,453.00	93,630	\$ 0.09	\$ 0.05	\$ 0.14
2021	\$ 162,453.00	95,081	\$ 0.09	\$ 0.05	\$ 0.14
2022	\$ 162,453.00	96,384	\$ 0.09	\$ 0.05	\$ 0.14
2023	\$ 223,760.29	97,629	\$ 0.14	\$ 0.05	\$ 0.19
2024	\$ 223,760.29	98,862	\$ 0.14	\$ 0.05	\$ 0.19
2025	\$ 223,760.29	100,092	\$ 0.14	\$ 0.05	\$ 0.19
2026	\$ 223,760.29	101,309	\$ 0.14	\$ 0.05	\$ 0.18
2027	\$ 223,760.29	102,514	\$ 0.13	\$ 0.05	\$ 0.18

<b>Average \$/Month/Res. Customer.</b>	\$ 0.12	\$ 0.05	<b>\$ 0.17</b>
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Percent Vol. Revenue Residential *
66.44%

\*Avista/702, Ehrbar/2.

\*\* Avista 2016 IRP customer forecast



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**PUBLIC UTILITY COMMISSION  
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**STAFF EXHIBIT 504**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	10/02/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 130(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide a narrative description of the efficiencies of scale that Hydro One expects to result from the acquisition of Avista. Please include a list of specific areas or departments of Hydro One’s business, and Avista’s business, that would benefit from the efficiencies of scale.

**RESPONSE:**

We believe there may be efficiencies of scale in the following areas: investment in innovation; research and development; business processes; information technology; and equipment and materials purchasing. The magnitude of the efficiencies will become clear over time as Avista and Hydro One work together after the closing of the transaction.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	10/02/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 131(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	<a href="mailto:apantusa@HydroOne.com">apantusa@HydroOne.com</a>

**REQUEST:**

What Information Technology (IT) assets does Hydro One expect could potentially provide synergies through sharing and economies of scale between Hydro One and Avista? Please list the name and function of any IT systems currently operated by Hydro One which could also be used by Avista, or vice versa.

**RESPONSE:**

Hydro One Limited has numerous information technology assets. Over time, the merger will provide increased opportunities for innovation, research and development, and efficiencies by extending the use of technology, best practices, and business processes over a broader customer base and a broader set of infrastructure between the two companies and this could potentially include information technology assets.

After all approvals are received and the companies merge, both companies will work together to identify, evaluate and execute on opportunities to collaborate on information technology assets/information technology systems.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 230(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide a narrative explanation of the timing and process the Companies expect to use to identify specific examples of synergies and efficiencies from the merger of Hydro One (a transmission and distribution utility) and Avista and AEL&P (which provide electric generation).

**RESPONSE:**

Avista and Hydro One will establish joint working groups early in 2018 in the areas of supply chain, operations, information systems, and innovation to share information and to identify potential efficiencies. Antitrust laws (e.g., Section 1 of the Sherman Act and the Hart-Scott-Rodino Act) permit such integration planning, but restrict certain non-public commercially sensitive information from being shared until after the transaction closes. Thus, specific opportunities for synergies and efficiencies will be determined at that time. (i.e. after the transaction closes)

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 232(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please explain in further detail the expected synergies between Hydro One existing operations and Avista Oregon local gas distribution operations.

**RESPONSE:**

Please refer to our response to Staff\_DR\_230(H1). As our working groups explore opportunities for efficiencies, we may identify some that also apply to the gas distribution operations, though we expect that most will be found in the electricity transmission and distribution areas.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 233(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please explain in detail the expected synergies with Hydro One's telecommunications business and Avista. (Application p. 23).

**RESPONSE:**

Please refer to our response to Staff\_DR\_232(H1), which also applies to the telecommunications business.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 234(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please list and describe in detail any specific examples of the efficiencies that Hydro One expects to result for Avista from the proposed merger within the following categories and explain the rationale supporting the conclusion:

- a. Cost Allocations
- b. Business processes
- c. R&D
- d. Customer Service

**RESPONSE:**

Please refer to our response to Staff\_DR\_230(H1).



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**PUBLIC UTILITY COMMISSION  
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**STAFF EXHIBIT 505**

**Exhibits in Support  
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**February 12, 2018**

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	12/19/2017
CASE NO.:	UM 1897	WITNESS:	Kevin Christie
REQUESTER:	PUC Staff	RESPONDER:	Patrick Lynch
TYPE:	Data Request	DEPT:	Customer Solutions
REQUEST NO.:	Staff – 047(AVA)	TELEPHONE:	(509) 495-4246
		EMAIL:	pat.lynych@avistacorp.com

**REQUEST:**

For the years 2014, 2015, and 2016 please provide:

- a) The total amount of charitable contributions made by Avista, and
- b) The amount of contributions made by Avista to groups operating in Oregon, and for what cause.

**RESPONSE:**

This information was previously provided in response to Staff\_DR\_033(AVA). Please see the attached list of Avista's charitable contributions for 2014, 2015, 2016 and 2017. Staff\_DR\_047(AVA) Attachment A breaks out charitable contributions by year and by state. The totals are as follows:

Totals	OR.
2014 - \$3,000,000	
2015 - \$3,027,864	
2016 - \$2,508,548	
2017 - \$1,700,170*	

\* 2017 YTD through September 26, 2017

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**PUBLIC UTILITY COMMISSION  
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**STAFF EXHIBIT 506**

**Exhibits in Support  
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**February 12, 2018**

## Relevant items from “Exhibit SMF-3 – Commitments Public Interest Chart” in the Oncor/Sempra merger application filed with Public Utility Commission of Texas on 10/5/2017

Sempra Energy Regulatory Commitments	Public Interest
<p><b>1. <u>Separate Board Commitment</u></b></p> <p>At closing and thereafter, Oncor Electric Delivery Company LLC (“Oncor”) will have a separate board of directors. If, at closing or thereafter, Sempra Energy (“Parent”) has competitive affiliates in Texas, the Oncor board of directors will not include any employees of Parent competitive affiliates in Texas, any members from the boards of directors of Parent’s competitive affiliates in Texas, or any individuals with direct responsibility for the management or strategies of such competitive affiliates.</p>	<p>The separate board commitment ensures that Oncor will be governed by its own board, rather than by the board of Sempra or some intermediate holding company. Oncor’s separate board will make decisions that promote Oncor’s financial well-being, and will act in the best interest of Oncor consistent with the approved ring-fence and Delaware law.</p>
<p><b>2. <u>Independent Board Commitment</u></b></p> <p>Oncor will have a board of directors comprised of at least thirteen (13) directors. Oncor Electric Delivery Holdings Company LLC (“Oncor Holdings”) will have a board of directors comprised of at least ten (10) directors. <b><u>A majority of the Oncor Holdings’ board members and Oncor’s board members will qualify as “independent”</u></b> in all material respects in accordance with the rules and regulations of the New York Stock Exchange (“NYSE”) (which are set forth in Section 303A of the NYSE Listed Company Manual), from Parent and its subsidiaries. To the extent Parent has any competitive affiliates in Texas, Oncor Holdings’ and Oncor’s boards of directors would not include any employees of Parent’s competitive affiliates in Texas or any members from the boards of directors of Parent’s competitive affiliates in Texas.</p> <p>a) <b><u>The Oncor Board shall have seven (7) Independent/Disinterested Directors, two (2) directors who will be current or former officers of Oncor, two (2) directors who</u></b></p>	<p><b><u>The presence of a majority of independent directors on each of the Oncor Holdings and Oncor boards helps ensure that the interests of Oncor and its customers will be protected, regardless of Oncor’s affiliation with Sempra or any of its affiliates in the future. In addition, an independent board helps avoid potential conflicts of interest. The independent board will provide vigilant oversight of Oncor to mitigate managerial opportunism and promote stakeholder value.</u></b> The independent board is a key part of the commitment to continue the ring-fence structure, especially with the budget control and dividend restrictions remaining in place.</p>

will be designated by Parent, and two (2) directors who will be designated by the Minority Members (as that term is defined in the Oncor LLC Agreement).

- b) The Oncor Holdings Board shall have six (6) Independent/Disinterested Directors, two (2) directors who will be current or former officers of Oncor Holdings, and two (2) directors who will be designated by Parent.
- c) The duties of the Board members of Oncor Holdings and Oncor will be to act in the best interests of Oncor consistent with the approved ring-fence and Delaware Law.

### 3. Independence of Board Commitment

Oncor Holdings' and Oncor's Boards cannot be overruled by the board of Parent or any of its subsidiaries on dividend policy, debt issuance, capital expenditures, management and service fees, and appointment or removal of board members, provided that such actions may also require the additional approval of Oncor Holdings' Board.

- a) The appointment or removal of the Chief Executive Officer or the Chief Financial Officer of Oncor shall require a majority vote of Oncor board of directors, which vote must include the unanimous vote of the Parent directors.
- b) Neither Oncor Holdings nor Oncor nor any of their subsidiaries may without the prior written consent of Parent: (1) enter into or authorize any material transactions with a third party outside ordinary course of business nor enter into any contract, or other similar agreement to effectuate such material transactions; or (2) institute an Oncor bankruptcy filing.
- c) Only the Oncor Holdings Nominating Committee can replace or remove any of the Independent/Disinterested Directors on the Oncor or Oncor Holdings Boards. If the Oncor Holdings Nominating Committee is required to fill a vacancy of an

The ring-fencing of Oncor is enhanced by a number of commitments related to the independence of the Oncor board. In particular, the explicitly stated duties of the boards, the specific actions requiring a majority of the independent/disinterested directors, the limitations on parent or affiliate interference, and the restrictions on affiliated individuals serving on the Oncor Board all work in tandem to ensure the separation. Please also refer to the public interest explanation for Commitment No. 2.

Independent Director on either the Oncor Holdings or Oncor Boards, the Nominating Committee will nominate a new director who is Disinterested. “Disinterested Directors” must: (1) be independent from Parent and its subsidiaries and affiliated entities in all material respects in accordance with the rules and regulations of the NYSE; and (2) have no material relationship with Parent or its subsidiaries or affiliated entities currently or within the previous ten years. Former officers of Oncor who otherwise meet these qualifications qualify as “Disinterested Directors.”

- d) The Independent/Disinterested Directors may make recommendations to the Oncor Holdings Nominating Committee for any new Disinterested Directors. The Oncor Holdings Nominating Committee will always have a majority of Independent/Disinterested Directors. The appointment of new disinterested directors to either the Oncor Holdings or Oncor Boards shall be subject to the approval by a majority vote of Independent/Disinterested Directors
- e) A majority vote of the Independent and/or Disinterested Directors must approve an annual budget if the aggregate amount of such capital and operating and maintenance expenditures in such annual budget is more than a 10% decrease from the capital and operating and maintenance budget for the immediately prior fiscal year.
- f) The Independent and/or Disinterested Directors have the right to approve any amendments or changes to the key provisions of LLC Agreements relating to: (1) the Independent Board; (2) the rights and powers of Independent/Disinterested Directors; (3) removal of Directors; and (4) Delaware as controlling law. Changes to the key provisions of the LLC Agreements shall be subject to Commission approval.

CASE: UM 1897  
WITNESS: ROSE ANDERSON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 507**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**



**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	02/01/2018
CASE NO.:	UM 1897	WITNESS:	Scott Morris
REQUESTER:	PUC Staff	RESPONDER:	Patrick Lynch/Ed Schlect
TYPE:	Data Request	DEPT:	Customer Solutions
REQUEST NO.:	Staff – 100(AVA)	TELEPHONE:	(509) 495- 4246
		EMAIL:	<a href="mailto:pat.lynch@avistacorp.com">pat.lynch@avistacorp.com</a> <a href="mailto:ed.schlect@avistacorp.com">ed.schlect@avistacorp.com</a>

**REQUEST:**

See Avista/100, Morris/8. Please provide a list of all “economic development and innovation” projects Avista actively participated in during 2013, 2014, 2015, and 2016. Please provide:

- a. a brief description of each project, including the approximate expenditures each year; and
- b. a list of any of the projects located or operating totally or partially in Oregon.

**RESPONSE:**

The tables below outline (i) Avista’s investments in regional economic development and (ii) Avista’s capital investments for economic development for the years 2013, 2014, 2015, 2016 and 2017.

There are no specific projects to be identified. Avista supports economic development and innovation through a number of activities including annual and ongoing support to economic development agencies and initiatives such as the Business Entrepreneurship Network. The Avista Business Entrepreneurship Network, established in 2012, is a consortium of community colleges throughout Avista’s service territory that provide entrepreneurship education. This education provides individuals with the tools and skills necessary to launch, operate, and grow successful businesses, while creating economic vitality.

**Regional Economic Development**

	2013	2014	2015	2016	2017
Oregon	56,164	49,299	46,117	17,788	19,077
Avista Totals	306,674	347,970	519,192	604,804	384,581

**Capital Investments for Economic Development (No investments in Oregon)**

	2013	2014	2015	2016	2017
Avista Totals	716,843	46,372	300,000	9,645,357	6,631,723

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## EXHIBIT A

### GOVERNANCE REQUIREMENTS

The articles of incorporation and bylaws of the Surviving Corporation, as may be amended from time to time, shall provide for the following:

1. the board of directors of the Surviving Corporation (the "Subsidiary Board") shall consist of nine (9) members, determined as follows: (i) two (2) directors designated by the sole shareholder of the Surviving Corporation ("Sole Shareholder") who are executives of Parent or any of its Subsidiaries; (ii) three (3) directors who are not officers, employees or directors (other than as an independent director of the Surviving Corporation) of Parent or any of its Affiliates and who are residents of the Pacific Northwest region, to be designated by Sole Shareholder (collectively, the directors designated in clauses (i) and (ii) hereof, the "Sole Shareholder Designees"); (iii) three (3) directors who as of immediately prior to the Effective Time are members of the Board of Directors of the Company, including the Chairman of the Board of Directors of the Company (if such person is different from the Chief Executive Officer of the Surviving Corporation); and (iv) the Chief Executive Officer of the Surviving Corporation (collectively, the directors designated in clauses (iii) and (iv) hereof, the "Company Designees"), and (x) the initial Chairman of the Board of Directors of the Surviving Corporation shall be the Chief Executive Officer of the Company as of the time immediately prior to the Effective Time for a one year term and (y) if any Company Designee resigns, retires or otherwise ceases to serve as a director of the Surviving Corporation for any reason, the remaining Company Designees shall have the sole right to nominate a replacement director to fill such vacancy, and such person shall thereafter become a Company Designee;
2. Sole Shareholder shall have the unfettered right to designate, remove and replace the Sole Shareholder Designees as directors of the Surviving Corporation with or without cause or notice at its sole discretion, subject to the requirement that (i) two (2) of such directors are executives of Parent or any of its Subsidiaries and (ii) three (3) of such directors are not officers, employees or directors (other than as an independent director of the Surviving Corporation) of Parent or any of its Affiliates and who are residents of the Pacific Northwest region, while such requirement is in effect (subject in the case of clause (ii) hereof to Sole Shareholder determining, in good faith, that it is not able to appoint a non-employee resident of the Pacific Northwest region in a timely manner, in which case Sole Shareholder may replace any such director with an employee of Parent or any of its Subsidiaries on an interim basis, not exceeding six months, after which time Sole Shareholder shall replace such interim director with a non-employee resident of the Pacific Northwest region);
3. following the initial one year term of the Chairman of the Board of the Surviving Corporation, Sole Shareholder shall have the right to designate the Chairman of the Board of the Surviving Corporation, including electing to continue the term of the initial Chairman of the Board of the Surviving Corporation;
4. at all times, the chief executive officers of the Surviving Corporation and Parent shall be members of the Subsidiary Board, unless otherwise determined by Sole Shareholder;

CASE: UM 1897  
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**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 509**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED**

**GOVERNANCE AGREEMENT**

Dated as of November 5, 2015

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## GOVERNANCE AGREEMENT

**THIS AGREEMENT** is made as of the 5th day of November, 2015

**B E T W E E N:**

**HYDRO ONE LIMITED** a corporation incorporated under the laws of the Province of Ontario

(“**Hydro One**”)

– and –

**HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO**

(the “**Province**”), as represented by the Minister of Energy

**RECITALS:**

- A. The Province has determined that in order to strengthen the long-term performance of Hydro One and generate value for Ontarians it is desirable to broaden the ownership of Hydro One pursuant to the Offering.
- B. The Province and Hydro One wish to establish the governance structure for Hydro One given the Province’s position as a significant and responsible shareholder of Hydro One.
- C. In the Prospectus, the Province has stated that it intends to sell additional common shares of Hydro One over time. Pursuant to the *Electricity Act, 1998* (Ontario), the Minister of Energy on behalf of the Province has the authority to dispose of its interest in Hydro One and enter into any agreement the Minister considers necessary or incidental to the disposition of any such interest. However, under the *Electricity Act, 1998* (Ontario) (i) the Province is not permitted to sell Voting Securities if as a result the Province would own less than 40% of any class or series of Voting Securities and (ii) if as a result of the issuance of additional Voting Securities by Hydro One, the Province owns less than 40 per cent of the outstanding number of Voting Securities of any class or series, the Province is required to take steps to increase its ownership (subject to the Lieutenant Governor in Council determining the manner by which, and the time by or within which, the Voting Securities shall be acquired) to not less than 40 per cent of the outstanding number of Voting Securities of that class or series, in accordance with the provisions of that statute.
- D. Given the Province’s stated intention about future sales by it of common shares of Hydro One, the Province is prepared to commit not to acquire previously issued Voting Securities in the future if the Province would, after that acquisition, own more than 45% of any class or series of Voting Securities.
- E. Given the Province’s ownership obligations with respect to Voting Securities in accordance with the *Electricity Act, 1998* (Ontario), Hydro One is prepared to provide the



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Province with a pre-emptive right to acquire up to 45% of certain new issuances of Voting Securities by Hydro One.

- F. Hydro One and the Province wish to enter into this Agreement to give effect to the matters set out in the Recitals and to govern the Province's relationship with Hydro One in its capacity as a holder of Voting Securities.

In consideration of the mutual covenants and agreements contained in this Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the Parties), the Parties agree as follows.

## ARTICLE 1 INTERPRETATION

### 1.1 Definitions

In this Agreement:

1.1.1 “**Ad Hoc Nominating Committee**” has the meaning given to that term in Section 4.7.2;

1.1.2 “**Agreement**” means this Governance Agreement and all Schedules attached to this agreement, in each case as they may be amended, supplemented or replaced from time to time in accordance with this Agreement;

1.1.3 “**Annual Confirmation Meeting**” means the first meeting of Directors after each annual meeting of Shareholders;

1.1.4 “**Arbitration Rules**” has the meaning given to that term in Section 7.1;

1.1.5 “**Articles**” means the articles of incorporation of Hydro One, as amended from time to time;

1.1.6 “**Board**” means the board of directors of Hydro One;

1.1.7 “**Board Diversity Policy**” means the policy on board diversity approved by the Board and in effect on the date of this Agreement, as it may be amended from time to time in accordance with Section 2.4.2;

1.1.8 “**Business Day**” means any working day, Monday to Friday inclusive, but excluding statutory and other holidays, namely: New Year's Day; Family Day; Good Friday; Easter Monday; Victoria Day; Canada Day; Civic Holiday; Labour Day; Thanksgiving Day; Remembrance Day; Christmas Day; Boxing Day and any other day identified as a “holiday” under Section 88 of the *Legislation Act, 2006* (Ontario);

1.1.9 “**Chair**” means the chair of the Board;

1.1.10 “**CEO**” means the Chief Executive Officer of Hydro One;

- 1.1.11 “**Circular Deadline**” has the meaning given to that term in Section 4.3.3;
- 1.1.12 “**Constating Documents**” means Hydro One’s articles of incorporation, certificate of incorporation, by-laws, or similar organizational documents, as the same may be amended from time to time;
- 1.1.13 “**Contested Meeting**” means a meeting of Shareholders for the purposes of electing Directors where the number of candidates for election as a Director validly nominated exceeds the number of Directors to be elected at that meeting;
- 1.1.14 “**Director**” means a director of Hydro One;
- 1.1.15 “**DRIP**” means any dividend re-investment arrangement established by Hydro One from time to time that is on terms (including as to discount rate) consistent with dividend re-investment arrangements of other publicly-traded utilities in Canada and that does not include a cash purchase option.
- 1.1.16 “**EA**” means the *Electricity Act, 1998* (Ontario);
- 1.1.17 “**Effective Date**” means the date the Offering is completed;
- 1.1.18 “**Excluded Issuance**” means the issuance of Voting Securities: (i) pursuant to employee or director compensation plans existing on the date hereof or plans adopted after the date hereof that comply with the rules of the TSX and, if required, have been approved by the TSX; (ii) pursuant to a DRIP; (iii) pursuant to a rights offering that is open to all Shareholders; or (iv) pursuant to any business combination, take-over bid, arrangement, asset purchase transaction or other acquisition of assets or securities of a third party;
- 1.1.19 “**Expected Departing Directors**” has the meaning given to that term in Section 4.3.1;
- 1.1.20 “**FAA**” means the *Financial Administration Act* (Ontario);
- 1.1.21 “**Governance Principles**” has the meaning given to that term in Section 2.1;
- 1.1.22 “**Governmental Authority**” means any federal, national, supranational, state, provincial or local government, any court, tribunal, arbitrator, authority, agency, commission, official, any Canadian or Provincial minister or the Crown or foreign equivalent or any non-governmental self-regulatory agency or other instrumentality of any government that, in each case, has jurisdiction over the matter in question;
- 1.1.23 “**Hydro One**” means Hydro One Limited;
- 1.1.24 “**Hydro One Entity**” means any Person controlled directly or indirectly by Hydro One where “control” has the meaning given to that term in the take-over bid rules under Ontario securities Laws;

- 1.1.25        “**Hydro One Ombudsman**” means the ombudsman for Hydro One appointed by the Board pursuant to Section 48.3 of the EA;
- 1.1.26        “**Hydro One’s Governance Standards**” has the meaning given to that term in Section 2.4.2;
- 1.1.27        “**Law**” means all laws, statutes, rules, regulations, ordinances, judgments, orders, writs, directives, decisions, rulings, decrees, awards and other pronouncements having the effect of law in Canada or in Ontario, or, as applicable, any foreign country or any other domestic or any foreign province, state, county, city or other political subdivision or of any Governmental Authority;
- 1.1.28        “**Majority Voting Policy**” means the majority voting policy of Hydro One approved by the Board and in effect on the date of this Agreement, as it may be amended from time to time in accordance with Sections 2.4.1 and 2.4.2;
- 1.1.29        “**material information**” means a “material fact” or a “material change” (as each of those terms is defined under applicable securities Laws);
- 1.1.30        “**Nominating and Governance Committee**” has the meaning given to that term in Section 3.5;
- 1.1.31        “**Nomination Deadline**” has the meaning given to that term in Section 4.3.3;
- 1.1.32        “**Nomination Notice**” has the meaning given to that term in Section 4.3.3;
- 1.1.33        “**OBCA**” means the *Business Corporations Act* (Ontario);
- 1.1.34        “**OEB**” means the Ontario Energy Board continued as a non-share capital corporation under the OEB Act;
- 1.1.35        “**OEB Act**” means the *Ontario Energy Board Act, 1998* (Ontario);
- 1.1.36        “**Offer**” has the meaning given to that term in Section 6.1;
- 1.1.37        “**Offered Securities**” has the meaning given to that term in Section 6.1;
- 1.1.38        “**Offering**” means the initial public offering of common shares of Hydro One described in the Prospectus;
- 1.1.39        “**Offering Outside Date**” has the meaning given to that term in Section 6.2;
- 1.1.40        “**Official or Employee of the Province**” has the meaning given to that term in Schedule “A” to this Agreement;

- 1.1.41            “**Ordinary Board Resolution**” means a resolution of the Board passed by at least a majority of the votes cast at a meeting of the Directors, or consented to in writing by all of the Directors;
- 1.1.42            “**Party**” means a party to this Agreement and “**Parties**” means all of the parties to this Agreement;
- 1.1.43            “**Person**” means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, Governmental Authority, trust, trustee, executor, administrator, or other legal personal representative;
- 1.1.44            “**Proposed Offering**” has the meaning given to that term in Section 6.1;
- 1.1.45            “**Prospectus**” means the prospectus of Hydro One dated October 29, 2015;
- 1.1.46            “**Province**” has the meaning given to that term in the Recitals;
- 1.1.47            “**Provincial Nominee**” means any Director nominated by the Province to serve as a Director pursuant to the terms of this Agreement who has been duly elected or appointed to the Board;
- 1.1.48            “**Provincial Representative**” means the Minister of Energy or any other Person(s) designated from time to time in accordance with Section 8.9 by the Minister of Energy as representing the Province for the particular matter or matters under this Agreement stated in the relevant designation, provided that the Minister of Energy may designate no more than one Person for a particular matter;
- 1.1.49            “**Public Accounts**” has the same meaning as that term has when used in the FAA;
- 1.1.50            “**Public Entity**” has the meaning given to the term “public entity” in the FAA;
- 1.1.51            “**Recitals**” means the recitals to this Agreement;
- 1.1.52            “**Registration Rights Agreement**” means the registration rights agreement dated the date of this Agreement between the Province and Hydro One;
- 1.1.53            “**Removal Meeting**” has the meaning given to that term in Section 4.7.1;
- 1.1.54            “**Removal Notice**” has the meaning given to that term in Section 4.7.1;
- 1.1.55            “**Response**” has the meaning given to that term in Section 6.2;
- 1.1.56            “**Shareholder**” means a holder of Voting Securities;

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1.1.57 “**Skills Matrix**” means the matrix of expertise, skills, experience and perspectives applied in recruiting and retaining Directors with a balance of expertise, skills, experience and perspectives, taking into consideration Hydro One’s mandate, risk profile, operations and ownership structure, approved by the Board and in effect on the date of this Agreement, as it may be amended from time to time in accordance with Section 2.4.2;

1.1.58 “**Specified Provincial Entities**” means each organization referred to in Sections 6 and 7 of Schedule “A” to this Agreement.

1.1.59 “**Special Board Resolution**” means a resolution of the Board passed by at least two-thirds of the votes cast at a meeting of the Directors, or consented to in writing by all of the Directors;

1.1.60 “**TSX**” means Toronto Stock Exchange;

1.1.61 “**Voting Security**” means a voting security of Hydro One where “voting security” has the meaning given to the term “voting security” in the EA; and

1.1.62 “**Voting Security Threshold**” has the meaning given to that term in Section 4.8.1.

## 1.2 Schedules

The following schedules are attached to this Agreement:

Schedule “A”	–	Official or Employee of the Province
Schedule “B”	–	Form of Confidentiality Agreement
Schedule “C”	–	Hydro One’s Governance Standards
Schedule “D”	–	Rules of Procedure for Arbitration

## 1.3 Interpretation

Unless otherwise expressly provided in this Agreement or the context requires a different interpretation, the following rules of interpretation shall apply:

1.3.1 The table of contents and headings and references to them set forth in this Agreement are for convenience of reference purposes only, do not constitute a part of this Agreement and do not affect and are not intended to affect in any way the meaning or interpretation of this Agreement or any term or provision hereof.

1.3.2 All references in this Agreement to Sections, Articles, or Schedules, shall be deemed to refer to Sections, Articles or Schedules of this Agreement, as applicable.

1.3.3 All references in this Agreement to specific Sections, Articles, Schedules, and other divisions of this Agreement followed by a number are references to the whole

of the Section, Article, Schedule or other division of this Agreement, as applicable, bearing that number, including all subsidiary provisions containing that same number as a prefix.

1.3.4 The Schedules to this Agreement are an integral part of this Agreement and a reference to this Agreement includes a reference to the Schedules.

1.3.5 Any reference in this Agreement to each of the masculine, feminine and neuter genders shall be deemed to include all other genders.

1.3.6 Any reference to the singular in this Agreement shall also include the plural and vice versa, as the context may require.

1.3.7 References in this Agreement to any Party or other Person (other than a Provincial Representative) shall include references to its respective successors resulting from any amalgamation, merger, arrangement or other reorganization of such Party or other Person.

1.3.8 All amounts in this Agreement are stated and are to be paid in Canadian currency.

1.3.9 Unless specified otherwise, reference in this Agreement to a statute or statutory provision refers to that statute or statutory provision as it may be amended, replaced or re-enacted from time to time, or to any restated or successor statute or statutory provision of comparable effect. A reference in this Agreement to a statute includes a reference to all rules, regulations, by-laws and other instruments made under that statute.

1.3.10 Any reference to a number of days shall refer to calendar days unless Business Days are specified.

1.3.11 In construing this Agreement, the rule known as the *ejusdem generis* rule shall not apply nor shall any similar rule or approach apply to the construction of this Agreement and, accordingly, general words introduced or followed by the word “other” or “including” or “in particular” shall not be given a restrictive meaning because they are followed or preceded (as the case may be) by particular examples intended to fall within the meaning of the general words.

1.3.12 Where this Agreement states that an obligation shall be performed “no later than” or “within” or “by” a prescribed number of days before a stipulated date or event or “by” a date which is a prescribed number of days before a stipulated date or event, the latest time for performance shall be 5:00 p.m. on the last day for performance of the obligation concerned, or if that day is not a Business Day, 5:00 p.m. on the next Business Day.

1.3.13 Where this Agreement states that an obligation shall be performed “on” a stipulated date, the latest time for performance shall be 5:00 p.m. on that day, or, if that day is not a Business Day, 5:00 p.m. on the next Business Day.

1.3.14 Any reference to time of day or date means the local time or date in Toronto, Ontario unless otherwise specified.

1.3.15 References containing terms such as:

- (a) “hereof”, “herein”, “hereto”, “hereinafter”, “hereunder” and other terms of like import are not limited in applicability to the specific provision within which such references are set forth but instead refer to this Agreement taken as a whole;
- (b) “include”, “includes” and “including”, whether or not used with the words “without limitation” or “but not limited to”, shall not be deemed limited by the specific enumeration of items but shall, in all cases, be deemed to be without limitation and construed and interpreted to mean “include without limitation”, “includes without limitation” and “including without limitation”; and
- (c) “in its sole discretion” shall be deemed to be “in its sole and absolute discretion”.

1.3.16 Where an amount is to be determined under this Agreement by rounding to the nearest whole number, any half shall be rounded up to the next whole number.

1.3.17 Unless otherwise provided in this Agreement, any action to be taken by the Province, including the performance of any obligation or the exercise of any right, shall be undertaken by a Provincial Representative. Any action taken by a Provincial Representative shall bind the Province under this Agreement with respect to the matter or matters for which the Minister of Energy has designated that Provincial Representative at the relevant time and Hydro One shall be entitled to rely on any action taken by a Provincial Representative without any further enquiry into the Provincial Representative’s authority to take the particular action.

## **ARTICLE 2**

### **GOVERNANCE PRINCIPLES AND GOVERNANCE STANDARDS**

#### **2.1 Governance Principles**

The business and affairs of Hydro One shall be managed and operated in accordance with the following principles (collectively, the “**Governance Principles**”):

2.1.1 Hydro One shall maintain, and act in accordance with, corporate governance policies, procedures and practices that are consistent with the best practices of leading Canadian publicly listed companies, having regard to Hydro One’s ownership structure and this Agreement.

2.1.2 The Board shall be responsible for the management of or supervising the management of the business and affairs of Hydro One, including for those matters described in Section 2.3.

2.1.3 The Province shall, with respect to its ownership interest in Hydro One, engage in the business and affairs of Hydro One and the Hydro One Entities as an investor and not as a manager.

## **2.2 Interpretation of Governance Principles**

2.2.1 For clarity, the Governance Principles:

- (a) are fundamental to Hydro One and the Province entering into this Agreement, and compliance with the Governance Principles is essential to the management and operation of Hydro One;
- (b) are obligations of Hydro One and the Province;
- (c) are subject to applicable Laws and the other provisions of this Agreement; and
- (d) do not restrict the Province in any way (i) in relation to the regulation of Hydro One or any Hydro One Entity, including by the OEB or other body appointed by or responsible to the Province, or (ii) in relation to system planning by the Independent Electricity System Operator, or (iii) in relation to the enforcement of Ontario Laws applicable to Hydro One or any Hydro One Entity or the enactment, promulgation or amendment of such Laws or (iv) in respect of any communication regarding Hydro One or any Hydro One Entity by an individual in his or her capacity as a member of the Legislative Assembly of Ontario, if made in the Legislative Assembly of Ontario or in another public forum in relation to the enforcement, promulgation or enactment of Ontario Laws or in relation to Ontario regulatory policy; and, for further clarity, communications by a member of the Legislative Assembly of Ontario who is not a member of the governing party at the relevant time are not communications by the Province.

2.2.2 With respect to its ownership interest in Hydro One, the Province intends to achieve its policy objectives through legislation and regulation as it would with respect to any other utility operating in Ontario. For clarity, neither the Governance Principles nor that intention restrict the exercise by the Province of its rights as a Shareholder, including its right to vote any Voting Securities in the sole interest and sole discretion of the Province, except as expressly provided for in this Agreement.

## **2.3 Role of the Board**

Subject to applicable Law, including the OBCA, those matters for which the Board is responsible and in respect of which it has full authority (whether directly, by delegation or by supervision) include specifically:

- (a) corporate governance;



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- (b) the appointment, termination, supervision and compensation of the CEO, Chief Financial Officer and other senior officers of Hydro One;
- (c) remuneration of directors;
- (d) strategic planning and direction;
- (e) risk management;
- (f) capital structure;
- (g) dividend and distribution policy;
- (h) financial management and reporting;
- (i) approval of the annual business plan and budget of Hydro One;
- (j) disclosure under applicable securities and other Laws and other public communication; and
- (k) any other matter that from time to time ordinarily is supervised by the board of directors of a corporation with publicly traded securities.

## 2.4 Governance Standards

2.4.1 Hydro One shall maintain in effect at all times a majority voting policy in respect of the election of Directors that requires a Director nominee who receives a greater number of votes “withheld” than votes “for” at a meeting of Shareholders to elect Directors to tender his or her resignation to the Board promptly following the conclusion of that meeting. The parties acknowledge that the Majority Voting Policy in effect on the date of this Agreement satisfies this requirement. Hydro One may amend the Majority Voting Policy only in accordance with Section 2.4.2 and to the extent consistent with the requirements of majority voting policies required by the TSX or other applicable Laws, even where Hydro One is exempt from those requirements by reason of the Province’s ownership interest and provided that the amended Majority Voting Policy complies with the first sentence of this Section 2.4.1 or will have substantially the same effect.

2.4.2 Hydro One has established the governance policies, procedures and practices listed in Schedule “C” attached to this Agreement (collectively, “**Hydro One’s Governance Standards**”), which include the mandate for the Hydro One Ombudsman, the Skills Matrix, the Board Diversity Policy and the Majority Voting Policy. No amendment, supplement or addition to Hydro One’s Governance Standards shall be effective unless approved by a Special Board Resolution, except to the extent required by any applicable Laws.

## **2.5 Restriction on Province Initiating a Fundamental Change**

The Province shall not requisition a meeting of Shareholders to consider a fundamental change (as described in Part XIV of the OBCA) in respect of Hydro One. The Province may, however, at any meeting of Shareholders vote its Voting Securities in its sole interest and sole discretion on any proposal or resolution relating to such a proposed fundamental change.

## **2.6 Restriction on Province Acting Jointly or in Concert**

The Province shall not act jointly or in concert with any Person in connection with the exercise by that other Person of that Person's rights as a Shareholder or take any steps, directly or indirectly, to solicit any other Person to exercise that Person's rights as a Shareholder in a manner if the Province would be prohibited under this Agreement from directly exercising its own rights as a Shareholder in that manner. For clarity, a Person's rights as a Shareholder include for this purpose the right to requisition a meeting of Shareholders, to nominate someone for election as a Director and to vote any Voting Securities, but nothing in this Section 2.6 shall restrict the Province from soliciting proxies to vote another Person's shares in a particular manner, if the Province would have been entitled to vote its own Voting Securities in that manner under this Agreement. For greater certainty, any pension plan or related pension fund which the Province or any Public Entity establishes, sponsors, administers or contributes to, whether in whole or in part and whether before or after the Effective Date, shall not be treated as a joint actor of the Province for purposes of this Section 2.6, except to the extent that the Province solicits the administering entity or governing body of the pension plan or related pension fund to take a particular action or step.

## **2.7 Acquisition by the Province of Additional Voting Securities**

2.7.1 The Province shall not, directly or indirectly, acquire beneficial ownership or control or direction over previously issued Voting Securities if after the acquisition the Province would have beneficial ownership or exercise control or direction over greater than 45% of any class or series of Voting Securities. For clarity, the foregoing restriction does not require the Province to sell or otherwise dispose of any Voting Securities it owns on the Effective Date or that it acquires after that date in accordance with this Agreement nor does it restrict the Province from acquiring Voting Securities on an issuance by Hydro One pursuant to Article 6 or otherwise.

2.7.2 For purposes of Section 2.7.1, beneficial ownership of or control or direction over the following Voting Securities shall not be taken into account:

- (a) Voting Securities acquired by the Province as a result of the enforcement by the Province of any security interest securing payment of debt obligations owing by third parties to the Province;
- (b) Voting Securities acquired by Ontario Power Generation Inc. for the purposes of fulfilling obligations it may have under employee compensation arrangements to deliver Voting Securities to its employees; or

- (c) Voting Securities acquired pursuant to the Ontario Nuclear Funds Agreement; and
- (d) Voting Securities acquired by, on behalf of, or by the trustee for, the Ontario Retirement Pension Plan contemplated by the *Ontario Retirement Pension Plan Act, 2015*.

2.7.3 For clarity, for purposes of Section 2.7.1, the Province does not have beneficial ownership of or exercise control or direction over Voting Securities that are investments on behalf of the Province or a Public Entity:

- (a) made by a third party investment manager with discretionary authority (subject to any retained discretion in order for the Province or the Public Entity to fulfil its fiduciary duties);
- (b) made by an investment fund or other pooled investment vehicle in which the Province or a Public Entity has directly or indirectly invested and which is managed by a third party investment manager; or
- (c) made as a passive investment,

and in each case made under a bona fide investment program and independently of, and not coordinated with, the Province's policy objectives relating to its ownership of Voting Securities pursuant to the EA.

## **2.8 TSX Listing**

Hydro One shall maintain a listing of its common shares on the TSX, subject to continuing to meet the listing requirements of the TSX.

## **2.9 Obligations of Hydro One**

Any obligations of the Board, the Nominating and Governance Committee, the Chair or any other representative of Hydro One provided for in this Agreement are deemed to be obligations of Hydro One and Hydro One shall ensure those obligations are complied with.

## **2.10 Governance of Subsidiaries**

2.10.1 Subject to applicable Laws, the board of directors of each of Hydro One Inc. and Hydro One Networks Inc. shall be constituted to have the same members as the Board unless the Board determines otherwise.

2.10.2 Hydro One shall cause each of its wholly-owned Hydro One Entities, and shall use all commercially reasonable efforts to cause each of its other Hydro One Entities, to manage and operate its business and affairs on a basis that permits Hydro One to comply with its obligations under Sections 2.1.1 and 2.1.2.

2.10.3 Hydro One shall use its best efforts to cause each of its wholly-owned Hydro One Entities, and shall use all commercially reasonable efforts to cause each of its

other Hydro One Entities, to manage its business and affairs on a basis that facilitates and is consistent with the Province complying with its obligations under Section 2.1.3.

2.10.4 Hydro One shall cause each of its wholly-owned Hydro One Entities to, and shall use all commercially reasonable efforts to cause each of its other Hydro One Entities to, comply with their respective obligations under the EA and the OEB Act.

## **2.11 By-Laws**

2.11.1 If Hydro One cannot perform its obligations under or comply with this Agreement without being in breach of the by-laws of Hydro One, then Hydro One shall, as soon as reasonably practical after determining that is the case and to the extent permitted by applicable Law:

- (a) amend the by-laws to permit Hydro One to perform its obligations under and comply with the terms of this Agreement without breaching the by-laws; and
- (b) submit the amendment to the Shareholders for approval at the next meeting of Shareholders.

2.11.2 To the extent that the requirements of this Agreement are in addition to or more onerous than the requirements of the by-laws of Hydro One, but do not otherwise require Hydro One to amend its by-laws in accordance with Section 2.11.1, Hydro One shall comply with the terms of this Agreement as well as the by-laws.

## **ARTICLE 3 GOVERNANCE STRUCTURE**

### **3.1 Number of Directors**

3.1.1 The number of Directors shall be a minimum of 10 and a maximum of 15. Hydro One's Articles shall at all times provide for this minimum and maximum number of Directors.

3.1.2 Until the first annual meeting of Shareholders after the date of this Agreement, the number of Directors of Hydro One shall be 15.

3.1.3 The number of Directors to be elected at the first and each subsequent annual meeting of Shareholders after the date of this Agreement shall be the number of Directors determined from time to time by the Board, subject to Section 3.1.1, the Articles and the OBCA.

3.1.4 If the Board increases the number of Directors between annual meetings of the Shareholders, any vacancies created by the increase shall be filled in accordance with Section 4.4.

### **3.2 Appointment of Chair**

3.2.1 The appointment of a new Chair at any time must be approved by a Special Board Resolution.

3.2.2 The Chair shall be nominated and confirmed annually by a Special Board Resolution at the Annual Confirmation Meeting. If the Board does not confirm the Chair at the Annual Confirmation Meeting by a Special Board Resolution, the Board shall remove the Chair as soon as practicable and appoint a replacement Chair in accordance with this Section 3.2.

3.2.3 The Chair must be a Director.

3.2.4 The CEO shall not be the Chair.

3.2.5 The Parties acknowledge and confirm that the current Chair, as set forth in the Prospectus, has been nominated and confirmed as required by this Section 3.2 until the next Annual Confirmation Meeting.

3.2.6 Nothing in this Section 3.2 limits the ability of the Board, by Ordinary Board Resolution, to remove the Chair between Annual Confirmation Meetings.

### **3.3 Appointment of CEO**

3.3.1 The appointment of a new CEO at any time must be approved by a Special Board Resolution.

3.3.2 The CEO must be confirmed annually by a Special Board Resolution at the Annual Confirmation Meeting. If the Board does not confirm the CEO at the Annual Confirmation Meeting by a Special Board Resolution, the Board shall remove the CEO as soon as practicable and appoint a replacement CEO in accordance with this Section 3.3.

3.3.3 Hydro One shall ensure that it is a term of the CEO's employment arrangements that she or he shall resign as a Director at such time that she or he ceases to be CEO.

3.3.4 The Parties acknowledge and confirm that the current CEO, as set forth in the Prospectus, has been appointed and confirmed as required by this Section 3.3 until the next Annual Confirmation Meeting.

3.3.5 Nothing in this Section 3.3 limits the ability of the Board, by Ordinary Board Resolution, to remove the CEO between Annual Confirmation Meetings.

### **3.4 Advance Notice for Special Board Resolution**

Notwithstanding anything to the contrary in the by-laws of Hydro One, Hydro One shall notify the Directors not less than 10 days in advance of a meeting at which a resolution is to be considered that must be approved by Special Board Resolution, provided that (i) the foregoing

notice requirement does not apply to confirmation of the Chair and CEO at the Annual Confirmation Meeting, and (ii) a Director may in any manner waive notice, provided that his or her attendance at a meeting shall be treated as a waiver of any notice of that meeting required by this Section 3.4 except where such Director attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called. Hydro One shall include in the notice a copy of the proposed resolution and details regarding the matter to be considered for approval.

### **3.5 Nominating and Governance Committee**

The Board shall maintain a committee (the “**Nominating and Governance Committee**”) that has the responsibilities and obligations contemplated by this Agreement to be responsibilities and obligations of the Nominating and Governance Committee. All references in this Agreement to the Nominating and Governance Committee shall mean whichever committee has those responsibilities and obligations at the relevant time, regardless of what other responsibilities and obligations that committee may have and regardless of the name or designation of that committee in the Hydro One Governance Standards. For clarity, initially the Nominating and Governance Committee is designated in Hydro One’s Governance Standards as the “Nominating, Corporate Governance, Public Policy & Regulatory Committee”.

## **ARTICLE 4 ELECTION AND APPOINTMENT OF DIRECTORS**

### **4.1 Nomination of Directors**

4.1.1 Subject to Section 4.7, at any meeting of Shareholders at which Directors are to be elected, Hydro One shall propose nominees for election as Directors as follows:

- (a) The CEO shall be nominated.
- (b) Subject to Section 4.8, the Province shall be entitled to nominate the number of nominees that is equal to 40% of the number of Directors to be elected (rounded to the nearest whole number). Each nominee of the Province must meet the qualifications set out in Section 4.2 and any Director nominee of the Province must be confirmed in accordance with Section 4.3, as applicable.
- (c) The Directors not nominated pursuant to Section 4.1.1(a) or 4.1.1(b) shall be nominated by the Nominating and Governance Committee. Each nominee of the Nominating and Governance Committee must meet the qualifications set out in Section 4.2 and any Director nominee of the Nominating and Governance Committee must be confirmed in accordance with Section 4.3, as applicable.

4.1.2 In respect of any meeting of Shareholders at which Directors are to be elected, Hydro One shall take all actions necessary and advisable to ensure that (i) proxies are solicited by or on behalf of Hydro One in favour of the election of the Director nominees nominated in accordance with Section 4.1.1 and (ii) every such nominee is endorsed and recommended in the applicable management information

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circular and other proxy solicitation materials provided by or on behalf of Hydro One to Shareholders. Hydro One shall take all other commercially reasonable actions necessary to permit the election or appointment to the Board of such nominees.

4.1.3 Subject to Sections 4.5, 4.6.1 and 4.7.6, in respect of any meeting of Shareholders at which Directors are to be elected, the Province shall vote in favour of the Director nominees nominated in accordance with Section 4.1.1.

## **4.2 Qualification of Director Nominees**

4.2.1 Each Director nominee must be an individual of high quality and integrity who has:

- (a) significant experience and expertise in business or that is applicable to business,
- (b) served in a senior executive or leadership position,
- (c) broad exposure to and understanding of the Canadian or international business community,
- (d) skills for directing the management of a company, and
- (e) motivation and availability,

in each case to the extent requisite for a business of the complexity, size and scale of the business of Hydro One and on a basis consistent with the highest standards for directors of leading Canadian publicly listed companies.

4.2.2 Other than the CEO, each Director nominee shall be independent of Hydro One within the meaning of Ontario securities Laws governing the disclosure of corporate governance practices.

4.2.3 Other than the CEO, each Director nominee (including, for clarity, a nominee of the Province), shall be independent of the Province. For these purposes, a Director nominee shall be independent of the Province if:

- (a) he or she is independent of Hydro One within the meaning of Ontario securities Laws governing the disclosure of corporate governance practices, where the Province and each Specified Provincial Entity is deemed to be a “parent” of Hydro One under that definition but excluding, in the case only of the Directors named in the Prospectus, any prior relationship referred to in those Ontario securities Laws where the relationship ended before August 31, 2015;
- (b) he or she is not a current Official or Employee of the Province; and
- (c) he or she has not been an Official or Employee of the Province for at least three years prior to the date of his or her nomination to the Board but excluding, in the

case only of the Directors named in the Prospectus, where the relationship ended before August 31, 2015.

4.2.4 Each Director nominee shall meet the requirements of applicable securities and other Laws and any exchange on which Voting Securities are listed.

4.2.5 No Director nominee may be proposed by the Province or the Nominating and Governance Committee to replace an incumbent Director if, taking into account the selection criteria identified pursuant to Section 4.3.1 and any other proposed Director nominees to replace incumbent Directors who have already been confirmed pursuant to Section 4.3, the Board would not collectively satisfy the Skills Matrix, Board Diversity Policy or any other policy relating to the composition of the Board forming part of Hydro One's Governance Standards. For clarity, notwithstanding the previous sentence, the Parties acknowledge that the Skills Matrix, Board Diversity Policy and other policies referred to in the previous sentence may include goals that the Board expressly intends to strive to meet over time (referred to here as "aspirational goals"). Nothing in this Section 4.2.5 shall prevent a Director nominee from being proposed who does not meet aspirational goals, provided his or her nomination would not prevent the Board from collectively satisfying any requirement of those policies that is then applicable or be reasonably likely to prevent the Board from satisfying any aspirational goal over the period of time if any, contemplated for that aspirational goal by the relevant policy.

4.2.6 The majority of the Board must at all times be resident Canadians (as defined in the OBCA). Neither the Province nor the Nominating and Governance Committee will nominate any Person for election or appointment as a Director if as a result of that nominee being elected or appointed as a Director, this requirement would not be met.

4.2.7 Notwithstanding this Section 4.2, each Director named in the Prospectus is qualified to be a director of Hydro One on the Effective Date whether or not he or she satisfies the qualifications set out in this Section 4.2 on that date. The Provincial Nominees on the Effective Date are those who have been identified as such in the Prospectus.

4.2.8 If the Province or the Nominating and Governance Committee nominates any individual who is an incumbent Director for election as a Director at an annual meeting of Shareholders held after the Effective Date, that individual shall not be subject to confirmation pursuant to Section 4.3.4 as satisfying the qualifications set out in this Section 4.2, except to the extent there has been a material change in that individual's circumstances since the Effective Date or his or her most recent confirmation pursuant to Section 4.3.4, as applicable, that would affect whether he or she satisfies the qualifications set out in this Section 4.2. For clarity, in determining whether there has been a material change in an individual's circumstances for this purpose, changes in the duration of an individual's term as a Director and in an individual's age shall be taken into account. The Province or the Nominating and Governance Committee, as applicable, shall promptly notify the other upon becoming aware of any such material change in circumstances regarding any incumbent Director.



### 4.3 Identification and Confirmation of Director Nominees

4.3.1 Each year following the annual meeting of Shareholders, the Province and representatives of the Nominating and Governance Committee shall meet to discuss which Directors each does not expect to re-nominate in the next one to five years (whether due to resignation or retirement or otherwise), with an emphasis on those Directors, if any, that each previously nominated that each does not expect to nominate for election at the next annual meeting of Shareholders (“**Expected Departing Directors**”). In this discussion the Province and representatives of the Nominating and Governance Committee shall consider the impact on the Board of not re-nominating the Expected Departing Directors and identify the selection criteria for nominees to replace those Expected Departing Directors, to ensure that the Board will collectively comply with this Agreement and collectively satisfy the Skills Matrix, Board Diversity Policy and any other policy relating to the composition of the Board forming part of Hydro One’s Governance Standards. The representatives of the Nominating and Governance Committee shall also at this meeting recommend to the Province individuals whom the Nominating and Governance Committee has previously identified as potential candidates for nomination to the Board, provided that the Province shall have no obligation to nominate any of the recommended individuals as one of its Director nominees. This initial meeting between the Province and representatives of the Nominating and Governance Committee would be expected to occur within 60 days following each annual meeting of Shareholders.

4.3.2 Following the initial meeting between the Province and representatives of the Nominating and Governance Committee contemplated in Section 4.3.1, each of the Province and the Nominating and Governance Committee shall separately consider their respective Expected Departing Directors and their proposed Director nominees to replace those Directors. The Province and representatives of the Nominating and Governance Committee shall meet to discuss further their Expected Departing Directors and proposed replacement nominees under consideration. These subsequent meetings between the Province and representatives of the Nominating and Governance Committee would be expected to occur within 120 days following each annual meeting of Shareholders.

4.3.3 As soon as practicable following the discussions between the Province and representatives of the Nominating and Governance Committee referenced in Sections 4.3.1 and 4.3.2, each of the Province and the Nominating and Governance Committee shall provide one or more notices (each being a “**Nomination Notice**”) setting out its proposed Director nominees, along with (i) sufficient background information about any nominee who is not an incumbent Director or (ii) in the case of an incumbent Director whose circumstances have materially changed as described in Section 4.2.8, sufficient information about the material change, so as in either case to allow the other to assess whether that nominee satisfies the qualifications set out in Section 4.2. Each of the Province and the Nominating and Governance Committee shall, in any event, deliver its Nomination Notice to the other at least 60 days (the “**Nomination Deadline**”) prior to the date by which proxy solicitation materials must be mailed for purposes of the next annual meeting of Shareholders (the “**Circular Deadline**”). Hydro One shall notify

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the Province of the Nomination Deadline at least 20 days prior to the Nomination Deadline.

4.3.4 If the Province or the Nominating and Governance Committee has received a Nomination Notice from the other of a Director nominee (i) who is not an incumbent Director or (ii) who is an incumbent Director whose circumstances have materially changed as described in Section 4.2.8, in either case prior to the Nomination Deadline, the Province or the Nominating and Governance Committee, as the case may be, shall have ten Business Days to confirm or reject that Director nominee, acting reasonably, but may reject that nominee only on the grounds that the nominee does not satisfy the qualifications for Directors set out in Section 4.2 or, in the case of a nominee whose circumstances have materially changed as contemplated in Section 4.2.8, the nominee as a consequence of the change no longer satisfies such qualifications. Any Director nominee who is not rejected by the Nominating and Governance Committee or the Province, as the case may be, within ten Business Days of receiving a Nomination Notice of such nominee's nomination shall be proposed by Hydro One for election as a Director in accordance with Section 4.1.1.

4.3.5 If any Director nominee of the Province or the Nominating and Governance Committee is rejected pursuant to Section 4.3.4, the Province or the Nominating and Governance Committee, as the case may be, shall be entitled to deliver one or more Nomination Notices nominating a replacement Director nominee until a nominee is confirmed by the other in accordance with Section 4.3.4.

4.3.6 If notwithstanding the expectations of the Province and the Nominating and Governance Committee regarding Expected Departing Directors, there is any Expected Departing Director: (i) for whom no replacement nominee has been confirmed in accordance with Section 4.3.4 prior to the Circular Deadline and (ii) who has not resigned, that Director shall be re-nominated in accordance with Section 4.1.1.

4.3.7 The Province and the Nominating and Governance Committee shall use commercially reasonable efforts to cause Director nominees to be confirmed prior to the Circular Deadline. If insufficient Director nominees of either the Province or the Nominating and Governance Committee are confirmed by the Circular Deadline and Section 4.3.6 does not apply, the Province and the Nominating and Governance Committee shall, acting reasonably, consider and implement alternatives to ensure that applicable Law and the provisions of Section 4.1.1 with respect to the number of Directors each is entitled to nominate are complied with in respect of the applicable annual meeting of Shareholders. These alternatives may include reducing the number of directors to be elected at that annual meeting of Shareholders or delaying the date of that annual meeting of Shareholders until Section 4.1.1 may be complied with.

4.3.8 The parties, acting reasonably, shall apply a process that is as substantially equivalent to the process provided for in this Section 4.3 as is practicable in the circumstances, with respect to any meeting of Shareholders to elect Directors other than an annual meeting of Shareholders.

4.3.9 If there is any dispute with respect to the process for nominating Directors provided for in this Section 4.3, either the Province or the Nominating and Governance Committee may request that ADR Chambers Canada appoint a single arbitrator with expertise in corporate governance matters to adjudicate the dispute. The arbitration proceedings will be conducted in accordance with Article 7.

#### **4.4 Replacement Board Nominees in case of Vacancies**

4.4.1 If one or more vacancies occurs on the Board:

- (a) if the vacancy is caused by (i) a Provincial Nominee ceasing to serve as a Director or (ii) an increase in the number of Directors such that, pursuant to Section 4.1.1(b), the Province would be entitled to nominate an additional Director at the next meeting of Shareholders at which Directors are to be elected, then the Province shall nominate an individual to fill the vacancy, provided that the nominee shall be subject to confirmation by the Nominating and Governance Committee in accordance with a process that is as substantially equivalent to the process provided for in Section 4.3 as is practicable in the circumstances, as applied by the Parties, acting reasonably, and so that the vacancy can be filled within 90 days of the vacancy occurring;
- (b) if the vacancy is created by the CEO ceasing to serve in that office, the vacancy shall be filled by the replacement CEO appointed in accordance with Section 3.3; and
- (c) otherwise, the Nominating and Governance Committee shall nominate an individual to fill the vacancy, provided that the nominee shall be subject to confirmation by the Province in accordance with a process that is as substantially equivalent to the process provided for in Section 4.3 as is practicable in the circumstances, as applied by the Parties acting reasonably and so that the vacancy can be filled within 90 days of the vacancy occurring.

4.4.2 If:

- (a) the replacement nominee to fill a vacancy as described in Section 4.4.1(a) or Section 4.4.1(c) has been confirmed as provided for in that Section; or
- (b) upon the approval of the CEO's replacement pursuant to Section 3.3,

then in either such case, the Board shall appoint that replacement as a Director to fill the applicable vacancy.

#### **4.5 Province's Voting Rights at Contested Shareholders Meetings**

Notwithstanding Section 4.1.3, the Province may vote its Voting Securities or withhold from voting its Voting Securities in favour of any Director nominee (including for clarity the Provincial Nominees) at any Contested Meeting, at its sole discretion, except that the Province shall vote its Voting Securities in favour of the election of the CEO as a Director. The Province

shall not, however, nominate for election at any Contested Meeting or Removal Meeting any directors except in accordance with Section 4.1 or Section 4.7.3, as the case may be. For clarity, subsequent to any Contested Meeting, the provisions of this Agreement will continue to apply with respect to all future Director nominations.

#### **4.6 Province's Right to Withhold Votes for Directors**

4.6.1 Notwithstanding Section 4.1.3 but subject to Section 4.7.6, at any meeting of Shareholders at which Directors are to be elected, the Province may choose to withhold from voting in favour of any Director nominee with the exception of the CEO and, at the sole discretion of the Province, the Chair, provided that the Province shall do so only if it withholds from voting in favour of all Director nominees with the exception of the CEO and, at the sole discretion of the Province, the Chair. In the case of any annual meeting of Shareholders, the Province shall notify Hydro One in advance of the Circular Deadline of its intent to withhold from voting in favour of all Director nominees with the exception of the CEO and, at the sole discretion of the Province, the Chair.

4.6.2 If after a Shareholders meeting to elect Directors where the Province withholds from voting in favour of Director nominees in accordance with Section 4.6.1, one or more Directors elected at the Shareholders meeting tender their resignations as Directors pursuant to the Majority Voting Policy, the Board shall take whatever actions it determines are appropriate in the circumstances in accordance with the Majority Voting Policy, including:

- (a) accepting Director resignations in a sequential manner and only after a replacement Director for the resigning Director has been identified and confirmed pursuant to Section 4.4;
- (b) accepting some but not all Director resignations until sufficient replacement Directors for the resigning Directors have been identified and confirmed pursuant to Section 4.4;
- (c) calling a Shareholders meeting for the election of Directors and accepting Director resignations only upon the election of replacement Directors at the Shareholders meeting;
- (d) not accepting the Director resignations until Director nominees are elected at the next annual meeting of Shareholders; or
- (e) rejecting the Director resignations.

#### **4.7 Province's Right to Replace Directors**

4.7.1 Notwithstanding any other provision of this Agreement, the Province may at any time provide Hydro One with a notice (a "**Removal Notice**") setting out its intention to request Hydro One to hold a Shareholders meeting for the purposes of removing all of the Directors then in office, including the Provincial Nominees, with the

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exception of the CEO and, at the Province's sole discretion, the Chair (a "**Removal Meeting**").

4.7.2 Upon the Province delivering a Removal Notice to Hydro One, the Chair (whether or not the Province proposes to remove him or her) shall coordinate the establishment of a committee comprising:

- (a) one representative of each of the five largest beneficial owners of Voting Securities known to Hydro One, excluding the Province, willing to provide representatives to serve on the committee or if fewer than five such beneficial owners of Voting Securities are willing to provide representatives to serve on the committee, then one representative of each of the beneficial owners of Voting Securities, but a minimum of three, willing to do so, or
- (b) if at least three such beneficial owners of Voting Securities are not willing to provide representatives to serve on the committee within 30 days of the Province delivering a Removal Notice, then the individuals that the Province proposes to nominate as replacement Directors pursuant to Section 4.1.1

(in either case, the "**Ad Hoc Nominating Committee**"). In addition to supporting the establishment of the Ad Hoc Nominating Committee, the Chair shall assist the Ad Hoc Nominating Committee in carrying out its duties in an impartial manner.

4.7.3 The Province and the Ad Hoc Nominating Committee, acting reasonably, shall identify and confirm the replacement Director nominees to be nominated at the Removal Meeting to replace the incumbent Directors in accordance with Section 4.1.1 and a process that is as substantially equivalent to the process provided for in Section 4.3 as is practicable in the circumstances, as applied by the Province, Hydro One and the Ad Hoc Nominating Committee, acting reasonably, with the Ad Hoc Nominating Committee taking the place of the Nominating and Governance Committee, provided that none of the Director nominees determined pursuant to this Section 4.7 may be Directors other than the Chair if the Province elects pursuant to Section 4.7.1 not to vote for the removal of the Chair.

4.7.4 Hydro One shall call the Removal Meeting forthwith upon all the Director nominees being confirmed pursuant to Section 4.7.3, and shall hold the Removal Meeting within 60 days after all the Director nominees being confirmed pursuant to Section 4.7.3. From the time the Province delivers a Removal Notice until the Removal Meeting, the Directors then in office shall, in exercising their fiduciary duty with a view the best interests of Hydro One, take into account the Province's intention to cause a new Board to be constituted at the Removal Meeting and the desirability that the actions of the current Board not interfere with ability of any new Board to exercise its responsibility to oversee the business and affairs of Hydro One after the Removal Meeting in accordance with the Governance Principles, including with respect to each of the matters referred to in Section 2.3.

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4.7.5 Hydro One shall cause the proxy solicitation materials, including the meeting circular, for the Removal Meeting, to contain information customary for Director nominees about the replacement Director nominees identified and confirmed pursuant to Section 4.7.3. Hydro One shall take all other commercially reasonable actions necessary to conduct the Removal Meeting and to permit the election or appointment to the Board of the replacement Director nominees, if a resolution is passed at the meeting to remove some or all of the Directors.

4.7.6 At the Removal Meeting, the Province shall vote in favour of removing the current Directors with the exception of the CEO and, if the Province elects pursuant to Section 4.7 not to vote for removal of the Chair, the Chair and shall vote in favour of replacement Director nominees determined pursuant to this Section 4.7.

4.7.7 For clarity, subsequent to any Removal Meeting, the provisions of this Agreement, including Section 4.3, will continue to apply with respect to all future Director nominations.

#### **4.8 Province Below 40% of Voting Securities**

If the Province:

4.8.1 ceases to own Voting Securities to which are attached 40% of the votes that may be cast on the election of Directors at a meeting of Shareholders (the “**Voting Security Threshold**”); and

4.8.2 the Province does not subsequently acquire Voting Securities so that it meets the Voting Security Threshold prior to the next Nomination Deadline following the second anniversary of the first date on which the Province ceased to own Voting Securities sufficient to meet the Voting Security Threshold;

then commencing on that next Nomination Deadline until the Province again owns Voting Securities sufficient to meet the Voting Security Threshold, the number of Directors that the Province shall be entitled to nominate pursuant to Section 4.1.1(b) and pursuant to any other provision of this Agreement that refers to that Section to determine how many Directors the Province may nominate, shall be proportionate to the number of votes that the Province may cast on the election of Directors at a meeting of Shareholders out of the total number of votes that may be cast. The number of Directors that the Province is entitled to nominate pursuant to this calculation shall be rounded to the nearest whole number and based on the Province’s ownership of Voting Securities as of (i) in the case of a nomination for an upcoming annual meeting of Shareholders, the Nomination Deadline for that meeting and (ii) in all other cases, the Nomination Deadline prior to the most recent annual meeting of Shareholders.

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**ARTICLE 5**  
**CONFIDENTIALITY OF INFORMATION PROVIDED**

**5.1 Confidentiality Agreement**

The Parties shall enter into and comply with a confidentiality agreement in the form attached as Schedule “B” to this Agreement.

**ARTICLE 6**  
**PRE-EMPTIVE RIGHT**

**6.1 Offer to Subscribe for Common Shares**

If Hydro One proposes to issue any Voting Securities or any securities that are convertible into or exchangeable for Voting Securities (the “**Offered Securities**”), whether pursuant to a public offering or a private placement or otherwise but excluding an Excluded Issuance (a “**Proposed Offering**”), Hydro One shall offer (the “**Offer**”) to the Province the right to subscribe for and purchase up to 45% of the number or principal amount, as applicable, of the Offered Securities, in accordance with this Article 6 and subject to applicable Laws and to the rules of any stock exchange on which Hydro One’s securities are listed. If applicable Laws or rules of a stock exchange require Hydro One to obtain shareholder or other approvals to issue Offered Securities in accordance with this Article 6, Hydro One shall use all commercially reasonable efforts to obtain those approvals.

**6.2 Delivery of the Offer**

Hydro One shall notify the Province as soon as reasonably practicable that it is contemplating a Proposed Offering and shall deliver an Offer in any event not later than 30 days prior to the date that Hydro One enters into an agreement to issue Offered Securities (including a bid letter in connection with a “bought deal” offering). The Offer shall be in writing and, subject to Section 6.3, shall contain the terms and conditions of the Offered Securities, including the price at which the Offered Securities are to be issued, the number of Offered Securities which the Province is entitled to purchase pursuant to this Article 6, the proposed outside date (the “**Offering Outside Date**”) for completing the Proposed Offering, which date shall not be more than 60 days after the date of the Offer, and any other details of the Proposed Offering. The Offer must also state that (i) if the Province wishes to purchase Offered Securities pursuant to this Article 6, it shall do so by giving written notice (the “**Response**”) of the exercise of that right to Hydro One, and (ii) if Province wishes to subscribe for a number of Offered Securities less than the number to which it is entitled pursuant to this Article 6, it may do so. For clarity, the Offer may be contingent upon Hydro One determining to proceed with the Proposed Offering in its sole discretion. Notwithstanding that an Offer may be contingent, the Province acknowledges that the fact that Hydro One is contemplating the Proposed Offering may constitute material information regarding Hydro One, and that the requirements of securities Laws, as well as of the Confidentiality Agreement and internal controls referred to therein, may restrict disclosure of the information and trading in securities of Hydro One by those with knowledge of that information.

### **6.3 Offer Price and Number of Securities if Public Offering**

If the Offer is being delivered in connection with a proposed best-efforts or fully underwritten public offering (including an offering proposed on a “bought deal” basis) through an agent or underwriter, the Offer may include a range for the size of the Proposed Offering (expressed in number of Offered Securities or aggregate dollar value of the Proposed Offering), rather than a fixed number of Offered Securities and may state that the actual price per Offered Security shall be the offering price to be agreed upon by Hydro One in the agency agreement, bid letter or underwriting agreement, as the case may be, relating to the issuance.

### **6.4 Province’s Response**

The Offer shall specify a deadline by which the Province must deliver the Response to Hydro One, which deadline shall be no earlier than ten Business Days after the Province receives the Offer. The Province shall be deemed to have declined the Offer if it does not deliver a Response by that deadline. In the Response, the Province must specify the number of Offered Securities that it wishes to purchase. If the Offer was delivered in connection with a proposed best-efforts or fully underwritten public offering (including an offering proposed on a “bought deal” basis) through an agent or underwriter, the Response may specify the maximum price or a range of prices per Offered Security at which the Province will exercise its right to subscribe for or purchase Offered Securities under the Offer (provided that the Response may specify more than one maximum price per Offered Security together with the corresponding maximum number of Offered Securities to be subscribed for or purchased at each maximum price). Any Response delivered by the Province to Hydro One will be irrevocable and will be a legally binding obligation of the Province to subscribe for and purchase the Offered Securities specified therein, provided that if the Proposed Offering is not completed by the Offering Outside Date, the Offer will be deemed to be automatically revoked.

### **6.5 Offered Securities Not Subscribed For**

Any Offered Securities not subscribed for and purchased by the Province pursuant to a Proposed Offering may be issued to any other person pursuant to the Proposed Offering.

### **6.6 Purchase of Offered Securities**

The completion of any purchase of Offered Securities by the Province pursuant to a Proposed Offering shall be on the same terms and on the same date as the completion of that Proposed Offering, unless otherwise agreed by the Province.

### **6.7 Subsequent Offerings**

If Hydro One proposes to issue Voting Securities or securities convertible into or exchangeable for Voting Securities otherwise than pursuant to the Proposed Offering and not later than the Offering Outside Date for the Proposed Offering, Hydro One shall again comply with this Article 6. If Hydro One is continuing in good faith to contemplate a Proposed Offering after the Offering Outside Date for that Proposed Offering, Hydro One may deliver further Offers that have the effect of extending the Offering Outside Date for that Proposed Offering, provided that



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(i) the extended Offering Outside Date for that Proposed Offering occurs no later than four months after the original Offering Outside Date for that Proposed Offering, and (ii) after the Offering Outside Date for any particular Proposed Offering (including all permitted extensions, if any were effected, of that Offering Outside Date), Hydro One shall not deliver any Offer for any further Proposed Offering for a minimum of 90 days after that Offering Outside Date.

### **6.8 No Obligation to Subscribe**

The Province shall have no obligation to subscribe for any Offered Securities, except for the Offered Securities specified in any Response delivered by the Province to Hydro One.

## **ARTICLE 7 DISPUTE RESOLUTION**

### **7.1 Arbitration**

Each Party acknowledges and agrees that any dispute arising out of or in connection with this Agreement shall be resolved solely by arbitration in accordance with the arbitration rules set out in Schedule “D” (the “**Arbitration Rules**”). For greater certainty, the Province may not seek, nor is the Province entitled to obtain, status as a “complainant” for the purpose of commencing an oppression remedy proceeding or derivative claim proceeding in court, as described in Section 8.6.2(a) or 8.6.2(b), but the Province is otherwise entitled to assert such claims by way of arbitration in respect of any dispute arising out of or in connection with this Agreement.

### **7.2 Location of Arbitration**

The place of arbitration shall be at Toronto, Ontario unless the Parties otherwise agree.

### **7.3 Laws of Ontario**

The law to be applied in connection with the arbitration shall be the law of Ontario, including its conflict of law rules.

### **7.4 Arbitration Act, 1991**

The provisions of the *Arbitration Act*, 1991 (Ontario) shall apply to the extent that they are not inconsistent with this Article or with the Arbitration Rules.

## **ARTICLE 8 GENERAL PROVISIONS**

### **8.1 Financial Obligations of the Province**

Pursuant to the FAA, any payment required to be made by the Province pursuant to this Agreement is subject to there being sufficient appropriation by the Legislative Assembly of Ontario for the fiscal year in which the payment is to be made or the payment having been charged to an appropriation for a previous year.

## **8.2 Effective Date**

This Agreement shall become effective on the Effective Date.

## **8.3 Amendments to this Agreement**

This Agreement may be amended only by an instrument in writing executed by each of the Parties. If there are changes in circumstances in the future that impact the original purpose and intention of the parties in entering into this Agreement, the Parties shall cooperate in good faith to amend this Agreement to reflect those changes in circumstances.

## **8.4 Term**

This Agreement may be terminated only with the mutual agreement of both Parties.

## **8.5 Termination Not to Affect Rights or Obligations**

A termination of this Agreement shall not affect or prejudice any rights or obligations that have accrued or arisen under this Agreement prior to the termination, which rights and obligations shall survive the termination.

## **8.6 No Third Party Rights**

8.6.1 Notwithstanding any possible inferences to the contrary:

- (a) the Parties intend that the provisions of this Agreement shall not create any right or cause of action in or on behalf of any Person who is not a Party to this Agreement (including without limitation, any Shareholder, creditor, Director or officer of Hydro One); and
- (b) no Person other than the Parties shall be entitled to enforce the provisions of this Agreement in any legal proceeding in any forum.

8.6.2 For clarity, Section 8.6.1 does not preclude, and is not intended to preclude, any Shareholder or other stakeholder of Hydro One from obtaining status as a complainant:

- (a) for the purpose of applying to court for leave under the procedure known as the “derivative action”, that is provided for under section 246 of the OBCA to bring an action in the name and on behalf of Hydro One to enforce the rights of Hydro One under this Agreement; or
- (b) for the purpose of pursuing the proceeding known as an “oppression proceeding” in relation to this Agreement under Section 248 of the OBCA.

Hydro One irrevocably agrees not to raise any objection on the basis of Section 8.6.1 it might now or hereafter have to any Shareholder or other stakeholder of Hydro One obtaining status as a complainant for the purpose described in Sections 8.6.2(a) or 8.6.2(b).

However, for clarity, Hydro One reserves absolutely its right otherwise to contest (on any grounds whatsoever that it considers to be appropriate) any application to the court by any Shareholder for leave to bring a derivative action or to pursue an oppression proceeding.

## **8.7 Representations and Warranties of Hydro One**

Hydro One represents and warrants that this Agreement and the performance by Hydro One of its obligations under this Agreement: (i) has been duly authorized, executed and delivered by it, and is a valid and binding obligation of Hydro One, enforceable against Hydro One in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether the enforceability is considered in a proceeding in equity or at Law); and (ii) does not and will not violate any Law, the Constating Documents or any provision of any agreement or other instrument to which Hydro One or any of its properties or assets is bound, or result in a breach of or constitute (with due notice or lapse of time or both) a default under any such agreement or other instrument, or conflict with any such agreement or other instrument so as to prevent Hydro One from either performing its obligations under, or complying with, both this Agreement and any such agreement or other instrument.

## **8.8 Representations and Warranties of the Province**

8.8.1 The Province represents and warrants that this Agreement and the performance by the Province of its obligations under this Agreement:

- (a) has been duly authorized, executed and delivered by the Province, and is a valid and binding obligation of the Province, enforceable against the Province in accordance with its terms, subject to:
  - (i) limitations with respect to the enforcement of remedies by bankruptcy, insolvency, reorganization, moratorium, winding-up, arrangement, fraudulent preference and conveyance and other similar Laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at Law);
  - (ii) general equitable principles and the fact that the availability of equitable remedies such as specific performance and injunction are not available against the Province and that a court may stay proceedings or the execution of judgments;
  - (iii) statutory limitations of general application respecting the enforceability of claims against the Province or its property;
  - (iv) section 11.3 of the FAA;

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- (v) the Province's powers to retain amounts for which Hydro One is indebted to the Province under this Agreement or otherwise, by way of deduction or set off out of any money owing by the Province to Hydro One under this Agreement, pursuant to section 43 of the FAA; and
- (b) does not and will not violate any Laws of any province of Canada or the Laws of Canada or any provision of any agreement or other instrument to which the Province or any of its properties or assets is bound, or conflict with or constitute (with due notice or lapse of time or both) a default under any such agreement or other instrument.

## **8.9 Notices, Designations and Other Communications**

Any notice, designation or other communication required or permitted to be given under this Agreement shall be in writing and shall be given by prepaid first class mail, by facsimile or other means of electronic communication or by delivery by hand as hereafter provided. Any such notice, designation or other communication, if mailed by prepaid first class mail at any time other than during a general discontinuance of postal service due to strike, lockout or otherwise, shall be deemed to have been received on the fourth Business Day after the post marked date thereof, or if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or if delivered by hand shall be deemed to have been received on the Business Day it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this Section. Any designation of a Provincial Representative shall be signed by the Minister of Energy and shall state the name, address and fax number of the Provincial Representative and the particular matter or matters under this Agreement to which the designation relates. Any such designation shall remain in full force and effect with respect to such Provincial Representative and in respect of such matter or matters until subsequently amended or revoked by the Minister of Energy. In the event of a general discontinuance of postal service due to strike, lock out or otherwise, notices, designations or other communications shall be delivered by hand or sent by facsimile or other means of electronic communication and shall be deemed to have been received in accordance with this Section. Notices, designations and other communications shall be addressed as follows:

- (a) if to Hydro One:

Hydro One Limited  
483 Bay Street  
South Tower, Suite 800  
Toronto, Ontario M5G 2P5

Attention: General Counsel  
Fax: 416-345-6056

With a copy (which shall not constitute notice) to:

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Osler, Hoskin & Harcourt LLP  
100 King Street West  
1 First Canadian Place  
Suite 6200, P.O. Box 50  
Toronto, ON M5X 1B8

Attention: Steve Smith / Michael Innes  
Fax: 416-862-6666

(b) if to the Province:

5th Floor  
56 Wellesley Street West  
Toronto, ON M7A 2E7

Attention: Legal Director, Legal Services Branch serving the Minister of Energy  
Fax: 416-325-1781

With a copy (which shall not constitute notice) to:

Torys LLP  
79 Wellington Street West, Suite 3000  
Box 270, TD South Tower  
Toronto, ON M5K 1N2

Attention: Sharon Geraghty  
Fax: 416-865-8138

with a copy to the applicable Provincial Representative (to the extent one has been designated by the Minister of Energy under this Section 8.9 but only in respect of the matter or matters in respect of which such Provincial Representative has been so designated).

## **8.10 Invalidity of Provisions**

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision. The Parties shall engage in good faith negotiations to replace any provision which is declared invalid or unenforceable with a valid and enforceable provision, the economic and substantive effect of which comes as close as possible to that of the invalid or unenforceable provision which it replaces.

## **8.11 Waiver**

Except as expressly provided in this Agreement, no waiver of any provision or of any breach of any provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give such waiver and, unless otherwise provided in such written

waiver, shall be limited to the specific provision or breach waived. No waiver by any Party hereto of any provisions or of any breach of any term, covenant, representation or warranty contained in this Agreement, in one or more instances, shall be deemed to be or construed as a further or continuing waiver of that or any other provision (whether or not similar) or of any breach of that or any other term, covenant, representation or warranty contained in this Agreement.

#### **8.12 Governing Law**

This Agreement shall be governed by and construed in accordance with the Laws of the Province of Ontario and the Laws of Canada applicable therein.

#### **8.13 Further Assurances**

Each of the Parties shall, with reasonable diligence, provide such further documents and instruments to the other Party and do all such things and provide all such reasonable assurances as may be required or as are reasonably desirable to effect the purpose of this Agreement and carry out its provisions.

#### **8.14 Enurement; Assignment**

This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors and legal personal representatives. This Agreement may not be assigned by either Party except with the prior written consent of the other Party.

#### **8.15 Counterparts**

This Agreement may be signed in counterparts and each such counterpart shall constitute an original document and such counterparts, taken together, shall constitute one and the same instrument.

*[Signature page follows]*

**IN WITNESS WHEREOF** the Parties have executed this Agreement.

**HYDRO ONE LIMITED**

By: “Mayo Schmidt”

Name: Mayo Schmidt

Title: President and Chief  
Executive Officer

*[Signature page to Governance Agreement]*

**HER MAJESTY THE QUEEN IN  
RIGHT OF ONTARIO AS  
REPRESENTED BY THE MINISTER  
OF ENERGY**

By: “Bob Chiarelli”

Bob Chiarelli

*[Signature page to Governance Agreement]*



## SCHEDULE "A"

### Official Or Employee Of The Province

Each of the following individuals is an "Official or Employee of the Province":

1. A public servant as defined by the *Public Service of Ontario Act, 2006* ("PSOA") who is employed under Part III of the PSOA in a ministry of the Government of Ontario.
2. The Secretary of the Cabinet.
3. A deputy minister of the Government of Ontario.
4. A member of the Executive Council or an employee of a minister's office.
5. A member of the Legislative Assembly of Ontario or an employee of a member's office.
6. A director or an officer or employee, of the following organizations:
  - (a) The Ontario Financing Authority;
  - (b) The Independent Electricity System Operator;
  - (c) Ontario Power Generation Inc.;
  - (d) Electrical Safety Authority;
  - (e) Ontario Electricity Financial Corporation;
  - (f) Infrastructure Ontario; or
  - (g) A Subsidiary of, or a Person controlled by, any organization listed in subparagraphs (a) to (f).
7. A member, officer or employee of the Ontario Energy Board.
8. A person who was previously a Director or a director of any Hydro One Entity or Person controlled by Hydro One, other than a person who is a Director on the date of this Agreement.
9. An officer or employee of Hydro One, or any Hydro One Entity or Person controlled by Hydro One, other than the chief executive officer of Hydro One.

**SCHEDULE "B"**

**Form of Confidentiality Agreement**

## CONFIDENTIALITY AGREEMENT

**THIS AGREEMENT** is made as of the 5th day of November, 2015

**B E T W E E N:**

**HYDRO ONE LIMITED**, a corporation incorporated under the laws of the Province of Ontario

– and –

**HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO**

(the “**Province**”), as represented by the Minister of Energy.

Hydro One Limited and its subsidiaries (the “**Company**”) expect to provide the Province, pursuant to the governance agreement dated as of the date hereof between the Province and Hydro One Limited (the “**Governance Agreement**”) and the registration rights agreement dated as of the date hereof between the Province and Hydro One Limited (the “**Registration Rights Agreement**”), with Company Confidential Information (as defined in Section 2 below) from time to time. The Governance Agreement requires the parties to enter into this confidentiality agreement (this “**Agreement**”) governing the use and disclosure by the Province of the Company Confidential Information and by the Company of the Province Confidential Information (as defined in Section 14 below).

### Confidentiality Obligations in favour of the Company:

In consideration of the Company providing, or causing to be provided, the Company Confidential Information to the Province and/or its Representatives (as defined below in Section 1) from time to time as required by the Governance Agreement and the Registration Rights Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties), the parties agree to the following:

1. In this Agreement, “**Representatives**” of the Province means, collectively, any persons appointed pursuant to the *Executive Council Act* (Ontario) and the Province’s directors, officers, officials, employees, public servants as defined by the *Public Service of Ontario Act, 2006* (Ontario), managers, agents, representatives, lawyers, accountants, consultants and financial and other advisors, provided that such persons or entities shall only be considered Representatives if such persons or entities have received Company Confidential Information.
2. In this Agreement, “**Company Confidential Information**” means all information and material of, or relating to, the Company and its Representatives (as defined below in Section 13), whether in oral, written, graphic, electronic or any other form or medium, including without limitation information and material concerning the Company’s past,

present or future customers, suppliers, technology, business, policy decisions, affairs, financial conditions, assets, liabilities, operations, plans, potential financings or transactions or other activities that is furnished to the Province or its Representatives pursuant to the Governance Agreement and/or the Registration Rights Agreement on or after the date of this Agreement. For the purposes of this definition, “**Company Confidential Information**” includes the portion of any plans, proposals, reports, analyses, notes, compilations, studies, forecasts or other documents prepared by the Province or its Representatives that are based on, contain, incorporate or otherwise reflect Company Confidential Information.

3. Notwithstanding Section 2, the following will not constitute “**Company Confidential Information**” under this Agreement:
  - (a) for the avoidance of doubt (i) information that the Province or its Representatives receive or obtain solely pursuant to any Applicable Law (as defined in Section 8 below) and (ii) information that the Province or its Representatives receive or obtain other than pursuant to the Governance Agreement and/or the Registration Rights Agreement.
  - (b) information that the Province or its Representatives receive or obtain from a third person who is not known by the Province to be prohibited from transmitting the information to the Province or its Representatives by a contractual, legal or fiduciary obligation not to disclose such information;
  - (c) information that has been publicly disclosed by the Company (including, for greater certainty, information publicly disclosed through regulatory filings or processes), or that is or becomes publicly available through no fault of the Province or its Representatives in breach of this Agreement or other contractual, legal or fiduciary obligation not to disclose such information;
  - (d) information that was independently developed by the Province or its Representatives without any reference to the Company Confidential Information; and
  - (e) information that the Company agrees in writing is not Company Confidential Information for the purposes of this Agreement.
4. The Province and its Representatives shall only use Company Confidential Information in connection with the Province’s exercise or enforcement of its rights under the Governance Agreement and the Registration Rights Agreement and in connection with evaluating, overseeing and determining how to manage its investment in Hydro One Limited, including whether to dispose of, return or acquire additional interests in Hydro One Limited and exercising its rights as a shareholder (including board representation rights), in each case in accordance with the Governance Agreement, the Registration Rights Agreement and Applicable Law (the “**Purpose**”).
5. The Province and the Company acknowledge that the Province and certain of its Representatives are subject to the *Freedom of Information and Protection of Privacy Act*

(Ontario), as amended or supplemented from time to time (“**FIPPA**”), and that FIPPA applies to and governs all records (as such term is defined in FIPPA) in the custody or control of the Province and those Representatives, including Company Confidential Information described in this Agreement. Subject to the obligations of the Province under Section 11 of this Agreement, the Province’s obligations pursuant to this Agreement to maintain such information in confidence are subject to any requirement the Province and its Representatives have under Applicable Law to disclose information, including records that must be disclosed by the Province and its Representatives under FIPPA. The provisions of this Section 5 shall survive termination of this Agreement and shall prevail over any other provisions of this Agreement to the contrary.

6. The Province acknowledges and agrees that the Company may not be able to furnish or disclose any information about an identifiable individual or other information that is subject to Applicable Law relating to the collection, use, storage and/or disclosure of information about an identifiable individual, including the *Personal Information Protection and Electronic Documents Act* (Canada) and *Personal Health Information Protection Act, 2004* (Ontario), whether or not such information is confidential, (collectively, “**Personal Information**”) to the Province or any of its Representatives unless consents to the disclosure of such Personal Information have been obtained from the relevant individual(s) as required, or the Company is otherwise authorized by Applicable Law to disclose such information. If any Personal Information is disclosed to the Province and/or its Representatives, the Province and its Representatives shall, subject to their obligations under Applicable Law, (i) use the Personal Information only in connection with the Purpose, (ii) limit disclosure of the Personal Information to what is authorized by the Company or required by Applicable Law, (iii) promptly refer any persons looking for access to their Personal Information to the Company, (iv) use appropriate security measures to protect the Personal Information, and (v) comply with Applicable Law relating to the privacy of the Personal Information.
7. The Province acknowledges and agrees that pursuant to the provisions of the Company’s Electricity Distribution Licenses issued by the Ontario Energy Board, the Company may not be able to furnish or disclose any information regarding a consumer, retailer, wholesaler or generator, whether or not such information is confidential, (collectively, “**Customer Information**”) to the Province or any of its Representatives unless consent to the disclosure of such Customer Information has been obtained, or the Company is otherwise authorized by its Electricity Distribution License or Applicable Law to disclose such information. If any Customer Information is disclosed to the Province and/or its Representatives, the Province and its Representatives shall, subject to their obligations under Applicable Law, (i) limit the use of the Customer Information to the Purpose, (ii) limit disclosure of the Customer Information to what is authorized by the Company or required by Applicable Law, (iii) promptly refer any persons looking for access to their Customer Information to the Company, (iv) use appropriate security measures to protect the Customer Information, and (v) comply with Applicable Law relating to the protection of the Customer Information.
8. The Province agrees that all Company Confidential Information shall be held and treated by the Province and its Representatives in confidence and shall not be disclosed by the

Province or its Representatives in any manner whatsoever, in whole or in part, except as expressly provided in this Agreement, as required by FIPPA or by any law, statute, rule, regulation, ordinance, judgment, code, guideline, order, writ, directive, decision, ruling, decree, award or other pronouncement or instrumentality of any federal, provincial or municipal government, parliament or legislature, or of any regulatory authority, agency, commission, tribunal, board or department of any such government, parliament or legislature, or of any court or other law, regulation or rule-making entity, having jurisdiction in the relevant circumstances (collectively, "**Applicable Law**"), or with the Company's prior written consent.

9. The Province also agrees (i) to use the same means to protect the confidentiality of the Company Confidential Information that the Province would use to protect its own confidential and proprietary information (but in any event, no less than reasonable means), (ii) to disclose Company Confidential Information only to its Representatives who need to know the Company Confidential Information for the Purpose, who are informed by the Province of the confidential nature of the Company Confidential Information and who agree to be bound by the terms of this Agreement, (iii) to take all necessary steps to require that its Representatives comply with and are bound by the terms and conditions of this Agreement, and (iv) to be responsible for any breach by its Representatives of any terms of this Agreement applicable to the Province's Representatives (as if the Province's Representatives were parties to and bound by those provisions of this Agreement). The provisions of clause (iv) of this Section 9 shall survive termination of this Agreement.
10. The Province acknowledges that certain of the Company Confidential Information that it receives or obtains may be information, including records prepared by or for counsel for use in giving legal advice or in contemplation of or for use in litigation, to which solicitor-client privilege and/or litigation privilege attaches (collectively, "**Privileged Information**"). The Province acknowledges and agrees that access to the Privileged Information is not intended and should not be interpreted as a waiver of any privilege in respect of Privileged Information or of any right to assert or claim privilege in respect of Privileged Information. To the extent there is any waiver of privilege, it is intended to be a limited waiver in favour of the Province, solely for the purposes and on the terms set out in this Agreement.
11. In the event that the Province or any of its Representatives are required by Applicable Law, by oral questions, interrogatories, requests for information or documents, subpoena, criminal or civil investigative demand, legislative committee or officer, or similar process to disclose any Company Confidential Information, the Province or such Representative, as the case may be, shall, to the extent permitted by Applicable Law, provide the Company with prompt written notice of such requirement so that the Company may seek a protective order or other appropriate remedy, if available, or waive compliance with the provisions of this Agreement. The Province shall thereafter cooperate with the Company to prevent such disclosure (including cooperating in obtaining a protective order or other appropriate remedy). Where a request is made to the Province or its Representatives for access to information subject to this Agreement under FIPPA, the Province or its Representatives shall provide the Company with notice of the request, and the

opportunity to make submissions to the Province or its Representatives about disclosure of the records, in accordance with section 28 of FIPPA. In the event that the Company is unable to obtain a protective order or other remedy, the Province or such Representative, as the case may be, may disclose only that portion of the Company Confidential Information which the Province or such Representative is advised by counsel (internal or external) as being required to disclose under FIPPA or by other Applicable Law. The Province or such Representative, as the case may be, shall use reasonable efforts to obtain reliable assurance that confidential treatment will be afforded to any Company Confidential Information so disclosed. The parties acknowledge, however, that Province cannot require any person who receives information under FIPPA to maintain such information in confidence. The provisions of this Section 11 shall survive termination of this Agreement.

12. The Company Confidential Information provided by the Company to the Province and/or its Representatives shall at all times remain the property of the Company or its Representatives (as defined below in Section 13), as applicable, and by making Company Confidential Information available to the Province, neither the Company nor its Representatives shall be deemed to be granting any license or other right under or with respect to any trade secret, patent, copyright, trademark, or other proprietary or intellectual property right. The provisions of this Section 12 shall survive termination of this Agreement.

#### **Confidentiality Obligations in favour of the Province:**

In consideration of the Province providing, or causing to be provided, the Province Confidential Information (as defined below) to the Company and its Representatives (as defined below) from time to time in connection with the Purpose for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties), the parties agree to the following:

13. In this Agreement, “**Representatives**” of the Company means, collectively, the Company’s directors, officers, employees, managers, agents, representatives, lawyers, accountants, consultants, and financial and other advisors, provided that such persons or entities shall only be considered Representatives if such persons or entities have received Province Confidential Information.
14. In this Agreement, “**Province Confidential Information**” means all information and material of, or relating to, the Province and its Representatives, whether in oral, written, graphic, electronic or any other form or medium, including without limitation information and material concerning the Province’s past, present or future policy decisions, business, affairs, financial conditions, operations, plans, potential transactions or potential purchases or sales of shares of Hydro One Limited or other activities that is furnished to the Company or its Representatives pursuant to the Governance Agreement and/or the Registration Rights Agreement on or after the date of this Agreement in connection with the Purpose. For the purposes of this definition, “**Province Confidential Information**” includes the portion of any plans, proposals, reports, analyses, notes, compilations, studies, forecasts or other documents prepared by the Company or its

Representatives that are based on, contain, incorporate or otherwise reflect Province Confidential Information.

15. Notwithstanding Section 14, the following will not constitute “**Province Confidential Information**” under this Agreement:
  - (a) for the avoidance of doubt (i) information that the Company or its Representatives receive or obtain solely pursuant to any Applicable Law and (ii) information that the Company or its Representatives receive or obtain other than pursuant to the Governance Agreement and/or the Registration Rights Agreement.
  - (b) information that the Company or its Representatives receive or obtain from a third person who is not known by the Company to be prohibited from transmitting the information to the Company or its Representatives by a contractual, legal or fiduciary obligation not to disclose such information;
  - (c) information that has been publicly disclosed by the Province (including, for greater certainty, information publicly disclosed through regulatory filings or processes), or that is or becomes publicly available through no fault of the Company or its Representatives in breach of this Agreement or other contractual, legal or fiduciary obligation not to disclose such information;
  - (d) information that was independently developed by the Company or its Representatives without reference to the Province Confidential Information; and
  - (e) information that the Province agrees in writing is not Province Confidential Information for the purposes of this Agreement.
16. The Company acknowledges and agrees that the Province may not be able to furnish or disclose Personal Information to the Company or any of its Representatives unless consents to the disclosure of such Personal Information have been obtained from the relevant individual(s) as required, or the Province is otherwise authorized by Applicable Law to disclose such information. If any Personal Information is disclosed to the Company and/or its Representatives, the Company and its Representatives shall, subject to their obligations under Applicable Law, (i) use the Personal Information only in connection with the Purpose, (ii) limit disclosure of the Personal Information to what is authorized by the Province or required by Applicable Law, (iii) promptly refer any persons looking for access to their Personal Information to the Province, (iv) use appropriate security measures to protect the Personal Information, and (v) comply with Applicable Law relating to the privacy of the Personal Information.
17. The Company agrees that all Province Confidential Information shall be held and treated by the Company and its Representatives in confidence and shall not be disclosed by the Company or its Representatives in any manner whatsoever, in whole or in part, except as expressly provided in this Agreement, as required by Applicable Law or by the



- requirements of any stock exchange on which securities of the Company are listed or with the Province's prior written consent.
18. The Company also agrees (i) to use the same means to protect the confidentiality of the Province Confidential Information that the Company would use to protect its own confidential and proprietary information (but in any event, no less than reasonable means), (ii) to disclose Province Confidential Information only to its Representatives who need to know the Province Confidential Information in connection with the Purpose, who are informed by the Company of the confidential nature of the Province Confidential Information and who agree to be bound by the terms of this Agreement, (iii) to take all necessary steps to require that its Representatives comply with and are bound by the terms and conditions of this Agreement, and (iv) to be responsible for any breach by its Representatives of any terms of this Agreement applicable to the Company's Representatives (as if the Company's Representatives were parties to and bound by those provisions of this Agreement). The provisions of clause (iv) of this Section 18 shall survive termination of this Agreement.
  19. The Company acknowledges that certain of the Province Confidential Information that it receives or obtains may be Privileged Information. The Company acknowledges and agrees that access to the Privileged Information is not intended and should not be interpreted as a waiver of any privilege in respect of Privileged Information or of any right to assert or claim privilege in respect of Privileged Information. To the extent there is any waiver of privilege, it is intended to be a limited waiver in favour of the Company, solely for the purposes and on the terms set out in this Agreement.
  20. In the event that the Company or any of its Representatives are required by the requirements of any stock exchange on which securities of the Company are listed, by Applicable Law, by oral questions, interrogatories, requests for information or documents, subpoena, criminal or civil investigative demand, legislative committee or officer, or similar process to disclose any Province Confidential Information, the Company or such Representative, as the case may be, shall, to the extent permitted by Applicable Law, provide the Province with prompt written notice of such requirement so that the Province may seek a protective order or other appropriate remedy, if available, or waive compliance with the provisions of this Agreement. The Company shall thereafter cooperate with the Province to prevent such disclosure (including cooperating in obtaining a protective order or other appropriate remedy). The parties acknowledge that the Company is subject to applicable securities law and the requirements of the Toronto Stock Exchange and New York Stock Exchange which mandate immediate disclosure of material information concerning the Company such that it may not always be practicable to provide prompt written notice of the requirement to disclose Province Confidential Information, to the extent Province Confidential Information would constitute material information concerning the Company. In the event the Province is unable to obtain a protective order or other remedy, the Company or such Representative, as the case may be, may disclose only that portion of the Province Confidential Information which the Company or such Representative is advised by counsel as being required to disclose by Applicable Law or the requirements of any stock exchange on which securities of the Company are listed. The Company or such Representative, as the case may be, shall use

reasonable efforts to obtain reliable assurance that confidential treatment will be afforded to any Province Confidential Information so disclosed. The parties acknowledge, however, that the Company cannot require any securities regulator or stock exchange who receives information to maintain such information in confidence. The provisions of this Section 20 shall survive termination of this Agreement.

21. The Province Confidential Information provided by the Province to the Company and/or its Representatives shall at all times remain the property of the Province or its Representatives, as applicable, and by making Province Confidential Information available to the Company, neither the Province nor its Representatives shall be deemed to be granting any license or other right under or with respect to any trade secret, patent, copyright, trademark, or other proprietary or intellectual property right. The provisions of this Section 21 shall survive termination of this Agreement.

**General Provisions:**

22. Each party acknowledges that it is aware (and that it will advise its respective Representatives) that applicable securities laws in Canada or elsewhere prohibit any person with material non-public information about an issuer (which would include both Hydro One Limited and Hydro One Inc.) from purchasing or selling securities of such issuer, or subject to certain limited exceptions, from communicating such information to any other person. The Province has instituted reasonable internal controls to restrict (a) the disclosure of material non-public information about the Company and (b) trading in the securities of the Company by the Province and its Representatives. The Province has provided a copy of such internal controls to Hydro One Limited and Hydro One Inc. on or prior to the date of this Agreement.
23. The parties acknowledge that any information that the Province receives pursuant to section 1.0.25 of the *Financial Administration Act* (Ontario) (the “FAA”) shall be dealt with in accordance with the provisions of the FAA.
24. The Company agrees to notify the Province of any information requests made by the Auditor General of Ontario pursuant to its rights under the *Auditor General Act* (Ontario) in relation to the audit of the Public Accounts (prepared pursuant to the FAA) and to advise the Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat (or any successor office thereto) as soon as reasonably practicable of the anticipated timing and planned approach to meet such requests.
25. Except as otherwise specified in this Agreement, this Agreement shall terminate on the second anniversary of the last to occur of the following: (i) the Governance Agreement no longer being in effect; and (ii) the Registration Rights Agreement no longer being in effect. The obligations of the Company and the Province under this Agreement shall survive termination of this Agreement with respect to that Province Confidential Information and Company Confidential Information, as the case may be, that pertains to those matters identified by the Province or the Company, as the case may be, to the other in writing at the time of termination of this Agreement.

26. This Agreement may not be amended except with the written consent of all parties hereto. There are no understandings, representations, warranties, terms, conditions, undertakings or collateral or other agreements, express, implied or statutory, among the parties with respect to the subject matter of this Agreement other than as expressly set forth in this Agreement, the Governance Agreement and the Registration Rights Agreement. If any provision of this Agreement is held to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall not affect any other provision hereof and all other provisions hereof shall continue in full force and effect.
27. It is understood and agreed that no failure or delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. Nothing shall be construed or have the effect of a waiver except an instrument in writing signed by a duly authorized representative of the party which expressly waives any such right, power or privilege.
28. This Agreement will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.
29. This Agreement may be executed in counterparts, each of which will be deemed to be an original and both of which taken together will be deemed to constitute one and the same instrument. Delivery of an executed signature page to this Agreement by any party by electronic transmission will be as effective as delivery of a manually executed copy of the agreement by such party.

*[Remainder of page intentionally left blank]*

**IN WITNESS WHEREOF** the parties have executed this Agreement as of the date set forth above.

**HYDRO ONE LIMITED**

By: \_\_\_\_\_

Name: Mayo Schmidt

Title: President and Chief  
Executive Officer

*[Signature page to Confidentiality Agreement]*

**HER MAJESTY THE QUEEN IN  
RIGHT OF ONTARIO, AS  
REPRESENTED BY THE MINISTER  
OF ENERGY**

By: \_\_\_\_\_

Name: Bob Chiarelli

Title: Minister of Energy

*[Signature page to Confidentiality Agreement]*

## **SCHEDULE “C”**

### **Hydro One Governance Standards**

1. Skills Matrix
2. Board Diversity Policy
3. Majority Voting Policy
4. Stakeholder engagement policy
5. Corporate disclosure policy
6. Corporate governance guidelines
7. Mandate for the Hydro One Ombudsman
8. Mandates of the Board and its committees
9. Position descriptions for the CEO, the Chair, the Directors and the committee chairs
10. Code of business conduct
11. Whistleblower policy
12. Executive share ownership guidelines & anti-hedging policy
13. Compensation recoupment policy

## SCHEDULE "D"

### Rules of Procedure for Arbitration

The following rules and procedures shall apply with respect to any matter to be arbitrated by the Parties under the terms of the Agreement.

#### 1. INITIATION OF ARBITRATION PROCEDURES

- (a) If a Party to this Agreement wishes to have any matter under this Agreement arbitrated, it shall give notice to the other Party specifying particulars of the matter or matters in dispute and request that ADR Chambers Canada appoint a single arbitrator who need not be a member of ADR Chambers Canada and who satisfies the requirements of Section 1(b) of this Schedule "D" (the "**Arbitrator**").
- (b) The individual selected as Arbitrator shall be reasonably qualified by education and/or experience to decide the matter in dispute.

#### 2. SUBMISSION OF WRITTEN STATEMENTS

- (a) Within 15 Business Days of the appointment of the Arbitrator, the Party initiating the arbitration (the "**Claimant**") shall send the other Party (the "**Respondent**") a Notice of Arbitration setting out in sufficient detail the facts and any contentions of law on which it relies, and the relief that it claims.
- (b) Within 15 Business Days of the receipt of the Notice of Arbitration, the Respondent shall send the Claimant an Answer to the Notice of Arbitration stating in sufficient detail which of the facts and contentions of law in the Notice of Arbitration it admits or denies, on what grounds, and on what other facts and contentions of law he relies.
- (c) Within 15 Business Days of receipt of the Answer, the Claimant may send the Respondent a Reply.
- (d) Each Notice of Arbitration, Answer and Reply shall be accompanied by copies (or, if they are especially voluminous, lists) of all essential documents on which the Party concerned relies and which have not previously been submitted by any Party.
- (e) After submission of all the pleadings, the Arbitrator will give directions for the further conduct of the arbitration.

#### 3. MEETINGS AND HEARINGS

- (a) The arbitration shall be heard in Toronto, Ontario or in such other place as the Claimant and the Respondent shall agree upon in writing. The arbitration shall be conducted in English unless otherwise agreed by the Parties and the Arbitrator.

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Subject to any adjournments which the Arbitrator allows, the final hearing will be continued on successive working days until it is concluded.

- (b) All meetings and hearings will be in private and shall be confidential unless the Parties otherwise agree.
- (c) Any Party may be represented at any meetings or hearings by legal counsel
- (d) Each Party may examine, cross-examine and re-examine, as appropriate, all witnesses at the arbitration.

#### 4. THE DECISION

- (a) The Arbitrator will make a decision in writing and, unless the Parties otherwise agree, will set out reasons for decision in the decision.
- (b) The Arbitrator will deliver the decision to the Parties as soon as practicable after the conclusion of the final hearing, but in any event no later than 60 days thereafter, unless that time period is extended for a fixed period by the Arbitrator on written notice to each Party because of illness or other cause beyond the Arbitrator's control.
- (c) The provisions of this Agreement and the Arbitration Rules requiring the determination of certain disputes of arbitration shall not operate to prevent recourse to the court by any Party as permitted by the *Arbitration Act, 1991* (Ontario) with respect to injunctions, receiving orders and orders regarding the detention, preservation and inspection of property, or whenever enforcement of an award by the sole arbitrator reasonably requires access to any remedy which an arbitrator has no power to award or enforce, provided that any such recourse to the court and any remedy of the arbitrator shall, in the case of remedies against the Province, be subject to the *Proceeding Against the Crown Act* (Ontario). In all other respects an award by the Arbitrator shall be final and binding upon the Parties and there shall be no appeal from that award on any questions of fact, mixed law and fact, or law provided that the Arbitrator has followed the Arbitration Rules in good faith and has proceeded in accordance with the principles of natural justice.

#### 5. JURISDICTION AND POWERS OF THE ARBITRATOR

- (a) By submitting to arbitration under these Arbitration Rules, the Parties shall be taken to have conferred on the Arbitrator the following jurisdiction and powers, to be exercised at the Arbitrator's discretion subject only to these Arbitration Rules and the relevant law with the object of ensuring the just, expeditious, economical and final determination of the dispute referred to arbitration.
- (b) Without limiting the jurisdiction of the Arbitrator at law, the Parties agree that the Arbitrator shall have jurisdiction to:



- 3 -

- (i) determine any question of law arising in the arbitration;
- (ii) determine any question as to the Arbitrator's jurisdiction;
- (iii) determine any question of good faith, dishonesty or fraud arising in the dispute;
- (iv) order any Party to provide further details of that Party's case, in fact or in law;
- (v) proceed with the arbitration notwithstanding the failure or refusal of any Party to comply with these Arbitration Rules or with the Arbitrator's orders or directions, or to attend any meeting or hearing, but only after giving that party notice that the Arbitrator intends to do so;
- (vi) receive and take into account such written or oral evidence tendered by the Parties as the Arbitrator determines is relevant, whether or not strictly admissible in law;
- (vii) make one or more interim awards;
- (viii) hold meetings and hearings, and make a decision (including a final decision) in Ontario (or elsewhere with the concurrence of the Parties thereto);
- (ix) order the Parties to produce to the Arbitrator, and to each other for inspection, and to supply copies of, any documents, except privileged documents, or classes of documents in their possession or power which the Arbitrator determines to be relevant;
- (x) order the preservation, storage, sale or other disposal of any property or thing under the control of any of the Parties;
- (xi) make interim orders to secure all or part of any amount in dispute in the arbitration;
- (xii) make any order as to the payment of costs of the arbitration, including legal fees on a solicitor and client basis;
- (xiii) include, as part of any award, the payment of interest at the rate determined by the Arbitrator from an appropriate date as determined by the Arbitrator; and
- (xiv) make any other order that the Arbitrator determines is just and reasonable in determining the matters in dispute.

6. ARBITRATION ACT, 1991

The rules and procedures of the *Arbitration Act*, 1991 (Ontario) shall apply to any arbitration conducted hereunder except to the extent that they are modified by the express provisions of these Arbitration Rules.

CASE: UM 1897  
WITNESS: ROSE ANDERSON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 510**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	10/02/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 126(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

What experience does Hydro One have in operating a natural gas system? Please provide a detailed narrative of examples.

**RESPONSE:**

Gregory K. Kiraly, Hydro One’s Chief Operating Officer since September of 2016, is a power and utilities executive with 30 years of experience and has an extensive background in energy transmission and distribution, in both electricity and gas. He has served in various executive leadership roles across three of the largest investor-owned utilities in the United States, namely Pacific Gas and Electric (“PG&E”), Commonwealth Edison, and Public Service Electric & Gas Company (“PSE&G”). He spent the first ten years of his career in engineering and leadership roles responsible for managing gas distribution operations and assets.

In 1986, Mr. Kiraly was hired as an engineer at PSE&G in New Jersey in its gas distribution department. He held various progressive engineering roles designing and building gas distribution assets for several years. The specific assets managed included the gas distribution network of mains, services, metering and regulating equipment, and associated equipment. He was promoted to district/area manager where for the next few years he was responsible for the design, engineering, construction, maintenance, and operation of a gas distribution network in northern New Jersey serving several hundred thousand customers. He managed hundreds of managerial and craft employees along with construction contractors. He also held a business development role for a couple of years marketing natural gas air-conditioning and other natural gas related services and thereafter roles in its electric distribution business. Mr. Kiraly spent the last two years at PSE&G as its corporate safety manager, providing safety policy, direction, and program management for the entire company, including its gas business.

Mr. Kiraly joined PG&E, the primary subsidiary of Pacific Gas & Electric Corporation and California’s largest electric and gas utility, in 2008. While at PG&E, Mr. Kiraly was the Vice-President, Energy Delivery from 2008-2010 where he provided leadership oversight of electric and gas maintenance and construction in San Francisco and the adjacent suburbs, and Electric Transmission, Substation, and Project Services throughout PG&E’s entire territory. From 2008 to 2009, Mr. Kiraly was responsible for both gas and electric distribution operations for the city of San Francisco and the surrounding suburbs. This included managing gas distribution operations, maintenance, and construction at multiple service centers and responsibility for thousands of employees and contractors, along with a budget in excess of \$1B. The specific

assets managed included the gas distribution network of mains, services, metering and regulating stations and associated equipment.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	10/02/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 127(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please identify the types of resources and specific gas utility assets each of Hydro One's management team has experience with, clarifying in what capacity each was responsible.

**RESPONSE:**

Of Hydro One's executive leadership team, Mr. Greg Kiraly and Mr. Paul Barry have experience with gas utilities.

Gregory K. Kiraly, Hydro One's Chief Operating Officer since September of 2016, is a power and utilities executive with 30 years of experience and has an extensive background in energy transmission and distribution, in both electricity and gas. He has served in various executive leadership roles across three of the largest investor-owned utilities in the United States, namely Pacific Gas and Electric (PG&E), Commonwealth Edison (ComEd), and Public Service Electric & Gas Company (PSE&G). He spent the first ten years of his career in engineering and leadership roles responsible for managing gas distribution operations and assets.

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of San Francisco and the surrounding suburbs. This included managing gas distribution operations, maintenance, and construction at multiple service centers and responsibility for thousands of employees and contractors, along with a budget in excess of \$1B. The specific assets managed included the gas distribution network of mains, services, metering and regulating stations and associated equipment.

Mr. Paul Barry, Hydro One's Executive Vice President, Strategy and Corporate Development since September of 2016, has significant strategy, business development and financial expertise in the electric power, natural gas, and water utility sectors. Mr. Barry was recently Chief Executive Officer and founding partner of Public Infrastructure Partners LLC, a power and utility strategic advisor to leading private equity, infrastructure, and pension funds in the U.S., Canada, and Europe. Mr. Barry's prior executive leadership roles include Senior Vice President and Chief Development Officer, Head of Mergers & Acquisitions, and President of the commercial and international business for Duke Energy Corporation. At Duke Energy, Mr. Barry was responsible for executing over \$50 billion of strategic transactions that transformed the company into the largest electric utility in North America. At Duke Energy Corporation, Mr. Barry's fossil fuel portfolio consisted of over 5,000 megawatts of coal-fired and gas-fired (combined cycle and simple cycle gas turbines) power plants. He also managed Duke Energy Corporation's hydroelectric fleet of over 4,000 megawatts of generation.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 226(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Regarding TWS 011 – Please identify the two senior executives at Hydro One who have extensive natural gas experience, and discuss the years of gas experience each has as well as where and in what roles this experience was obtained.

**RESPONSE:**

Gregory K. Kiraly, Hydro One’s Chief Operating Officer since September of 2016, is a power and utilities executive with 30 years of experience and has an extensive background in energy transmission and distribution, in both electricity and gas. He has served in various executive leadership roles across three of the largest investor-owned utilities in the United States, namely Pacific Gas and Electric (PG&E), Commonwealth Edison (ComEd), and Public Service Electric & Gas Company (PSE&G). He spent the first ten years of his career in engineering and leadership roles responsible for managing gas distribution operations and assets.

In 1986, Mr. Kiraly was hired as an engineer at PSE&G in New Jersey in its gas distribution department. He held various progressive engineering roles designing and building gas distribution assets for several years. The specific assets managed included the gas distribution network of mains, services, metering and regulating equipment, and associated equipment. He was promoted to district/area manager where for the next few years he was responsible for the design, engineering, construction, maintenance, and operation of a gas distribution network in northern New Jersey serving several hundred thousand customers. He managed hundreds of managerial and craft employees along with construction contractors. He also held a business development role for a couple of years marketing natural gas air-conditioning and other natural gas related services and thereafter roles in its electric distribution business. Mr. Kiraly spent the last two years at PSE&G as its corporate safety manager, providing safety policy, direction, and program management for the entire company, including its gas business.

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assets managed included the gas distribution network of mains, services, metering and regulating stations and associated equipment.

Staff/510  
Anderson/6

Mr. Paul Barry, Hydro One's Executive Vice President, Strategy and Corporate Development since September of 2016, has significant strategy, business development and financial expertise in the electric power, natural gas, and water utility sectors. Mr. Barry was recently Chief Executive Officer and founding partner of Public Infrastructure Partners LLC, a power and utility strategic advisor to leading private equity, infrastructure, and pension funds in the U.S., Canada, and Europe. Mr. Barry's prior executive leadership roles include Senior Vice President and Chief Development Officer, Head of Mergers & Acquisitions, and President of the commercial and international business for Duke Energy Corporation. At Duke Energy, Mr. Barry was responsible for executing over \$50 billion of strategic transactions that transformed the company into the largest electric utility in North America.

As Duke Energy Group Executive and President, Mr. Barry oversaw the company's fossil fuel power generation fleet consisting of 8,700 megawatts of owned and operated natural gas and coal-fired electric generation facilities located primarily in the U.S. Midwest with portfolio operations in Cincinnati, OH. He also managed Duke Energy's international electric generation fleet including 4,200 megawatts of primarily hydroelectric generation power located in Central and South America. In addition, Mr. Barry managed Duke Generation Services, the company's outsourcing subsidiary which develops, owns, and operated 6,500 megawatts of electric generation sources serving large energy consumers, municipalities, utilities, and industrial facilities.

Mr. Barry also acquired, integrated, and oversaw significant gas utility assets. Duke Energy owned and operated the largest natural gas midstream business in North America including certain U.S. and Canadian local distribution companies (Cincinnati Gas Electric Company and Union Gas Limited).

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	11/20/2017
CASE NO.:	UM 1897	WITNESS:	Ferio Pugliese
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 231(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Has Hydro One has ever owned and operated a natural gas distribution company (LDC). If so, please describe these operations and indicate if operating staff are still employed at Hydro One. Please also identify the business segment names and explain further the ownership and operation of those business segments today.

**RESPONSE:**

Hydro One has never owned and operated a natural gas distribution company (LDC).

CASE: UM 1897  
WITNESS: ROSE ANDERSON

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 511**

**Exhibits in Support  
Of Reply Testimony**

**February 12, 2018**

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	1/11/2018
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 271(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please explain how the Chairman of Avista's Board of Directors would be nominated after the effective time of the merger. Who would nominate the new Chair after the first year?

**RESPONSE:**

The initial Chairman of Avista's Board of Directors upon the effective time of the merger will be the Chief Executive Officer of Avista Corporation as of the time immediately prior to the effective time (expected to be Scott Morris) for a one-year term. Following the initial one-year term, Olympus Equity LLC, as the sole shareholder of Avista Corporation following the merger, will have the right to designate the Chairman of Avista's Board of Directors. Olympus Equity LLC may elect to continue the term of the initial Chairman of the Board or designate a new Chairman of the Board.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	1/18/2018
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 284(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please elaborate on the meaning of Commitment 1 in the Master List of Commitments: “Consistent with and subject to the terms of Exhibits A and B to the Merger Agreement (referred to as “Delegation of Authority”) contained in Appendix 5 of the Joint Application, decision-making authority over commitments 2-15 below is reserved to the Board of Directors of Avista Corporation (“Avista”) and any change to the policies stated in commitments 2-15 requires a two-thirds (2/3) vote of the Avista Board,” including answering the following:

- a. According to Hydro One, what does Commitment 1 mean where it states that “decision-making authority over commitments 2-15” is reserved to the Board?
- b. According to Hydro One, what does Commitment 1 mean where it states that “any change to the policies stated in commitments 2-15 requires a two-thirds (2/3) vote of the Avista Board”?
- c. Does Commitment 1 as written allow the Board to modify Commitments 2-15 after the closing of the merger? Please explain.
- d. Why did Hydro One think it was important for the Board to be able to modify Commitments 2-15 after the merger has been completed? Please explain.
- e. Does Commitment 1 as written allow the Board to modify Commitments 2-15 after the Commitments (or a stipulated set of commitments) have been adopted by the OPUC? Please explain.
- f. Please directly cite to the “terms of Exhibits A and B to the Merger Agreement” that provide for modification of Commitments 2-15 post-merger, or post-Commission adoption of any Commitments.\
- g. Does Hydro One believe that any other Commitments are subject to modification after adoption by the OPUC without approval by the OPUC?

**RESPONSE:**

The Merger Agreement defines the relationship between Avista and Hydro One, and the Master List of Commitments is to be understood in that context.

Regarding the subpoints:

- a. Commitment 1 provides that the Board of Directors of Avista Corporation will retain its existing decision-making authority over commitments 2-15.
- b. While Commitment 1 confirms the Board of Directors of Avista Corporation decision-making authority over commitments 2-15, the Board of Directors of Avista Corporation may change the policies stated in commitments 2-15 by a two-thirds (2/3) vote.

- c. Yes, pursuant to the Merger Agreement and Commitment 1, changes to Commitments 2-15 require a two-thirds (2/3) vote of the Avista Board.
- d. These commitments provide the Board of Directors of Avista Corporation latitude to make decisions consistent with their historical authority, and in the best interest of the Surviving Corporation, taking into account relevant regulatory considerations.
- e. These commitments define the relationship between Avista and Hydro One, and articulate authority retained by Avista notwithstanding ownership by Hydro One. To the extent the Commitments (or a stipulated set of commitments) are adopted by the OPUC, Avista would be subject to such agreement, and orders, including any process for modification.
- f. Please refer to Appendix 5 of the Joint Application, which replicates Exhibits A and B to the Merger Agreement. Specifically see the last paragraph on page 4 of 5 of Appendix 5 of the Joint Application, which states:  
*The authority of the Subsidiary Board to make decisions with respect to the foregoing matters includes the authority to amend the foregoing commitments if the Subsidiary Board determines by special resolution requiring the approval of 2/3 of the directors that an amendment would be in the best interest of the Surviving Corporation, taking into account relevant regulatory considerations.*  
To the extent the Commitments (or a stipulated set of commitments) are adopted by the OPUC, Avista would be subject to such agreement, and orders, including any process for modification.
- g. To the extent the Commitments (or a stipulated set of commitments) are adopted by the OPUC, Avista would be subject to such agreement, and orders, including any process for modification.

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	10/04/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 087(H1)	TELEPHONE:	(416) 345-6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide a copy of the governance agreement between Hydro One and Ontario. Please provide a brief history of the governance agreement including when it was created, if it has been amended, and whether it is legally binding.

**RESPONSE:**

Included as Staff\_DR\_087(H1) Attachment A is a copy of the Governance Agreement between the Province of Ontario and Hydro One Limited dated November 5, 2015. The Governance Agreement is legally binding in accordance with the laws of the Province of Ontario and remains unamended.

*Brief History of the Governance Agreement*

Hydro One's main subsidiary, Hydro One Inc., was wholly-owned by the Province of Ontario since the April 1999 reorganization of Ontario Hydro.

In April 2014, the Province of Ontario formed a council (the "**Council**") to review certain provincially-owned assets and to recommend ways to maximize their value to the people of Ontario.

In April 2015, the Council recommended, among other things, that the Province of Ontario should proceed with a partial sale of its interest in Hydro One Inc. by way of a public offering. The Council also recommended that the Province of Ontario retain a 40% ownership with the balance widely held with no other individual shareholder having more than a 10% holding.

Additionally, the Council recommended establishing a governance framework for Hydro One Inc. as well as additional protections of the public's interest in Ontario's transmission and distribution systems. The Province of Ontario implemented certain of those recommendations through legislation, Hydro One Limited's articles and the Governance Agreement.

The Province of Ontario and Hydro One Limited entered into the Governance Agreement to address the Province's role in the governance of Hydro One Limited, including the Province's right to nominate directors (independent of both the Province and the Company), to grant the Province of Ontario a pre-emptive right to acquire voting securities, and to provide for a confidentiality agreement relating to the confidential treatment of information furnished to the Province of Ontario pursuant to the Governance Agreement or the Registration Rights Agreement between the parties. It describes the principles that govern how Hydro One Limited

will be managed and operated, including that the Province of Ontario, in its capacity as a holder of voting securities, will engage in the business and affairs of Hydro One Limited as an investor and not as a manager.

On July 19, 2017, in connection with the acquisition of Avista Corporation, Hydro One and its wholly-owned subsidiary, 2587264 Ontario Inc., entered into an agreement under which a syndicate of underwriters agreed to buy, on a bought deal basis, \$1.4 billion aggregate principal amount of 4.00% convertible unsecured subordinated debentures (“Debentures”) of Hydro One Limited (“Debenture Offering”). On August 2, 2017, the underwriters exercised in full the over-allotment option to acquire \$140 million aggregate principal amount of additional convertible debentures. The offering of the Debentures and the overallotment closed on August 9, 2017.

The Province waived its pre-emptive right to participate in the Debenture Offering under the Governance Agreement with certain conditions.



**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	10/02/2017
CASE NO.:	UM 1897	WITNESS:	Mayo Schmidt
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 034(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide documentation of the covenants, minimum ownership, rights of first refusal, term sheets and other privileges Ontario holds regarding ownership and control over Hydro One. With this documentation, please include any list of conditions and controls that were strengthened in order to protect Ontario ratepayer interests leading up to the Hydro One IPO and additional stock sales.

**RESPONSE:**

**Attached please find the following documents:**

- **Staff\_DR\_034(H1) Attachment A (Governance Agreement)**
- **Staff\_DR\_034(H1) Attachment B (Registration Rights Agreement)**
- **Staff\_DR\_034(H1) Attachment C (Articles of Incorporation for Hydro One Limited)**

**Below is a link to the *Electricity Act, 1998*:**

<https://www.ontario.ca/laws/statute/98e15>

Below are the operative conditions/controls as to the Province's ownership and governance restrictions. There were no conditions/controls specifically brought in to protect ratepayers as that falls within the Ontario Energy Board's mandate.

**10% OWNERSHIP RESTRICTION**

The Ontario *Electricity Act, 1998* ("Electricity Act") imposes share ownership restrictions on Hydro One Limited's ("Hydro One") voting securities. These restrictions provide that no person or company (or combination of persons or companies acting jointly or in concert) may beneficially own or exercise control or direction over more than 10% of any class or series of voting securities, including common shares of Hydro One (the "Share Ownership Restrictions"). The Share Ownership Restrictions do not apply to voting securities held by the Province of Ontario ("Province"), nor to an underwriter who holds voting securities solely for the purpose of distributing those securities to purchasers who comply with the Share Ownership Restrictions.

Hydro One's articles of incorporation (copy included as Attachment C hereto) provide for comprehensive enforcement mechanisms that are applicable in the event of a contravention of the Share Ownership Restrictions. After the Board determines that a contravention has occurred, no person may vote the voting securities of the contravening persons or companies, dividends on the voting securities that are held in excess of the Share Ownership Restrictions are prohibited (and where the Board determines that the contravention was intentional, dividends on all of the voting securities held by the contravening persons or companies may be prohibited) and Hydro One is required to send a notice requiring the sale of those excess voting securities. If such a required sale is not made, the exercise of any right or privilege attached to the voting securities will be prohibited and Hydro One may sell or redeem the voting securities held in contravention and remit the net proceeds to the holder.

Hydro One's Board may at any time require holders of, or subscribers for, voting securities and certain other persons to make declarations and provide related information with respect to ownership, direction, or control of voting securities and certain other matters relevant to the Share Ownership Restrictions. The Board may also require those holders or subscribers to produce documents, provide responses to written questions, and attend in person to answer questions concerning any declaration. Hydro One is prohibited from accepting any subscription or issuing or registering a transfer of voting securities if it would result in a violation of the Share Ownership Restrictions.

#### **MAINTENANCE OF 40% OWNERSHIP**

The Electricity Act restricts the Province from selling voting securities (including common shares of Hydro One) if it would own less than 40% of the outstanding number of voting securities of that class or series after the sale. If as a result of the issuance of additional voting securities by Hydro One, the Province owns less than 40% of the outstanding number of voting securities of any class or series, the Province must, subject to the approval of the Lieutenant Governor in Council and the necessary appropriations from the Legislature, take steps to acquire as many voting securities of that class or series as are necessary to increase the Province's ownership to not less than 40% of the outstanding number of voting securities of that class or series. The manner in which, and the time by which, the Province must acquire these additional voting securities will be determined by the Lieutenant Governor in Council.

The Province has been granted pre-emptive rights by Hydro One to assist it in meeting its ownership requirements under the Electricity Act as described below under "– Governance Agreement – Pre-emptive Rights".

#### **GOVERNANCE AGREEMENT**

Concurrently with the closing of the initial public offering, Hydro One and the Province entered into a governance agreement dated November 5, 2015 ("Governance Agreement," copy included as Attachment A hereto), to address the Province's role in the governance of Hydro One. The purpose of the Governance Agreement is to prescribe the role of the Province, as a holder of voting securities, in the governance of Hydro One. Although the Governance Agreement does not address all aspects of the governance of Hydro One, it comprehensively deals with, and limits, the role of the Province in that governance. It describes the principles that govern how Hydro One will be managed and operated, including that the Province, in its capacity as a holder of voting securities, will engage in the business and affairs of Hydro One Limited as an investor and not as a manager. It also contains commitments by the Province restricting the exercise of its rights as a holder of voting securities.

The Governance Agreement specifically addresses the following matters: (i) the governance principles under which Hydro One and its subsidiaries will be managed and operated; (ii) the nomination of directors, which includes: (a) the requirement for a fully independent board of directors (other than the Chief Executive Officer), and (b) the maximum number of directors that may be nominated by the Province; (iii) the election and replacement of directors; (iv) approvals requiring a special resolution of the directors; (v) restrictions on the right of the Province to initiate fundamental changes; (vi) pre-emptive rights provided to the Province with respect to future issuances of voting securities by Hydro One; and (vii) limits with respect to the Province's acquisition of outstanding voting securities.

### ***Governance Principles***

The Governance Agreement provides that the business and affairs of Hydro One will be managed and operated in accordance with the following principles:

- Hydro One will maintain corporate governance policies, procedures and practices consistent with the best practices of leading Canadian publicly listed companies, having regard to Hydro One's ownership structure and the Governance Agreement.
- The Board, which will be independent of both Hydro One and the Province (other than the Chief Executive Officer), is responsible for the management of or supervision of the management of the business and affairs of Hydro One, including, subject to applicable law, having full authority in respect of:
  - corporate governance;
  - the appointment, termination, supervision and compensation of the Chief Executive Officer, Chief Financial Officer and other senior officers of Hydro One;
  - remuneration of directors;
  - strategic planning and direction;
  - risk management;
  - capital structure;
  - Hydro One's dividend policy; and
  - Hydro One's annual business plan and budget.
- With respect to its ownership interest in Hydro One, the Province will engage in the business and affairs of Hydro One as an investor and not a manager, and the Province intends to achieve its policy objectives through legislation and regulation, as it would with respect to any other utility operating in Ontario.

The governance principles do not restrict the Province in any way: (i) in relation to the regulation of Hydro One, including by the Ontario Energy Board; (ii) in relation to system planning by the Independent Electricity System Operator ("IESO"); (iii) in relation to the enforcement of the laws of Ontario applicable to the Company or the enactment, promulgation or amendment of such laws; or (iv) in respect of any communication regarding the Company by an individual in his or her capacity as a member of the Legislative Assembly of Ontario, if made in the Legislative Assembly of Ontario or in another public forum in relation to the enforcement, promulgation or enactment of laws in Ontario or in relation to Ontario regulatory policy. They also do not restrict the exercise by the Province of its rights as a holder of voting securities, including its rights to vote any voting securities in its sole interest, except as expressly provided for in the Governance Agreement.

### ***Nomination of Directors***

The Governance Agreement establishes qualification standards for director nominees, provides for the number of directors that may be nominated and establishes a process for confirming

nominees. The Governance Agreement recognizes that the Board is to be a fully independent board (independent of both Hydro One and the Province), except the Chief Executive Officer, as described under the subheading “Independence” below.

### Director Qualification Standards

Under the Governance Agreement, the Province and the Nominating, Corporate Governance, Public Policy & Regulatory Committee have agreed to nominate as directors, qualified individuals of high quality and integrity who have the experience, expertise and leadership appropriate to manage a business of the complexity, size and scale of the business of Hydro One, on a basis consistent with the highest standards for directors of Canada’s leading public companies.

In addition, a majority of the directors must be resident Canadians (as defined in the Ontario *Business Corporations Act*).

### *Independence*

Each director nominee must, among other things:

- be independent of Hydro One (other than the Chief Executive Officer) within the meaning of Ontario securities laws governing the disclosure of corporate governance practices;
- be independent of the Province (other than the Chief Executive Officer). A director will be independent of the Province if he or she would be independent of Hydro One within the meaning of Ontario securities laws governing the disclosure of corporate governance practices if the Province and each Specified Provincial Entity were treated as Hydro One’s parent under that definition, but excluding, in the case only for the current directors, any prior relationship that ended before August 31, 2015. In addition, he or she may not be an employee or official of the Province or any Specified Provincial Entity, either: (i) currently or, (ii) within the last three years (excluding in the case of (ii), the current directors whose prior relationship ended before August 31, 2015); and
- meet the requirements of applicable securities and other laws and any exchange on which the voting securities are listed.

A “Specified Provincial Entity” means (1)(a) the Ontario Financing Authority, (b) the IESO, (c) Ontario Power Generation Inc., (d) the Electrical Safety Authority, (e) Ontario Electricity Financial Corporation, (f) Infrastructure Ontario, or (g) a subsidiary of, or a person controlled by, any organization listed in (a) to (f); and (2) the Ontario Energy Board.

### Number of Directors

Under the articles of Hydro One and pursuant to the terms of the Governance Agreement, the Board will consist of no fewer than 10 and no more than 15 directors, with the initial Board consisting of 15 directors until the first annual meeting of shareholders following the completion of the initial public offering of Hydro One Limited.

### Board Nominees

The nominees to be proposed for election to the Board by Hydro One at annual meetings of shareholders will be determined as follows:

- The Chief Executive Officer will be nominated.
- The Province will be entitled to nominate that number of nominees equal to 40% of the number of directors to be elected (rounded to the nearest whole number).
- The Nominating, Corporate Governance, Public Policy & Regulatory Committee will nominate the remaining directors.

If, however, the Province ceases to own voting securities to which are attached 40% of the votes that may be cast on the election of directors at a meeting of shareholders and the Province does not subsequently acquire voting securities sufficient to meet that ownership threshold by the next annual meeting nomination deadline following the second anniversary of the Province first ceasing to meet that ownership threshold, then until the Province again meets that ownership threshold, the number of Directors that the Province may nominate will be proportionate to the number of votes that the Province may cast on the election of directors. For this purpose, an annual meeting nomination deadline is the date that is 60 days prior to the date by which Hydro One is required to mail proxy solicitation materials for an upcoming annual meeting.

### Board Nomination Process

Under the Governance Agreement, the Province and representatives of the Nominating, Corporate Governance, Public Policy & Regulatory Committee are to meet after each annual meeting of shareholders to discuss expected upcoming departures from the Board (whether due to resignation, retirement or otherwise) and the impact such departures will have on the Board, having regard to continued compliance with the Governance Agreement and the ability of the Board to satisfy the Board's skills matrix, diversity policy and other governance standards. Under the Governance Agreement, at this meeting the Nominating, Corporate Governance, Public Policy & Regulatory Committee is to make recommendations to the Province respecting potential candidates for director, including potential candidates for nomination by the Province. The Province has no obligation to nominate any of the individuals recommended as one of its director nominees.

Not later than 60 days prior to the date by which proxy solicitation materials must be mailed for Hydro One's annual meeting of shareholders, each of the Province and the Nominating, Corporate Governance, Public Policy & Regulatory Committee will notify the other of its proposed director nominees. If a proposed nominee is not already a director of Hydro One or is then a director but whose circumstances have materially changed in a way that would affect whether she or he would continue to meet the director qualification standards under the Governance Agreement, then the Province or the committee, as the case may be, will have 10 business days to confirm that nominee or reject that nominee on the basis that the nominee does not meet those director qualification standards.

If a director nominee of the Province or the Nominating, Corporate Governance, Public Policy & Regulatory Committee is rejected, then the Province or the committee will be entitled to nominate additional candidates until a nominee is confirmed by the other. If no replacement nominee is confirmed for a director who was expected to depart from the board and that director does not resign, that director shall be re-nominated. The Province and the committee will use commercially reasonable efforts to confirm director nominees prior to the date by which proxy solicitation materials must be mailed for the annual meeting of shareholders.

### ***Election and Replacement of Directors***

The Governance Agreement provides for how:

- the Province will vote with respect to director nominees, including its nominees and those of the Nominating, Corporate Governance, Public Policy & Regulatory Committee,
- the Province may vote at contested elections,
- the Province may seek to replace the Board by withholding votes or voting for removal, and
- Board vacancies will be filled.

### Voting on Director Elections

At any meeting of shareholders to elect directors, the Province is required to vote in favour of the nominees selected by the Province and the Nominating, Corporate Governance, Public Policy & Regulatory Committee in accordance with the board nomination process set out in the Governance Agreement, except in the case of contested director elections or where the Province seeks to replace the Board in accordance with the Governance Agreement.

#### Contested Elections

At any meeting of shareholders to elect directors of Hydro One at which there are more nominees for directors than there are directors to be elected, the Province may vote its voting securities in its sole discretion (including to vote in favour of other candidates instead of the Province's nominees), except that the Province will vote in favour of the election of the Chief Executive Officer as a director.

#### Right to Withhold Votes

The Province is required under the Governance Agreement to vote in favour of all director nominees of Hydro One, subject to the Province's overriding right to withhold from voting in favour of all director nominees and its right to seek to remove and replace the entire Board, including in each case its own director nominees but excluding the Chief Executive Officer and, at the Province's discretion, the Chair. Depending on the number of withheld votes a director nominee receives at a meeting of shareholders at which directors are to be elected, that director nominee may be required to tender his or her resignation to the Board in accordance with Hydro One Limited's majority voting policy.

#### Province's Right to Replace the Board

The Province may at any time notify Hydro One Limited that it intends to request that Hydro One hold a meeting of shareholders for the purposes removing all of the directors in office, including those nominated by the Province, with the exception of the Chief Executive Officer and, at the sole discretion of the Province, the Chair (a "Removal Notice"). If the Province gives Hydro One a Removal Notice, then the Chair shall coordinate the establishment of an ad hoc nominating committee comprising one representative of each of the five largest beneficial owners of voting securities known to the Company (or if at least three such owners are not willing to provide a representative, then the individuals the Province proposes to nominate as replacement directors). The Province and the ad hoc nominating committee will identify and confirm replacement directors to be nominated at the shareholders' meeting in accordance with the process set out in the Governance Agreement. Each replacement director nominee must meet the same qualification and independence standards under the Governance Agreement as for any director nominee. Hydro One will call the shareholders' meeting once the replacement director nominees are confirmed pursuant to this process, and will hold the shareholders' meeting within 60 days of this confirmation. At the shareholders' meeting, the Province will vote in favour of removing the current directors with the exception of the Chief Executive Officer and, at the Province's discretion, the Chair, and will vote in favour of the new independent director nominees.

#### ***Board Approvals Requiring a Special Resolution of the Directors***

The Governance Agreement provides that certain actions require approval by a resolution of the Board passed by at least two-thirds of the votes cast at a meeting of the directors, or consented to in writing by all of the directors (a "Special Board Resolution"). Matters requiring approval by a Special Board Resolution include:

- the appointment and annual confirmation of the Chair,
- the appointment and annual confirmation of the Chief Executive Officer, and

- changes to certain specified governance standards specified in the Governance Agreement to be “Hydro One’s governance standards”.

The governance standards subject to this special approval requirement include the Board’s skills matrix, the Ombudsman’s Mandate, the Diversity Policy and the Majority Voting Policy, the Corporate Governance Guidelines, the mandates of the Board and its committees, position descriptions for the Chief Executive Officer, the Chair, the directors and committee chairs, and the Stakeholder Engagement Policy.

### ***Other Matters***

In addition to the governance matters noted above, the Governance Agreement also addresses the following matters:

- Restrictions on the right of the Province to initiate fundamental changes.
- Pre-emptive rights provided to the Province with respect to future issuances of voting securities by Hydro One.
- Acquisition limits with respect to the Province’s acquisition of outstanding voting securities.

### **Restrictions on Province’s Right to Initiate Fundamental Changes**

The Province has agreed not to initiate a fundamental change to Hydro One (as defined in Part XIV of the Ontario *Business Corporations Act*), including not to initiate any arrangement or amalgamation involving Hydro One or any amendment to the articles of Hydro One. The Province may, however, vote its voting securities as it sees fit in the event any fundamental change is initiated by Hydro One or another shareholder of Hydro One.

### ***45% Acquisition Limit***

The Province has agreed in the Governance Agreement not to acquire previously issued voting securities if after that acquisition, the Province would own more than 45% of any class or series of voting securities (including common shares of Hydro One). This restriction does not apply to the acquisition by the Province of voting securities as a result of the enforcement by the Province of any security interest securing payment of debt obligations owing to the Province or to certain acquisitions of voting securities by entities related to the Province or by third party managed funds or as passive investments. This restriction also does not require the Province to sell any of the common shares of Hydro One that it currently owns, nor does it limit the Province from acquiring voting securities on an issuance by Hydro One Limited, including pursuant to the exercise by the Province of its pre-emptive right. See the next paragraph below entitled “Pre-emptive Rights”.

### **Pre-emptive Rights**

Hydro One has granted to the Province a pre-emptive right to acquire additional voting securities as part of future offerings by Hydro One of voting securities. If Hydro One proposes to issue voting securities in the future, whether pursuant to a public offering or a private placement, Hydro One must notify the Province of the proposal and provide information in accordance with the provisions of the Governance Agreement at least 30 days in advance and must offer the Province the right to purchase up to 45% of the voting securities being offered. Any voting securities not purchased by the Province pursuant to the offer may be purchased by any other person pursuant to the proposed offering.

The pre-emptive right also applies with respect to any proposed issuance by Hydro One of securities convertible into or exchangeable for voting securities except securities convertible into or exchangeable for voting securities: (i) pursuant to certain employee or director compensation

plans; (ii) pursuant to any dividend re-investment arrangement of the Company that is consistent with dividend reinvestment arrangements of other publicly traded utilities in Canada (including as to discount rates) and that does not include a cash purchase option; (iii) pursuant to a rights offering that is open to all shareholders of Hydro One; or (iv) pursuant to any business combination, take-over bid, arrangement, asset purchase transaction or other acquisition of assets or securities of a third party.

## **REGISTRATION RIGHTS AGREEMENT**

Hydro One and the Province entered into a Registration Rights Agreement dated November 5, 2015 (“Registration Rights Agreement,” copy included as Attachment B hereto), to provide the Province with the right to require Hydro One to facilitate future secondary offerings of common shares or preferred shares owned or controlled by the Province.

### ***Demand Registration***

Pursuant to the Registration Rights Agreement, Hydro One has granted the Province certain demand registration rights providing that, from time to time while the Province is a “control person” of Hydro One within the meaning of applicable Canadian securities laws, the Province can require Hydro One to file, at the expense of the Province (except for internal expenses of Hydro One or other expenses that Hydro One would have incurred in the absence of such a request), and subject to certain exceptions, one or more prospectuses and take other procedural steps as may be reasonably necessary to facilitate a secondary offering in Canada of all or any portion of the common shares or preferred shares (“shares”) held by the Province.

### ***“Piggy-Back” Registration***

If Hydro One proposes to undertake a Canadian public offering by prospectus, the Province is entitled, while it is a “control person” of Hydro One within the meaning of applicable Canadian securities laws, to include shares owned by it as part of that offering, provided that the underwriters may reduce the number of shares proposed to be sold if in their reasonable judgment all of the shares proposed to be offered by Hydro One and the Province may not be sold in an orderly manner within a price range reasonably acceptable to Hydro One. In that case, the shares to be sold will be allocated pro rata between Hydro One and the Province based on their relative proportionate number of shares requested to be included in the offering. Hydro One and the Province will share the expenses of the offering (except for internal expenses of Hydro One) in proportion to the gross proceeds they each receive from the offering.

### ***Private Placements***

Hydro One has also agreed to use commercially reasonable efforts to assist, at the Province’s expense, the Province in any sale by it of shares of Hydro One pursuant to an exemption from the prospectus requirements, in the preparation of an offering memorandum and other documentation and by facilitating due diligence by the prospective buyer.

### ***Customary Agreements***

Hydro One and the Province have also agreed to enter into customary agreements, including “lock-up” agreements, on customary market terms in connection with such transactions. Hydro One also agreed to certain indemnification and contribution covenants in favor of the Province and any underwriters involved in such transactions.



## CONFIDENTIALITY AGREEMENT

THIS AGREEMENT is made as of the 5th day of November, 2015

**B E T W E E N:**

**HYDRO ONE LIMITED**, a corporation incorporated under the laws of the Province of Ontario

– and –

**HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO**

(the “**Province**”), as represented by the Minister of Energy.

Hydro One Limited and its subsidiaries (the “**Company**”) expect to provide the Province, pursuant to the governance agreement dated as of the date hereof between the Province and Hydro One Limited (the “**Governance Agreement**”) and the registration rights agreement dated as of the date hereof between the Province and Hydro One Limited (the “**Registration Rights Agreement**”), with Company Confidential Information (as defined in Section 2 below) from time to time. The Governance Agreement requires the parties to enter into this confidentiality agreement (this “**Agreement**”) governing the use and disclosure by the Province of the Company Confidential Information and by the Company of the Province Confidential Information (as defined in Section 14 below).

### Confidentiality Obligations in favour of the Company:

In consideration of the Company providing, or causing to be provided, the Company Confidential Information to the Province and/or its Representatives (as defined below in Section 1) from time to time as required by the Governance Agreement and the Registration Rights Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties), the parties agree to the following:

1. In this Agreement, “**Representatives**” of the Province means, collectively, any persons appointed pursuant to the *Executive Council Act* (Ontario) and the Province’s directors, officers, officials, employees, public servants as defined by the *Public Service of Ontario Act, 2006* (Ontario), managers, agents, representatives, lawyers, accountants, consultants and financial and other advisors, provided that such persons or entities shall only be considered Representatives if such persons or entities have received Company Confidential Information.
2. In this Agreement, “**Company Confidential Information**” means all information and material of, or relating to, the Company and its Representatives (as defined below in Section 13), whether in oral, written, graphic, electronic or any other form or medium, including without limitation information and material concerning the Company’s past,

present or future customers, suppliers, technology, business, policy decisions, affairs, financial conditions, assets, liabilities, operations, plans, potential financings or transactions or other activities that is furnished to the Province or its Representatives pursuant to the Governance Agreement and/or the Registration Rights Agreement on or after the date of this Agreement. For the purposes of this definition, “**Company Confidential Information**” includes the portion of any plans, proposals, reports, analyses, notes, compilations, studies, forecasts or other documents prepared by the Province or its Representatives that are based on, contain, incorporate or otherwise reflect Company Confidential Information.

3. Notwithstanding Section 2, the following will not constitute “**Company Confidential Information**” under this Agreement:
  - (a) for the avoidance of doubt (i) information that the Province or its Representatives receive or obtain solely pursuant to any Applicable Law (as defined in Section 8 below) and (ii) information that the Province or its Representatives receive or obtain other than pursuant to the Governance Agreement and/or the Registration Rights Agreement.
  - (b) information that the Province or its Representatives receive or obtain from a third person who is not known by the Province to be prohibited from transmitting the information to the Province or its Representatives by a contractual, legal or fiduciary obligation not to disclose such information;
  - (c) information that has been publicly disclosed by the Company (including, for greater certainty, information publicly disclosed through regulatory filings or processes), or that is or becomes publicly available through no fault of the Province or its Representatives in breach of this Agreement or other contractual, legal or fiduciary obligation not to disclose such information;
  - (d) information that was independently developed by the Province or its Representatives without any reference to the Company Confidential Information; and
  - (e) information that the Company agrees in writing is not Company Confidential Information for the purposes of this Agreement.
4. The Province and its Representatives shall only use Company Confidential Information in connection with the Province’s exercise or enforcement of its rights under the Governance Agreement and the Registration Rights Agreement and in connection with evaluating, overseeing and determining how to manage its investment in Hydro One Limited, including whether to dispose of, return or acquire additional interests in Hydro One Limited and exercising its rights as a shareholder (including board representation rights), in each case in accordance with the Governance Agreement, the Registration Rights Agreement and Applicable Law (the “**Purpose**”).
5. The Province and the Company acknowledge that the Province and certain of its Representatives are subject to the *Freedom of Information and Protection of Privacy Act*

(Ontario), as amended or supplemented from time to time (“**FIPPA**”), and that FIPPA applies to and governs all records (as such term is defined in FIPPA) in the custody or control of the Province and those Representatives, including Company Confidential Information described in this Agreement. Subject to the obligations of the Province under Section 11 of this Agreement, the Province’s obligations pursuant to this Agreement to maintain such information in confidence are subject to any requirement the Province and its Representatives have under Applicable Law to disclose information, including records that must be disclosed by the Province and its Representatives under FIPPA. The provisions of this Section 5 shall survive termination of this Agreement and shall prevail over any other provisions of this Agreement to the contrary.

6. The Province acknowledges and agrees that the Company may not be able to furnish or disclose any information about an identifiable individual or other information that is subject to Applicable Law relating to the collection, use, storage and/or disclosure of information about an identifiable individual, including the *Personal Information Protection and Electronic Documents Act* (Canada) and *Personal Health Information Protection Act, 2004* (Ontario), whether or not such information is confidential, (collectively, “**Personal Information**”) to the Province or any of its Representatives unless consents to the disclosure of such Personal Information have been obtained from the relevant individual(s) as required, or the Company is otherwise authorized by Applicable Law to disclose such information. If any Personal Information is disclosed to the Province and/or its Representatives, the Province and its Representatives shall, subject to their obligations under Applicable Law, (i) use the Personal Information only in connection with the Purpose, (ii) limit disclosure of the Personal Information to what is authorized by the Company or required by Applicable Law, (iii) promptly refer any persons looking for access to their Personal Information to the Company, (iv) use appropriate security measures to protect the Personal Information, and (v) comply with Applicable Law relating to the privacy of the Personal Information.
7. The Province acknowledges and agrees that pursuant to the provisions of the Company’s Electricity Distribution Licenses issued by the Ontario Energy Board, the Company may not be able to furnish or disclose any information regarding a consumer, retailer, wholesaler or generator, whether or not such information is confidential, (collectively, “**Customer Information**”) to the Province or any of its Representatives unless consent to the disclosure of such Customer Information has been obtained, or the Company is otherwise authorized by its Electricity Distribution License or Applicable Law to disclose such information. If any Customer Information is disclosed to the Province and/or its Representatives, the Province and its Representatives shall, subject to their obligations under Applicable Law, (i) limit the use of the Customer Information to the Purpose, (ii) limit disclosure of the Customer Information to what is authorized by the Company or required by Applicable Law, (iii) promptly refer any persons looking for access to their Customer Information to the Company, (iv) use appropriate security measures to protect the Customer Information, and (v) comply with Applicable Law relating to the protection of the Customer Information.
8. The Province agrees that all Company Confidential Information shall be held and treated by the Province and its Representatives in confidence and shall not be disclosed by the

Province or its Representatives in any manner whatsoever, in whole or in part, except as expressly provided in this Agreement, as required by FIPPA or by any law, statute, rule, regulation, ordinance, judgment, code, guideline, order, writ, directive, decision, ruling, decree, award or other pronouncement or instrumentality of any federal, provincial or municipal government, parliament or legislature, or of any regulatory authority, agency, commission, tribunal, board or department of any such government, parliament or legislature, or of any court or other law, regulation or rule-making entity, having jurisdiction in the relevant circumstances (collectively, “**Applicable Law**”), or with the Company’s prior written consent.

9. The Province also agrees (i) to use the same means to protect the confidentiality of the Company Confidential Information that the Province would use to protect its own confidential and proprietary information (but in any event, no less than reasonable means), (ii) to disclose Company Confidential Information only to its Representatives who need to know the Company Confidential Information for the Purpose, who are informed by the Province of the confidential nature of the Company Confidential Information and who agree to be bound by the terms of this Agreement, (iii) to take all necessary steps to require that its Representatives comply with and are bound by the terms and conditions of this Agreement, and (iv) to be responsible for any breach by its Representatives of any terms of this Agreement applicable to the Province’s Representatives (as if the Province’s Representatives were parties to and bound by those provisions of this Agreement). The provisions of clause (iv) of this Section 9 shall survive termination of this Agreement.
10. The Province acknowledges that certain of the Company Confidential Information that it receives or obtains may be information, including records prepared by or for counsel for use in giving legal advice or in contemplation of or for use in litigation, to which solicitor-client privilege and/or litigation privilege attaches (collectively, “**Privileged Information**”). The Province acknowledges and agrees that access to the Privileged Information is not intended and should not be interpreted as a waiver of any privilege in respect of Privileged Information or of any right to assert or claim privilege in respect of Privileged Information. To the extent there is any waiver of privilege, it is intended to be a limited waiver in favour of the Province, solely for the purposes and on the terms set out in this Agreement.
11. In the event that the Province or any of its Representatives are required by Applicable Law, by oral questions, interrogatories, requests for information or documents, subpoena, criminal or civil investigative demand, legislative committee or officer, or similar process to disclose any Company Confidential Information, the Province or such Representative, as the case may be, shall, to the extent permitted by Applicable Law, provide the Company with prompt written notice of such requirement so that the Company may seek a protective order or other appropriate remedy, if available, or waive compliance with the provisions of this Agreement. The Province shall thereafter cooperate with the Company to prevent such disclosure (including cooperating in obtaining a protective order or other appropriate remedy). Where a request is made to the Province or its Representatives for access to information subject to this Agreement under FIPPA, the Province or its Representatives shall provide the Company with notice of the request, and the

opportunity to make submissions to the Province or its Representatives about disclosure of the records, in accordance with section 28 of FIPPA. In the event that the Company is unable to obtain a protective order or other remedy, the Province or such Representative, as the case may be, may disclose only that portion of the Company Confidential Information which the Province or such Representative is advised by counsel (internal or external) as being required to disclose under FIPPA or by other Applicable Law. The Province or such Representative, as the case may be, shall use reasonable efforts to obtain reliable assurance that confidential treatment will be afforded to any Company Confidential Information so disclosed. The parties acknowledge, however, that Province cannot require any person who receives information under FIPPA to maintain such information in confidence. The provisions of this Section 11 shall survive termination of this Agreement.

12. The Company Confidential Information provided by the Company to the Province and/or its Representatives shall at all times remain the property of the Company or its Representatives (as defined below in Section 13), as applicable, and by making Company Confidential Information available to the Province, neither the Company nor its Representatives shall be deemed to be granting any license or other right under or with respect to any trade secret, patent, copyright, trademark, or other proprietary or intellectual property right. The provisions of this Section 12 shall survive termination of this Agreement.

#### **Confidentiality Obligations in favour of the Province:**

In consideration of the Province providing, or causing to be provided, the Province Confidential Information (as defined below) to the Company and its Representatives (as defined below) from time to time in connection with the Purpose for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties), the parties agree to the following:

13. In this Agreement, “**Representatives**” of the Company means, collectively, the Company’s directors, officers, employees, managers, agents, representatives, lawyers, accountants, consultants, and financial and other advisors, provided that such persons or entities shall only be considered Representatives if such persons or entities have received Province Confidential Information.
14. In this Agreement, “**Province Confidential Information**” means all information and material of, or relating to, the Province and its Representatives, whether in oral, written, graphic, electronic or any other form or medium, including without limitation information and material concerning the Province’s past, present or future policy decisions, business, affairs, financial conditions, operations, plans, potential transactions or potential purchases or sales of shares of Hydro One Limited or other activities that is furnished to the Company or its Representatives pursuant to the Governance Agreement and/or the Registration Rights Agreement on or after the date of this Agreement in connection with the Purpose. For the purposes of this definition, “**Province Confidential Information**” includes the portion of any plans, proposals, reports, analyses, notes, compilations, studies, forecasts or other documents prepared by the Company or its

Representatives that are based on, contain, incorporate or otherwise reflect Province Confidential Information.

15. Notwithstanding Section 14, the following will not constitute “**Province Confidential Information**” under this Agreement:
  - (a) for the avoidance of doubt (i) information that the Company or its Representatives receive or obtain solely pursuant to any Applicable Law and (ii) information that the Company or its Representatives receive or obtain other than pursuant to the Governance Agreement and/or the Registration Rights Agreement.
  - (b) information that the Company or its Representatives receive or obtain from a third person who is not known by the Company to be prohibited from transmitting the information to the Company or its Representatives by a contractual, legal or fiduciary obligation not to disclose such information;
  - (c) information that has been publicly disclosed by the Province (including, for greater certainty, information publicly disclosed through regulatory filings or processes), or that is or becomes publicly available through no fault of the Company or its Representatives in breach of this Agreement or other contractual, legal or fiduciary obligation not to disclose such information;
  - (d) information that was independently developed by the Company or its Representatives without reference to the Province Confidential Information; and
  - (e) information that the Province agrees in writing is not Province Confidential Information for the purposes of this Agreement.
16. The Company acknowledges and agrees that the Province may not be able to furnish or disclose Personal Information to the Company or any of its Representatives unless consents to the disclosure of such Personal Information have been obtained from the relevant individual(s) as required, or the Province is otherwise authorized by Applicable Law to disclose such information. If any Personal Information is disclosed to the Company and/or its Representatives, the Company and its Representatives shall, subject to their obligations under Applicable Law, (i) use the Personal Information only in connection with the Purpose, (ii) limit disclosure of the Personal Information to what is authorized by the Province or required by Applicable Law, (iii) promptly refer any persons looking for access to their Personal Information to the Province, (iv) use appropriate security measures to protect the Personal Information, and (v) comply with Applicable Law relating to the privacy of the Personal Information.
17. The Company agrees that all Province Confidential Information shall be held and treated by the Company and its Representatives in confidence and shall not be disclosed by the Company or its Representatives in any manner whatsoever, in whole or in part, except as expressly provided in this Agreement, as required by Applicable Law or by the

- requirements of any stock exchange on which securities of the Company are listed or with the Province's prior written consent.
18. The Company also agrees (i) to use the same means to protect the confidentiality of the Province Confidential Information that the Company would use to protect its own confidential and proprietary information (but in any event, no less than reasonable means), (ii) to disclose Province Confidential Information only to its Representatives who need to know the Province Confidential Information in connection with the Purpose, who are informed by the Company of the confidential nature of the Province Confidential Information and who agree to be bound by the terms of this Agreement, (iii) to take all necessary steps to require that its Representatives comply with and are bound by the terms and conditions of this Agreement, and (iv) to be responsible for any breach by its Representatives of any terms of this Agreement applicable to the Company's Representatives (as if the Company's Representatives were parties to and bound by those provisions of this Agreement). The provisions of clause (iv) of this Section 18 shall survive termination of this Agreement.
  19. The Company acknowledges that certain of the Province Confidential Information that it receives or obtains may be Privileged Information. The Company acknowledges and agrees that access to the Privileged Information is not intended and should not be interpreted as a waiver of any privilege in respect of Privileged Information or of any right to assert or claim privilege in respect of Privileged Information. To the extent there is any waiver of privilege, it is intended to be a limited waiver in favour of the Company, solely for the purposes and on the terms set out in this Agreement.
  20. In the event that the Company or any of its Representatives are required by the requirements of any stock exchange on which securities of the Company are listed, by Applicable Law, by oral questions, interrogatories, requests for information or documents, subpoena, criminal or civil investigative demand, legislative committee or officer, or similar process to disclose any Province Confidential Information, the Company or such Representative, as the case may be, shall, to the extent permitted by Applicable Law, provide the Province with prompt written notice of such requirement so that the Province may seek a protective order or other appropriate remedy, if available, or waive compliance with the provisions of this Agreement. The Company shall thereafter cooperate with the Province to prevent such disclosure (including cooperating in obtaining a protective order or other appropriate remedy). The parties acknowledge that the Company is subject to applicable securities law and the requirements of the Toronto Stock Exchange and New York Stock Exchange which mandate immediate disclosure of material information concerning the Company such that it may not always be practicable to provide prompt written notice of the requirement to disclose Province Confidential Information, to the extent Province Confidential Information would constitute material information concerning the Company. In the event the Province is unable to obtain a protective order or other remedy, the Company or such Representative, as the case may be, may disclose only that portion of the Province Confidential Information which the Company or such Representative is advised by counsel as being required to disclose by Applicable Law or the requirements of any stock exchange on which securities of the Company are listed. The Company or such Representative, as the case may be, shall use

reasonable efforts to obtain reliable assurance that confidential treatment will be afforded to any Province Confidential Information so disclosed. The parties acknowledge, however, that the Company cannot require any securities regulator or stock exchange who receives information to maintain such information in confidence. The provisions of this Section 20 shall survive termination of this Agreement.

21. The Province Confidential Information provided by the Province to the Company and/or its Representatives shall at all times remain the property of the Province or its Representatives, as applicable, and by making Province Confidential Information available to the Company, neither the Province nor its Representatives shall be deemed to be granting any license or other right under or with respect to any trade secret, patent, copyright, trademark, or other proprietary or intellectual property right. The provisions of this Section 21 shall survive termination of this Agreement.

### **General Provisions:**

22. Each party acknowledges that it is aware (and that it will advise its respective Representatives) that applicable securities laws in Canada or elsewhere prohibit any person with material non-public information about an issuer (which would include both Hydro One Limited and Hydro One Inc.) from purchasing or selling securities of such issuer, or subject to certain limited exceptions, from communicating such information to any other person. The Province has instituted reasonable internal controls to restrict (a) the disclosure of material non-public information about the Company and (b) trading in the securities of the Company by the Province and its Representatives. The Province has provided a copy of such internal controls to Hydro One Limited and Hydro One Inc. on or prior to the date of this Agreement.
23. The parties acknowledge that any information that the Province receives pursuant to section 1.0.25 of the *Financial Administration Act* (Ontario) (the “FAA”) shall be dealt with in accordance with the provisions of the FAA.
24. The Company agrees to notify the Province of any information requests made by the Auditor General of Ontario pursuant to its rights under the *Auditor General Act* (Ontario) in relation to the audit of the Public Accounts (prepared pursuant to the FAA) and to advise the Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat (or any successor office thereto) as soon as reasonably practicable of the anticipated timing and planned approach to meet such requests.
25. Except as otherwise specified in this Agreement, this Agreement shall terminate on the second anniversary of the last to occur of the following: (i) the Governance Agreement no longer being in effect; and (ii) the Registration Rights Agreement no longer being in effect. The obligations of the Company and the Province under this Agreement shall survive termination of this Agreement with respect to that Province Confidential Information and Company Confidential Information, as the case may be, that pertains to those matters identified by the Province or the Company, as the case may be, to the other in writing at the time of termination of this Agreement.



26. This Agreement may not be amended except with the written consent of all parties hereto. There are no understandings, representations, warranties, terms, conditions, undertakings or collateral or other agreements, express, implied or statutory, among the parties with respect to the subject matter of this Agreement other than as expressly set forth in this Agreement, the Governance Agreement and the Registration Rights Agreement. If any provision of this Agreement is held to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall not affect any other provision hereof and all other provisions hereof shall continue in full force and effect.
27. It is understood and agreed that no failure or delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. Nothing shall be construed or have the effect of a waiver except an instrument in writing signed by a duly authorized representative of the party which expressly waives any such right, power or privilege.
28. This Agreement will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.
29. This Agreement may be executed in counterparts, each of which will be deemed to be an original and both of which taken together will be deemed to constitute one and the same instrument. Delivery of an executed signature page to this Agreement by any party by electronic transmission will be as effective as delivery of a manually executed copy of the agreement by such party.

*[Remainder of page intentionally left blank]*

**IN WITNESS WHEREOF** the parties have executed this Agreement as of the date set forth above.

**HYDRO ONE LIMITED**

By: \_\_\_\_\_

Name: Mayo Schmidt

Title: President and Chief  
Executive Officer

**HER MAJESTY THE QUEEN IN  
RIGHT OF ONTARIO, AS  
REPRESENTED BY THE MINISTER  
OF ENERGY**

By: \_\_\_\_\_

Name: Bob Chiarelli

Title: Minister of Energy

## **SCHEDULE “C”**

### **Hydro One Governance Standards**

1. Skills Matrix
2. Board Diversity Policy
3. Majority Voting Policy
4. Stakeholder engagement policy
5. Corporate disclosure policy
6. Corporate governance guidelines
7. Mandate for the Hydro One Ombudsman
8. Mandates of the Board and its committees
9. Position descriptions for the CEO, the Chair, the Directors and the committee chairs
10. Code of business conduct
11. Whistleblower policy
12. Executive share ownership guidelines & anti-hedging policy
13. Compensation recoupment policy

## SCHEDULE “D”

### Rules of Procedure for Arbitration

The following rules and procedures shall apply with respect to any matter to be arbitrated by the Parties under the terms of the Agreement.

#### 1. INITIATION OF ARBITRATION PROCEDURES

- (a) If a Party to this Agreement wishes to have any matter under this Agreement arbitrated, it shall give notice to the other Party specifying particulars of the matter or matters in dispute and request that ADR Chambers Canada appoint a single arbitrator who need not be a member of ADR Chambers Canada and who satisfies the requirements of Section 1(b) of this Schedule “D” (the “**Arbitrator**”).
- (b) The individual selected as Arbitrator shall be reasonably qualified by education and/or experience to decide the matter in dispute.

#### 2. SUBMISSION OF WRITTEN STATEMENTS

- (a) Within 15 Business Days of the appointment of the Arbitrator, the Party initiating the arbitration (the “**Claimant**”) shall send the other Party (the “**Respondent**”) a Notice of Arbitration setting out in sufficient detail the facts and any contentions of law on which it relies, and the relief that it claims.
- (b) Within 15 Business Days of the receipt of the Notice of Arbitration, the Respondent shall send the Claimant an Answer to the Notice of Arbitration stating in sufficient detail which of the facts and contentions of law in the Notice of Arbitration it admits or denies, on what grounds, and on what other facts and contentions of law he relies.
- (c) Within 15 Business Days of receipt of the Answer, the Claimant may send the Respondent a Reply.
- (d) Each Notice of Arbitration, Answer and Reply shall be accompanied by copies (or, if they are especially voluminous, lists) of all essential documents on which the Party concerned relies and which have not previously been submitted by any Party.
- (e) After submission of all the pleadings, the Arbitrator will give directions for the further conduct of the arbitration.

#### 3. MEETINGS AND HEARINGS

- (a) The arbitration shall be heard in Toronto, Ontario or in such other place as the Claimant and the Respondent shall agree upon in writing. The arbitration shall be conducted in English unless otherwise agreed by the Parties and the Arbitrator.

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Subject to any adjournments which the Arbitrator allows, the final hearing will be continued on successive working days until it is concluded.

- (b) All meetings and hearings will be in private and shall be confidential unless the Parties otherwise agree.
- (c) Any Party may be represented at any meetings or hearings by legal counsel
- (d) Each Party may examine, cross-examine and re-examine, as appropriate, all witnesses at the arbitration.

#### 4. THE DECISION

- (a) The Arbitrator will make a decision in writing and, unless the Parties otherwise agree, will set out reasons for decision in the decision.
- (b) The Arbitrator will deliver the decision to the Parties as soon as practicable after the conclusion of the final hearing, but in any event no later than 60 days thereafter, unless that time period is extended for a fixed period by the Arbitrator on written notice to each Party because of illness or other cause beyond the Arbitrator's control.
- (c) The provisions of this Agreement and the Arbitration Rules requiring the determination of certain disputes of arbitration shall not operate to prevent recourse to the court by any Party as permitted by the *Arbitration Act, 1991* (Ontario) with respect to injunctions, receiving orders and orders regarding the detention, preservation and inspection of property, or whenever enforcement of an award by the sole arbitrator reasonably requires access to any remedy which an arbitrator has no power to award or enforce, provided that any such recourse to the court and any remedy of the arbitrator shall, in the case of remedies against the Province, be subject to the *Proceeding Against the Crown Act* (Ontario). In all other respects an award by the Arbitrator shall be final and binding upon the Parties and there shall be no appeal from that award on any questions of fact, mixed law and fact, or law provided that the Arbitrator has followed the Arbitration Rules in good faith and has proceeded in accordance with the principles of natural justice.

#### 5. JURISDICTION AND POWERS OF THE ARBITRATOR

- (a) By submitting to arbitration under these Arbitration Rules, the Parties shall be taken to have conferred on the Arbitrator the following jurisdiction and powers, to be exercised at the Arbitrator's discretion subject only to these Arbitration Rules and the relevant law with the object of ensuring the just, expeditious, economical and final determination of the dispute referred to arbitration.
- (b) Without limiting the jurisdiction of the Arbitrator at law, the Parties agree that the Arbitrator shall have jurisdiction to:

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- (i) determine any question of law arising in the arbitration;
- (ii) determine any question as to the Arbitrator's jurisdiction;
- (iii) determine any question of good faith, dishonesty or fraud arising in the dispute;
- (iv) order any Party to provide further details of that Party's case, in fact or in law;
- (v) proceed with the arbitration notwithstanding the failure or refusal of any Party to comply with these Arbitration Rules or with the Arbitrator's orders or directions, or to attend any meeting or hearing, but only after giving that party notice that the Arbitrator intends to do so;
- (vi) receive and take into account such written or oral evidence tendered by the Parties as the Arbitrator determines is relevant, whether or not strictly admissible in law;
- (vii) make one or more interim awards;
- (viii) hold meetings and hearings, and make a decision (including a final decision) in Ontario (or elsewhere with the concurrence of the Parties thereto);
- (ix) order the Parties to produce to the Arbitrator, and to each other for inspection, and to supply copies of, any documents, except privileged documents, or classes of documents in their possession or power which the Arbitrator determines to be relevant;
- (x) order the preservation, storage, sale or other disposal of any property or thing under the control of any of the Parties;
- (xi) make interim orders to secure all or part of any amount in dispute in the arbitration;
- (xii) make any order as to the payment of costs of the arbitration, including legal fees on a solicitor and client basis;
- (xiii) include, as part of any award, the payment of interest at the rate determined by the Arbitrator from an appropriate date as determined by the Arbitrator; and
- (xiv) make any other order that the Arbitrator determines is just and reasonable in determining the matters in dispute.

6. ARBITRATION ACT, 1991

The rules and procedures of the *Arbitration Act*, 1991 (Ontario) shall apply to any arbitration conducted hereunder except to the extent that they are modified by the express provisions of these Arbitration Rules.



**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	12/19/2017
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Marian Durkin
TYPE:	Data Request	DEPT:	Legal
REQUEST NO.:	Staff – 048(AVA)	TELEPHONE:	(509) 495-8687
		EMAIL:	marian.durkin@avistacorp.com

**REQUEST:**

Please provide the articles of incorporation, bylaws, and other organizational documents that will apply to Avista (the surviving corporation) after the merger.

**RESPONSE:**

Those documents do not exist at this time. The current timing on preparing them is with the closing of the merger transaction.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	02/02/2018
CASE NO.:	UM 1897	WITNESS:	Patrick Ehrbar
REQUESTER:	Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Staff – 099(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

See Avista/100, Morris/20-21. Please elaborate on the Oregon-allocated portion of the proposed rate credit.

- a. Would Oregon customers receive an offset-able Oregon-allocated rate credit that would only be offset-able through a proceeding at the Oregon PUC which demonstrated cost-savings to Oregon customers?
- b. If a proceeding at the WUTC demonstrated cost-savings to Avista's electric customers as a result of the merger, causing the offset-able rate credit to be offset in full or in part:
  - i. Would Avista's Oregon customers see a rate credit offset as a result?
  - ii. If so, how would the rate-credit reduction be allocated between Avista's jurisdictions?

**RESPONSE:**

- a. Yes. Oregon customers will receive an Oregon-allocated rate credit, and the offsetable portion of the total rate credit will remain in effect until such time the Company demonstrates in an Oregon general rate case that costs previously allocated to Oregon that are reduced due to the merger are no longer included in Oregon customer base rates.
- b. No, see a. above. Please also see Avista's response to Staff DR 098(AVA), which explains how the rate credits will be allocated among the states.