

**BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON  
UM 1897**

In the Matter of )

HYDRO ONE LIMITED, )

Application for Authorization to Exercise )  
Substantial Influence over the Policies )  
and Actions of AVISTA )  
CORPORATION. )

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**REPLY TESTIMONY OF BRADLEY G. MULLINS  
ON BEHALF OF THE NORTHWEST INDUSTRIAL GAS USERS**

**FEBRUARY 12, 2018**

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**EXHIBIT LIST**

- NWIGU/101 – Qualifications of Bradley G. Mullins
- NWIGU/102 – Company Responses to Data Requests
- NWIGU/103 – Toronto Star News Article

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite 400, Portland, Oregon 97204.

**Q. PLEASE STATE YOUR OCCUPATION AND IDENTIFY THE PARTY ON WHOSE BEHALF YOU ARE TESTIFYING.**

A. I am an independent consultant representing energy and utility customers before state regulatory commissions, with a primary focus in the Pacific Northwest. I am appearing in this matter on behalf of the Northwest Industrial Gas Users (“NWIGU”). NWIGU is a non-profit trade association whose members are sales and transportation customers of local distribution companies located throughout the Pacific Northwest, including gas customers of Avista Corporation (“Avista”).

**Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

A. A summary of my education and work experience can be found at NWIGU/101.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to respond to the Application (“Merger Application”) of Hydro One Limited (“Hydro One”), acting through its indirect subsidiary Olympus Equity LLC to exercise substantial influence over the policies and actions of Avista. In particular, I will review and analyze whether the proposed merger provides net benefits to customers and doesn’t harm Oregon citizens as a whole.

**Q. BASED ON YOUR REVIEW AND ANALYSIS, WHAT ARE YOUR PRIMARY CONCLUSIONS?**

A. Based on my review, I have concluded that there is no possibility that the acquisition of Avista by Hydro One will produce meaningful benefits to Oregon gas ratepayers. In contrast, my

1 review suggests that the proposed acquisition will actually harm ratepayers in Oregon and  
2 Oregon citizens as a whole. Therefore, the proposed acquisition fails to meet the standard for  
3 approval under ORS 757.511. Based on the risks involved, “ring-fencing” is not sufficient to  
4 protect ratepayers against the many negative outcomes that will result if the proposed merger is  
5 approved. Accordingly, I recommend the Commission find that the transaction is not in the  
6 public interest. It is evident from the merger commitments Avista and Hydro One have  
7 proposed, that any conditions imposed by the Commission would likely have no binding effect  
8 on Hydro One, and even if the commitments were financially binding on Hydro One, the  
9 ability to enforce them across the Canadian border and through the complex series of Hydro  
10 One subsidiaries is suspect. Portland General Electric Company’s ongoing litigation with  
11 Abengoa provides evidence of the unique risks associated with international transactions,  
12 which may not be readily apparent at the time a transaction is proposed.

13 **Q. WHAT STANDARD APPLIES TO THIS PROPOSED CORPORATE**  
14 **REORGANIZATION?**

15 A. The Merger Application is governed by ORS 757.511, which requires Commission approval  
16 because Hydro One seeks “the power to exercise any substantial influence over the policies  
17 and actions of a public utility.” The statute sets forth the filing requirements, as well as the  
18 applicable legal standard. If the Commission determines that approval of the application will  
19 serve the public utility’s customers in the public interest, the Commission shall issue an order  
20 granting the application. The Commission may condition an order authorizing the acquisition  
21 upon the applicant’s satisfactory performance or adherence to specific requirements. The

1 Commission otherwise shall issue an order denying the application. The applicant bears the  
2 burden of demonstrating that granting the application is in the public interest.<sup>1</sup>

3 The Commission interpreted ORS 757.511 in Docket UM 1011, which the Commission  
4 opened to review the standard for Commission approval of mergers under ORS 757.511. The  
5 Commission concluded in that docket that the statute directed a two-part analysis: “first, the  
6 assessment that utility customers will be served; second, the demonstration that granting the  
7 application is in the public interest. . . . Therefore, in addition to finding a net benefit to the  
8 utility’s customers, we must also find that the proposed transaction will not impose a detriment  
9 on Oregon citizens as a whole.”<sup>2</sup>

10 In order to determine whether the Merger Application satisfies the requirements of  
11 ORS 757.511, a “comparator” must be used. The Commission measures the benefits by  
12 comparing the proposed transaction to the continued prudent and well managed operation of  
13 the utility today.<sup>3</sup> Accordingly, the Commission and parties must measure the proposed new  
14 ownership structure of Avista against the continued prudent and well managed utility that  
15 exists today. Avista today is a well-run company with a good safety record, good customer  
16 service and has access to capital at reasonable rates.

17 **Q. HAVE YOU ATTEMPTED TO COMPARE THE POST MERGER AVISTA WITH**  
18 **THE CONTINUED PRUDENT AND WELL MANAGED UTILITY THAT EXISTS**  
19 **TODAY?**

20  
21 A. Avista has been in a very good financial situation. Its earnings have been healthy, it has access  
22 to capital and there are no signs that Avista might have difficulty attracting capital in markets

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1 ORS 757.511(3).

2 *In re Legal Standard for Approval of Mergers*, Docket UM 1011, Order No. 01-778 at 11.

3 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).

1 in the future. In contrast, approving the leveraged buy-out of Avista can only make financial  
2 conditions worse for Avista ratepayers, making it more difficult for Avista to attract capital,  
3 effectively requiring approval from the Province of Ontario to obtain capital if necessary.  
4 Based on this, and the lack of any material cost savings, the acquisition should not be  
5 approved.

6 **II. THE TRANSACTION WILL HARM OREGON RATEPAYERS**

7 a. The Excessive Valuation Is Problematic for Ratepayers

8 **Q. WHAT IS YOUR UNDERSTANDING OF THE PROPOSED ACQUISITION?**

9 A. Hydro One proposes to acquire 100% of the outstanding stock of Avista. The acquisition will  
10 occur through a newly formed Canadian Corporation, a “blocker” U.S. Corporation, and a  
11 series of pass-through entities.<sup>4</sup> The consideration for the acquisition is in the form of cash  
12 payment at \$53.00 per share.<sup>5</sup> Based on Avista’s approximately 63.4 million outstanding  
13 shares, the \$53.00 per share price equates to an equity valuation of approximately \$3.4 billion.  
14 After considering the assumption of \$1.5 billion in Avista’s long-term debt, assumption of  
15 pension liabilities of \$0.2 million, and assumption of deferred income tax liabilities of  
16 approximately \$0.9 billion (inclusive of excess deferred federal income taxes),<sup>6</sup> the Hydro One  
17 equity bid equates to an approximate enterprise value for Avista of \$6.0 billion in the  
18 transaction.

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4 Merger Application at 28.

5 Merger Agreement Article 2.1(c).

6 See Avista Corporation Form 10-Q, September 30, 2017 at 8.

1 **Q. WHAT IS THE APPROXIMATE ACQUISITION ADJUSTMENT IMPLIED BY THE**  
2 **HYDRO ONE BID?**

3 A. Utility rates in the Northwest are established based on Original Cost, and do not take into  
4 consideration the premiums paid when a utility is acquired for an amount in excess of Original  
5 Cost. The difference between the Original Cost and the price paid by the acquiring entity is  
6 sometimes referred to as an “acquisition adjustment.” As of September 30, 2017, the book  
7 value of Avista’s utility assets is approximately \$4.3 billion.<sup>7</sup> In comparison to the acquisition  
8 price, this book value suggests a high acquisition adjustment associated with the transaction,  
9 although we need to see how Avista’s books might get consolidated, and consider interstate  
10 cost allocation, to know the precise acquisition adjustment amount. Notwithstanding, using the  
11 book values as a proxy for the Original Cost of Avista’s utility assets implies an acquisition  
12 adjustment of around \$1.7 billion, or approximately 40%. That is a significant premium, and  
13 it has real impacts, irrespective of how ringfencing might be applied.

14 **Q. WHY IS THE ACQUISITION ADJUSTMENT PROBLEMATIC?**

15 A. If the acquiring entity pays well above Original Cost to acquire a utility, the acquiring entity is  
16 effectively conceding that it is willing to accept a lower return on its invested capital. This  
17 means that, based on a 40% acquisition adjustment, a 9.5% regulated return on equity would  
18 equate to a 6.8% effective return on equity, assuming that equity was actually being used to  
19 finance the transaction.

20 Perhaps more impactful, however, the Original Cost principle does not provide the  
21 acquiring entity any opportunity to recoup the portion of its investment related to the  
22 acquisition adjustment through depreciation or other form of amortization. Accordingly,

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<sup>7</sup> *Id.*

1 viewed in the long term, the acquiring entity is conceding to a very low effective return on its  
2 investment when it pays well above original cost.

3 **Q. HAS AVISTA REQUESTED APPROVAL OF AN ACQUISITION ADJUSTMENT IN**  
4 **RATE BASE IN THIS MATTER?**

5 A. No. Nor is there any basis to approve the inclusion of an acquisition adjustment in rates.  
6 Avista expects to achieve cost savings of only \$1.7 million on a total system basis.<sup>8</sup> For  
7 Oregon customers, using the 4-Factor allocator of 9.2% for 2016, that represents cost savings  
8 of just \$162,150 per year, hardly sufficient to justify an inclusion of an acquisition adjustment  
9 in rates. Using the same factor, and for the purpose of putting the materiality of the purported  
10 benefits into context, the 40% acquisition adjustment represents a premium of roughly  
11 \$156,400,000 on an Oregon-allocated basis, meaning the alleged benefits in the form of cost  
12 savings are about 0.1% of the acquisition adjustment amount. Based on the lack of material  
13 benefits, I recommend that, if the acquisition is to be approved, the Commission enter a finding  
14 that Hydro One will not be entitled to earn a return on, nor a return of, any acquisition  
15 adjustment amount from Oregon ratepayers.

16 **Q. DOES THE EXCESSIVE VALUATION CREATE PROBLEMATIC REGULATORY**  
17 **INCENTIVES?**

18 A. Yes. It has been widely documented that utilities subject to rate of return regulation have an  
19 incentive to over-invest in capital in order to increase earnings.<sup>9</sup> Given Avista's size,  
20 ratepayers have in the past expressed concern over the growth and size of Avista's capital  
21 program. One perspective is that small utilities, experiencing little to no load growth, such as  
22 Avista, need to be very careful how they deploy and manage capital.

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<sup>8</sup> Merger Application at 30.

<sup>9</sup> See Harvey Averch & Leland L. Johnson, *Behavior of the Firm Under Regulatory Constraint*, 52 AM. ECON. REV. 996, 1052 (1962).

1           Since the price of the proposed acquisition is so high, however, the incentive for over-  
2           spending on capital would increase significantly. In contrast to the original Hydro One  
3           investment, which is subject to a lower effective return due to the acquisition adjustment, any  
4           capital reinvested in Avista is subject to a full regulated return. Thus, the only way for Hydro  
5           One to improve the effective returns it realizes through its investment is by deploying new  
6           capital within the utility. After such an acquisition, shareholders would appropriately consider  
7           options to reinvest in the utility, in order to increase the effective return on equity after the  
8           acquisition adjustment. These sorts of aggressive capital programs, however, often have the  
9           effect of increasing rates in a manner that is detrimental to ratepayers, particularly for small  
10          utilities such as Avista.

11           b. High Leverage Creates Real Risk to Ratepayers

12   **Q.   HOW IS HYDRO ONE FINANCING THE PROPOSED TRANSACTION?**

13   A.   It is somewhat unclear. Around C\$1.54 (US\$1.22 billion) or about 34% of the transaction will  
14   be financed through previously issued convertible unsecured subordinated debentures.<sup>10</sup> There  
15   are some outstanding questions about whether these complex instruments are more  
16   appropriately considered debt or equity. The remaining 66% of the transaction will be  
17   financed through some form of debt, although precise financing details were not detailed for  
18   this portion.<sup>11</sup> Given that at least 66%, and maybe more, of the equity investment is being  
19   financed through debt, the acquisition is fairly characterized as a leveraged buy-out. The  
20   reason Hydro One is able to afford such a significant premium on Avista's outstanding equity,  
21   and thus a materially lower effective return on equity, is due to the fact that the deal is not

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<sup>10</sup> Merger Application at 9.

<sup>11</sup> Avista/300, Thies/11:3-13.

1 being financed with equity. Rather, the equity investment is being financed predominantly  
2 through the issuance of new debt.

3 **Q. HOW DOES THAT LEVERAGE IMPACT RATEPAYERS?**

4 A. The up-stream financial leverage has real implications on ratepayers, as well as Avista's ability  
5 to attract capital. The primary area of concern surrounding the leverage is the ability of Hydro  
6 One to withstand volatility in Avista's year-to-year earnings following the acquisition. While  
7 ring-fencing provisions might be put into place, the use of debt financing means that Avista  
8 will, from Hydro One's perspective, have little margin of error in terms of achieving its overall  
9 return on equity.

10 If Avista achieves or exceeds its overall return on equity following the proposed  
11 acquisition, the earnings in excess of Hydro One's debt service will effectively represent  
12 windfall profits to Hydro One. But if Avista achieves a lower return on equity in its actual  
13 results, losses can result for Hydro One, even if the overall regulated return might have been  
14 positive. This leverage makes Avista significantly more risky than it is today, and will have  
15 many negative influences on Avista's operations in Oregon.

16 As a high-level illustration, if Avista were to achieve a 7.0% return on equity in any  
17 given year, it might be able to temporarily live with that level of return without filing a new  
18 rate case. In that scenario, Avista might not have achieved its authorized returns, but it is still  
19 profitable. Due to the leveraged nature of the proposed acquisition and the high premium,  
20 however, a 7.0% positive return might not be sufficient for Hydro One after considering the  
21 debt service on the instruments used to finance the transaction. Earning a regulated return of  
22 7.0% is by no means unreasonable, yet because of the leverage involved, this lower, positive  
23 return level would have the potential to result in losses to Hydro One. Variability in achieved

1 returns is an ordinary business risk. As a practical matter, however, excessive leverage at the  
2 parent level means that Avista will have reduced its ability to manage this variability, driving  
3 the utility to file more frequent and more aggressive rate filings.

4 **Q. HOW HAVE CREDIT RATING AGENCIES RESPONDED TO THE ACQUISITION?**

5 A. Based on the Company's response to Staff Data Request 276 and 277, both S&P and Moody's  
6 revised the outlook for Hydro One to negative following Hydro One's announcement of the  
7 acquisition of Avista.<sup>12</sup>

8 **Q. WILL THE ACQUISITION IMPROVE AVISTA'S CREDIT RATING, LOWERING**  
9 **ITS COST OF DEBT?**

10 A. No. Avista will continue to issue debt through the existing bankruptcy remote corporate  
11 structure. Accordingly, there is little possibility that its credit rating, and thus cost of debt, will  
12 improve as a result of the Acquisition. My conclusion is supported by the fact that Avista has  
13 not included a reduction of its cost of debt in the calculation of the alleged \$1.7 million of  
14 annual cost saving.

15 While there is little up-side benefit with respect to Avista's cost of debt, the leveraged  
16 nature of the transaction does have the potential to be harmful to Avista's credit rating. If  
17 Hydro One is unable to supply liquidity into Avista, in a manner that is at least comparable to  
18 its ability to attract capital in public markets today, then that could produce negative  
19 consequences on Avista's credit rating.

20 **Q. HOW WILL THE TRANSACTION IMPACT LIQUIDITY AT AVISTA?**

21 A. For a small utility such as Avista, liquidity is particularly important. Revenues for a utility  
22 such as Avista can be volatile, and Avista needs to have access to cash to be able to absorb

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<sup>12</sup> See Exhibit NWIGU/102, Mullins/6 to Mullins/20.

1 years when revenues are lower, so that it can recognize offsetting benefits when revenues are  
2 higher, as Avista has been experiencing recently. As a stand-alone public company, Avista has  
3 great access to capital through the issuance of new stock, or sale of treasury stock, etc. If the  
4 acquisition is approved, that liquidity goes away, which is a real risk to Avista and its  
5 ratepayers. To issue new equity, Avista would effectively have to go through Hydro One,  
6 which may not be willing, and would have no obligation, to seek new capital on behalf of  
7 Avista. This would make Avista a much riskier entity than it is today, which is not in the  
8 public interest and has the potential to harm ratepayers.

9 c. International Implications

10 **Q. PLEASE BRIEFLY DESCRIBE HYDRO ONE?**

11 A. Hydro One is an investor owned electric transmission and distribution utility serving more than  
12 1.3 million retail end users. Hydro One has its headquarters in Toronto, Ontario, Canada. One  
13 thing that sets Hydro One apart from investor owned utilities in the United States is that its  
14 largest shareholder is the Province of Ontario. In fact, the Ontario Electricity Act, 1998,  
15 requires the Province of Ontario to own at least 40 percent of the outstanding number of voting  
16 securities. Currently, the Province of Ontario owns greater than 40 percent of Hydro One.

17 **Q. HOW DOES THE INTERNATIONAL ASPECT OF THE TRANSACTION IMPACT**  
18 **THE RISK TO RATEPAYERS?**

19 A. The politics, regulations, laws and policies that govern Hydro One may not be consistent with  
20 what is in the best interest of Avista Oregon ratepayers. Further, future changes in politics,  
21 regulations, laws and policies in Canada may impact Hydro One, which in turn may impact  
22 Avista's operations. This concern is heightened for this proposed merger because the largest

1 shareholder of Hydro One is the Province of Ontario, and the laws and policies could change  
2 dramatically depending on which political party is in power.

3 **Q. WHAT PERCENT OF AVISTA WOULD BE OWNED BY THE PROVINCE OF**  
4 **ONTARIO IF THE MERGER IS APPROVED?**

5 A. As of January 3, 2018, the Province of Ontario owned approximately 47.4% of Hydro One.  
6 Thus, if the acquisition is approved, the Province of Ontario, by and through a string of  
7 subsidiary entities, would own and control 47.4% of Avista Corporation.

8 **Q. WILL THE ACQUISITION PROVIDE THE PROVINCE OF ONTARIO WITH THE**  
9 **ABILITY TO EXERT INFLUENCE OVER ENERGY POLICY IN THE**  
10 **NORTHWEST?**

11 A. Yes. Officials with the Province of Ontario have made public statements, suggesting their  
12 desire to influence energy policy in the Northwest, and there is nothing in the transaction that  
13 will prevent this unfavorable outcome. If the merger is approved, the majority of Avista board  
14 members (5 of the 9) will be chosen by Hydro One, which effectively gives Hydro One control  
15 over Avista operations. Scott Morris, Avista's CEO will serve as chairman of the board, and  
16 three additional board members will be chosen by Avista. While Avista claims that the  
17 makeup of the Avista board of directors is intended to ensure that Avista's culture and its way  
18 of doing business will continue for the long term, there is absolutely no assurance that will be  
19 the case.

20 **Q. HAVE YOU REVIEWED SOME OF THE NEWSPAPER ARTICLES DISCUSSING**  
21 **THE MERGER?**

22 A. Yes. I have observed that the privatization of Hydro One, and now the acquisition of Avista by  
23 Hydro One appears to be somewhat of a political firestorm in Canada. The proposed merger  
24 with Avista has been criticized in part because coal burning plants are banned in Ontario and  
25 Avista receives about 9 percent of its electricity from Coal Strip. In response to this criticism,

1 Premier Kathleen Wynn said this in an opportunity to take its influence beyond the Province of  
2 Ontario.<sup>13</sup> Further, Hydro One has indicated that it will be “reviewing” Avista’s assets when  
3 the purchase is complete.

4 **Q. WHAT DO YOU THINK OF THESE COMMENTS?**

5 A. While I am not opining on electric issues, the concern I have is that the Canadian influence on  
6 Avista’s operations could be far reaching, and in some cases conflict with the policies of  
7 Oregon to the detriment of Oregon ratepayers. While electric operations have the opportunity  
8 to reduce or even eliminate carbon based resources, gas operations have no ability to  
9 completely eliminate carbon emissions. In an extreme example, if the politics changed and  
10 there was a push to eliminate all carbon based fuels from its portfolio, Hydro One could sell  
11 Avista gas operations to another utility. This certainly would not be in the best interest of  
12 Avista’s Oregon rate payers.

13 **III. THERE ARE NOT CLEAR BENEFITS TO RATEPAYERS**

14 **Q. HOW WILL AVISTA OPERATIONS CHANGE ACCORDING TO THE MERGER**  
15 **APPLICATION?**

16 A. The Merger Application suggests that customers will see little or no change to Avista’s  
17 operations from the acquisition. But the status quo means aggressive capital improvement  
18 programs and investments along with declining usage per customer, and frequent rate filings.  
19 With a highly leveraged merger of this size and payment of a significant premium over book  
20 value, this suggests that Avista’s aggressive capital improvement program and annual rate  
21 filings will continue and likely increase for the foreseeable future.

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<sup>13</sup> See Exhibit NWIGU/103, Mullins/2.

1 a. The Retail Rate Credit Does Not Provide Meaningful Benefits to Oregon  
2 Ratepayers

3 **Q. DO AVISTA AND HYDRO ONE ARGUE THAT THERE WILL BE COST SAVINGS**  
4 **FROM THE MERGER?**

5 A. The Merger Application indicates that there may be an immaterial \$1.7 million of cost savings  
6 from the merger over the next five to ten years. As noted above, the \$1.7 million amount  
7 equates to approximately just \$162,150 per year in savings to Oregon gas customers. And  
8 even those cost savings are questionable. Hydro One and Avista support their claim for cost  
9 savings by making conclusory statements such as “the companies should achieve savings  
10 through scale and collaboration in supply chain activity, IT development and implementation,  
11 innovation and potentially other areas.”<sup>14</sup> But these statements do little to demonstrate an  
12 actual benefit to customers.

13 **Q. DID AVISTA DETAIL ITS CALCULATION OF THESE COST SAVINGS?**

14 A. Yes. In response to Staff Data Request 31, Avista detailed its calculation of the cost savings  
15 associated with the acquisition.<sup>15</sup> In that response, Avista identified cost savings in six  
16 categories: Proxy Costs, Board of Director Activities, Annual Report Costs, Investor Relations,  
17 Insurance and Accounting.

18 **Q. DID AVISTA IDENTIFY POTENTIAL INCREASES TO COSTS ASSOCIATED WITH**  
19 **THE ACQUISITION?**

20 A. No. Avista ignores any provision for incremental overhead, or other costs, that may be  
21 incurred, and potentially allocated from Hydro One through a “management fee” or some other  
22 inter-company transaction. My experience with mergers of this type is that the costs associated  
23 with the above categories have the potential to increase materially, after the charges from the

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<sup>14</sup> Hydro One/200/Schmidt/22.

<sup>15</sup> Exhibit NWIGU/102.

1 parent corporation are taken into consideration. While there may be some operational savings  
2 at the utility, those savings are often offset entirely by complex cross-charges from the parent,  
3 which have no way of being meaningfully reviewed in a rate case. Avista might stop paying  
4 proxy costs associated with issuing public stock through US markets, but Hydro One will still  
5 incur proxy costs in connection with being a public issuer, and will surely seek to charge those  
6 costs to Avista through an inter-company transaction. The Applicants have not considered  
7 these incremental costs, when evaluating the costs savings to Avista's retail customers.  
8 Cascade Natural Gas Corporation is an example, where notwithstanding the potential for large  
9 synergies with its parent MDU Resources, little savings in the way of reduced rates has been  
10 delivered to customers due to the complex series of inter company charges from the parent  
11 corporation.

12 There are also a number of other costs associated with maintaining the complex legal  
13 structure Hydro One proposes, which Avista has not considered. For example, the cost of  
14 preparing the tax returns and annual filings for the five newly created entities will be material,  
15 in relation to the level of cost savings Avista reports.

16 **Q. DO THE MERGER COMMITMENTS RECOGNIZE THAT THERE MIGHT BE**  
17 **COSTS ALLOCATED FROM HYDRO ONE TO AVISTA?**

18 A. In Merger Commitment 23, the Applicants recognize that there might be additional cost  
19 allocated from Hydro One to Avista. Notwithstanding that those additional costs were not  
20 considered in the net benefits formulation, it appears that Hydro One would effectively have  
21 the unfettered ability to define how Hydro One costs get allocated to Avista. The Commitments  
22 state "The cost-allocation methodology provided pursuant to this commitment will be a generic

1 methodology that does not require Commission approval prior to it being proposed for specific  
2 application in a general rate case or other proceeding affecting rates.”<sup>16</sup>

3 **Q. ARE THE INCREMENTAL COSTS OF THE ACQUISITION APPROPRIATELY**  
4 **RECOVERED FROM RATEPAYERS, IF THE ACQUISITION IS APPROVED?**

5 A. No. The cost allocation provisions in Merger Commitment 23 should be eliminated. In its net  
6 benefits formulation, Avista did not identify any incremental overhead costs associated with  
7 the acquisition that would be allocated from Hydro One to Avista. It would be inappropriate  
8 for Avista to seek recovery of incremental costs, such as cross charges from Hydro One, since  
9 those costs were not included in the net benefits alleged in connection with the acquisition.

10 **Q. HOW DOES AVISTA PROPOSE TO PASS THE \$1.7 MILLION COST SAVING ON**  
11 **TO RATEPAYERS?**

12 A. Avista proposes a retail rate credit of \$31.5 million in total over a 10 year period on a system  
13 wide basis. Of this amount, \$22 million would be subject to offset if Avista can demonstrate  
14 that customers have already received a benefit.

15 **Q. WHAT IS OREGON’S SHARE OF THE RATE CREDITS?**

16 A. The Merger Application provides that Oregon gas customers would receive 9.2% of the rate  
17 credits.<sup>17</sup> In other words, if there is a rate credit of \$2,650,000 per year in years one through  
18 five, \$244,515 per year would be spread to all Oregon gas customers.<sup>18</sup> Relative to Oregon  
19 revenues of approximately \$90.0 million, the rate credit will result in an approximate 0.2% rate  
20 reduction.

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<sup>16</sup> Merger Application, Appendix 8 at 6.

<sup>17</sup> See Avista/702, Ehrbar/1.

<sup>18</sup> *Id.*

1 Further, under the merger proposal, \$1.7 million of this amount would be subject to  
2 offset if Avista can demonstrate that customers have already received a benefit. For the last 5  
3 years, the rate credit goes up to \$3.65 million per year (\$336,786 Oregon allocated), but \$2.7  
4 million of this would be subject to offset.

5 **Q. HOW WOULD AVISTA DEMONSTRATE THAT THE RATE CREDITS ARE**  
6 **OFFSET?**

7 A. Avista would be required to demonstrate in a future rate proceeding that the cost savings, or  
8 benefits from the merger are already being reflected in base rates. This would presumably  
9 involve the development of some form of counterfactual cost scenario, wherein Avista would  
10 attempt to identify additional costs that it would have incurred in the absence of the  
11 acquisition.

12 **Q. DO YOU HAVE CONCERNS WITH THIS PROPOSAL?**

13 A. Yes. Avista already files for rate increases on an almost annual basis. The proposal will give  
14 Avista more incentive to file rate cases to decrease its rate credit obligation. Further,  
15 understanding the cost allocations and true synergies between multiple entities across multiple  
16 jurisdictions will not be an easy task. In fact, developing counterfactual scenario to determine  
17 what Avista's hypothetical costs would have been in the absence of the acquisition is  
18 essentially an impossible task, as Avista could simply say that it would have incurred specific  
19 costs, with parties having no way of actually verifying whether the alleged costs really would  
20 have been incurred in the absence of the merger.

21 **Q. HAVE THE APPLICANTS SATISFIED THE NET BENEFITS STANDARD IN**  
22 **OREGON THROUGH THE RATE CREDITS?**

23 A. No. The minimal rate credits to Oregon customers do not provide enough benefit to overcome  
24 the significant risk associated with this transaction.

1 **Q. WHAT RISKS ARE ASSOCIATED WITH THE MERGER APPLICATION?**

2 A. I believe there are significant financial and political risks associated with this proposed  
3 merger. First, this is a highly leveraged transaction, which has the potential to decrease  
4 Avista's credit rating and increase its cost of debt. In addition, Avista's access to capital will  
5 be dependent on Hydro One's consent and cooperation. Further, Hydro One's influence and  
6 control of Avista's operations may be dictated by the laws, policies and politics in Canada.  
7 This is an unknown and unquantifiable risk because the laws and policies may change  
8 depending on which political party is in power in Canada. While the policies of Oregon and  
9 Canada may in some cases be aligned, there is also a chance the policies may conflict, to the  
10 detriment of ratepayers.

11 **Q. DO YOU HAVE CONCERNS ABOUT HOW COSTS WILL BE ALLOCATED**  
12 **BETWEEN HYDRO ONE, AVISTA AND THEIR AFFILIATES?**

13 A. Yes. Anytime you have a complicated corporate structure that claims the ability for costs  
14 savings and allocations, the allocation of costs between the operations becomes difficult to  
15 track. NWIGU is concerned that cost allocations in the future may over allocate costs to  
16 Avista. In this case, Avista has inappropriately assumed that no incremental costs will be  
17 allocated from the Hydro One parent to Avista.

18 **Q. HOW DOES THE RETAIL RATE SAVINGS COMPARE TO THE AMOUNTS BEING**  
19 **PAID TO INVESTMENT BANKERS?**

20 A. In response to Staff Data Request 7, the Company indicated that it expected to pay an  
21 investment banking fee of \$28.0 million to BofA Merrill Lynch.<sup>19</sup> Thus the investment

---

<sup>19</sup> NWIGU/102, Mullins/1.

1 banking fee, alone, is about 11.5 times greater than the retail rate credit described in the Merger  
2 Application.

3 **Q. SHOULD THOSE INVESTMENT BANKING FEES BE RECOVERABLE FROM**  
4 **RATEPAYERS?**

5 A. No. Those fees are for the benefit of shareholders, and thus, not appropriately reflected in the  
6 rates of Avista in Oregon.

7 b. The Merger Commitments are Not Sufficient

8 **Q. HAVE THE APPLICANTS OFFERED ANY MEASURES DESIGNED TO INSULATE**  
9 **AVISTA FROM FINANCIAL DIFFICULTIES THAT MAY EXIST UPSTREAM OF**  
10 **AVISTA?**

11 A. Yes. In Appendix 8 of the Merger Application, the Applicants list 55 commitments related to  
12 the proposed transaction. Many of those commitments are essentially promises to continue to  
13 operate as Avista would on a stand-alone basis. But many of the commitments only bind  
14 Avista and/or Olympus Holding Corp. and not Hydro One.

15 Some of the commitments are intended to separate the financial linkage between Avista  
16 and Hydro One so if the parent companies face financial difficulties, those financial difficulties  
17 will not also harm Avista's regulated operations. That protection is commonly referred to as  
18 "ring-fencing."

19 **Q. DO YOU HAVE ANY CONCERNS WITH THE 55 COMMITMENTS?**

20 A. Yes. First, as I mentioned above, many of the commitments only bind Avista and/or Olympus  
21 Holding Corp., and not Hydro One. Second, there is an ambiguous reservation of certain  
22 authority over Commitments 2-15 to the Avista Board of Directors, as stated in Commitment 1,  
23 and any change to these commitments requires a 2/3 vote of the Avista board. It is not clear if  
24 this reservation is intended to apply only initially - in the event a public service commission  
25 alters the commitments - or if it is intended to apply long-term and allows Avista to alter the

1 commitments. If it is the latter, this reservation of authority is in my view inappropriate.  
2 There may be a situation in the future that requires a modification to one or more  
3 commitments, and if that happens, Avista could file with the Commission for authority to  
4 modify such commitments. But here, the Avista board appears to be retaining authority to  
5 modify a broad range of commitments, including provisions related to governance, business  
6 operations, local presence and community involvement. Even though Avista would need to  
7 seek authority from the Commission to modify these commitments, it is inappropriate for the  
8 Avista board to retain this authority, especially when 5 of the 9 board members are chosen by  
9 Hydro One. If the Commission approves the Merger Application, it should reject Commitment  
10 1, and ensure that the commitments are binding on Hyrdo One, Olympus Holding Corp, Avista  
11 and all affiliates.

12 **Q. IN THE EVENT THIS MERGER IS APPROVED, DO YOU BELIEVE THE**  
13 **RESTRICTIONS ON UPWARD DIVIDENDS AND DISTRIBUTIONS ARE**  
14 **ADEQUATE?**

15 A. No. In Merger Commitment 36, Avista will restrict dividends if its credit rating falls below  
16 investment grade, or if its equity ratio falls below 44%. Providing the Commission with the  
17 ability to restrict dividends in certain circumstances is an important tool to ensure that Avista  
18 continues to have access to capital. The particular measure identified in Merger Commitment  
19 36, fails to provide the reasonable protections to ratepayers.

20 **Q. HOW WOULD YOU IMPROVE THE DIVIDEND RESTRICTION PROVISION?**

21 A Applying the dividend restriction only in the event that Avista's credit rating falls below  
22 investment grade is an inadequate measure because, if Avista's credit rating falls below  
23 investment grade, it is already too late. If a dividend restriction provision is to be incorporated,  
24 it should apply in a manner that will prevent Avista from being downgraded to below

1 investment grade. Accordingly, it would be more appropriate to apply the dividend restriction  
2 in the instance that Avista's rating for senior secured debt were to fall below its current levels  
3 of A- for S&P or A2 for Moody's.

4 Similarly, if Avista's equity ratio falls below 44%, that is an indication that a great deal  
5 of damage has already occurred with respect to Avista's financial health. An equity ratio at  
6 that level would be an indication that Hydro One is not making necessary investments in  
7 Avista to preserve its capital structure. Rather than setting the target for the dividend  
8 restriction at an unreasonably low level, I propose to establish it as a target, based on the actual  
9 equity levels that are desirable from Avista. Accordingly, I recommend applying a dividend  
10 restriction in the event that Avista's equity percentage falls below 48%.

11 **Q. ONE OF THESE COMMITMENTS THAT CAN BE MODIFIED RELATES TO**  
12 **AVISTA'S HEADQUARTERS REMAINING IN SPOKANE AND HAVING OTHER**  
13 **OFFICE LOCATIONS IN EACH OF ITS OTHER SERVICE TERRITORIES. DOES**  
14 **THE ABILITY TO MODIFY THIS CONDITION CONCERN YOU?**

15  
16 A. Yes. As part of cost cutting and Hydro One's review of Avista's assets after closing, there  
17 could be a decision to close or consolidate offices. Having the headquarters remain in Spokane  
18 and offices in each of the service territories is important and required for the standard to not  
19 harm Oregon citizens.

20 **Q. ARE YOU CONCERNED ABOUT COMMISSION AND OTHER PARTIES' ACCESS**  
21 **TO INFORMATION IF THIS MERGER IS APPROVED?**

22 A. Yes. NWIGU is concerned that it may be difficult to obtain records from Avista, Hydro One  
23 and its affiliates, especially with the complicated corporate structure including Washington,  
24 Delaware and Canadian companies. It is unclear how responsive Hydro One or its Canadian  
25 affiliates will be to Staff, Intervenors or Commission requests for information. Plus Avista

1 may no longer be required to file reports with the Securities and Exchange Commission,  
2 further diminishing transparency into Avista.

3 **Q. WILL THE JOINT APPLICANTS OBTAIN A NON-CONSOLIDATION OPINION?**

4 **A.** Yes, Merger Commitment 41 provides that within 90 days of the closing, Avista and Olympus  
5 Holding Corp. will, subject to standard qualifications, file a non-consolidation opinion with the  
6 Commission finding that the ring fencing provisions are sufficient that a bankruptcy court  
7 would not order the substantive consolidation of the assets and liabilities of Avista with  
8 Olympus Holding Corp. If the ring fencing provisions are insufficient to obtain a non-  
9 consolidation opinion, Avista will : (i) notify the Commission of this inability to obtain a non-  
10 consolidation opinion and (ii) propose and implement, upon Commission approval, such  
11 additional ring fencing provisions around Avista as are sufficient to obtain a non-consolidation  
12 opinion subject to reasonable assumptions and exceptions.

13 **Q. DOES THIS PROVIDE ANY REAL PROTECTION FOR RATE PAYERS?**

14 **A.** In my view no. The question of whether the assets and the liabilities of Avista will be  
15 substantively consolidated with those of Olympus Holding Corp, Hydro One or its affiliates is  
16 inherently fact-specific. The non-consolidation opinion has standard assumptions and  
17 qualifications, which if not true, render the legal opinion meaningless.

18 **Q. WHAT SHOULD THIS COMMISSION DO IF THE WUTC OR ANOTHER**  
19 **JURISDICTION IMPOSES ADDITIONAL CONDITIONS ON AVISTA'S MERGER**  
20 **APPLICATION?**

21 **A.** In the event the Commission approves this transaction, and the WUTC later approves the  
22 transaction but requires additional conditions, the Commission should have the ability to  
23 modify the Oregon Order if the additional conditions are determined to be in the public  
24 interest.

1 **Q. PLEASE SUMMARIZE WHY YOU BELIEVE THE COMMISSION SHOULD NOT**  
2 **APPROVE THE PROPOSED ACQUISITION.**

3 A. In my opinion, the proposed merger fails to meet the net benefits standard, and further fails to  
4 show that Oregon citizens will not be harmed, based on a comparison to the continued well run  
5 and prudently managed Avista that exists today. I believe the risk and uncertainty of this  
6 highly leveraged merger far outweighs the potential benefits of the transaction. The proposed  
7 merger may increase the cost of debt and decrease Avista's access to the capital markets, to the  
8 detriment of ratepayers. The success of this merger depends on the constant flow of cash from  
9 ratepayers who produce rates of return for shareholders. If this merger does not go as planned,  
10 Avista's ratepayers will be responsible for picking up the pieces.

11 **Q. DOES THIS CONCLUDE YOUR REPLY TESTIMONY?**

12 A. Yes.

CASE: UM 1897  
WITNESS: BRADLEY MULLINS

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**NWIGU EXHIBIT 101**

**WITNESS  
QUALIFICATIONS**

**February 12, 2017**

1                                   **QUALIFICATIONS OF BRADLEY G. MULLINS**

2   **Q.    PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

3    A.    I have received a Master of Science degree in Accounting from the University of Utah.

4           After receiving my master's degree, I worked at Deloitte, where I was ultimately  
5           promoted to a Tax Senior responsible for performing research and development tax credit  
6           studies. Subsequently, I worked at PacifiCorp as an analyst involved in regulatory  
7           matters, primarily related to power supply costs. I began performing independent  
8           consulting services in 2013 and have since been involved in regulatory matters on behalf  
9           of utility customers located in jurisdictions throughout the United States, including before  
10          the Oregon Public Utility Commission.

11 **Q.    PLEASE PROVIDE A LIST OF YOUR REGULATORY APPEARANCES.**

12 A.    I have sponsored testimony in the following regulatory proceedings:

- 13       • In re Pacific Power & Light Company 2016 Power Cost Adjustment Mechanism,  
14        Wa.UTC, Docket No. 170717.
- 15       • In re the Application of Rocky Mountain Power for Approval of a Significant Energy  
16        Resource Decision and Request to Construct Wind Resource and Transmission Facilities,  
17        Ut.PSC, Docket No. 17-035-040.
- 18       • In re The Application of PacifiCorp dba Rocky Mountain ) Power For A Certificate Of  
19        Public Convenience and Necessity and Binding Ratemaking Treatment For New Wind  
20        And Transmission Facilities, Id.PUC Case No. PAC-E-17-07.
- 21       • In re Avista Corporation Request for a General Rate Revision, Wa.UTC, Docket No. UE-  
22        170485 (Cons.).
- 23       • Application of Nevada Power Company d/b/a NV Energy for Authority to Adjust its  
24        Annual Revenue Requirement for General Rates Charged to All Classes of Electric  
25        Customers and For Relief Properly Related Thereto, Nv.PUC, Docket No. 17-06003  
26        (Cons.).

- 1 • In the Matter of PacifiCorp, dba Pacific Power, 2016 Power Cost Adjustment  
2 Mechanism, Or.PUC, Docket No. UE-327.
- 3 • In re the 2018 General Rate Case of Puget Sound Energy, Wa.UTC, Docket No. 170033  
4 (Cons.).
- 5 • In re PacifiCorp, dba Pacific Power, 2018 Transition Adjustment Mechanism, Or.PUC,  
6 Docket No. UE 323.
- 7 • In re Portland General Electric Company, Request for a General Rate Revision, Or.PUC,  
8 Docket No. UE 319.
- 9 • In re Portland General Electric Company, Application for Transportation Electrification  
10 Programs, Or.PUC, UM 1811.
- 11 • In re Pacific Power & Light Company, Application for Transportation Electrification  
12 Programs, Or.PUC, Docket No. UM 1810.
- 13 • In re the Public Utility Commission of Oregon, Investigation to Examine PacifiCorp, dba  
14 Pacific Power's Non-Standard Avoided Cost Pricing, Or.PUC, Docket No. UM 1802.
- 15 • In re Pacific Power & Light Co., Revisions to Tariff WN U-75, Advice No. 16-05, to  
16 modify the Company's existing tariffs governing permanent disconnection and removal  
17 procedures, Wa.UTC, Docket No. UE-161204.
- 18 • In re Puget Sound Energy's Revisions to Tariff WN U-60, Adding Schedule 451,  
19 Implementing a New Retail Wheeling Service, Wa.UTC, Docket No. UE-161123.
- 20 • 2018 Joint Power and Transmission Rate Proceeding, Bonneville Power Administration,  
21 Case No. BP-18.
- 22 • In re Portland General Electric Company Application for Approval of Sale of Harborton  
23 Restoration Project Property, Or.PUC, Docket No. UP 334 (Cons.).
- 24 • In re An Investigation of Policies Related to Renewable Distributed Electric Generation,  
25 Ar.PSC, Matter No. 16-028-U.
- 26 • In re Net Metering and the Implementation of Act 827 of 2015, Ar.PSC, Matter No. 16-  
27 027-R.
- 28 • In re the Application of Rocky Mountain Power for Approval of the 2016 Energy  
29 Balancing Account, Ut.PSC, Docket No. 16-035-01
- 30 • In re Avista Corporation Request for a General Rate Revision, Wa.UTC, Docket No. UE-  
31 160228 (Cons.).

- 1 • In re the Application of Rocky Mountain Power to Decrease Current Rates by \$2.7  
2 Million to Recover Deferred Net Power Costs Pursuant to Tariff Schedule 95 and to  
3 Increase Rates by \$50 Thousand Pursuant to Tariff Schedule 93, Wy.PSC, Docket No.  
4 20000-292-EA-16.
- 5 • In re PacifiCorp, dba Pacific Power, 2017 Transition Adjustment Mechanism, Or.PUC,  
6 Docket No. UE 307.
- 7 • In re Portland General Electric Company, 2017 Annual Power Cost Update Tariff  
8 (Schedule 125), Or.PUC, Docket No. UE 308.
- 9 • In re PacifiCorp, Request to Initiate an Investigation of Multi-Jurisdictional Issues and  
10 Approve an Inter-Jurisdictional Cost Allocation Protocol, Or.PUC, UM 1050.
- 11 • In re Pacific Power & Light Company, General rate increase for electric services,  
12 Wa.UTC, Docket No. UE-152253.
- 13 • In The Matter of the Application of Rocky Mountain Power for Authority of a General  
14 Rate Increase in Its Retail Electric Utility Service Rates in Wyoming of \$32.4 Million Per  
15 Year or 4.5 Percent, Wy.PSC, Docket No. 20000-469-ER-15.
- 16 • In re Avista Corporation, General Rate Increase for Electric Services, Wa.UTC, Docket  
17 No. UE-150204.
- 18 • In re the Application of Rocky Mountain Power to Decrease Rates by \$17.6 Million to  
19 Recover Deferred Net Power Costs Pursuant to Tariff Schedule 95 to Decrease Rates by  
20 \$4.7 Million Pursuant to Tariff Schedule 93, Wy.PSC, Docket No. 20000-472-EA-15.
- 21 • Formal complaint of The Walla Walla Country Club against Pacific Power & Light  
22 Company for refusal to provide disconnection under Commission-approved terms and  
23 fees, as mandated under Company tariff rules, Wa.UTC, Docket No. UE-143932.
- 24 • In re PacifiCorp, dba Pacific Power, 2016 Transition Adjustment Mechanism, Or.PUC,  
25 Docket No. UE 296.
- 26 • In re Portland General Electric Company, Request for a General Rate Revision, Or.PUC,  
27 Docket No. UE 294.
- 28 • In re Portland General Electric Company and PacifiCorp dba Pacific Power, Request for  
29 Generic Power Cost Adjustment Mechanism Investigation, Or.PUC, Docket No. UM  
30 1662.
- 31 • In re PacifiCorp, dba Pacific Power, Application for Approval of Deer Creek Mine  
32 Transaction, Or.PUC, Docket No. UM 1712.

- 1 • In re Public Utility Commission of Oregon, Investigation to Explore Issues Related to a  
2 Renewable Generator's Contribution to Capacity, Or.PUC, Docket No. UM 1719.
- 3 • In re Portland General Electric Company, Application for Deferral Accounting of Excess  
4 Pension Costs and Carrying Costs on Cash Contributions, Or.PUC, Docket No. UM  
5 1623.
- 6 • 2016 Joint Power and Transmission Rate Proceeding, Bonneville Power Administration,  
7 Case No. BP-16.
- 8 • In re Puget Sound Energy, Petition to Update Methodologies Used to Allocate Electric  
9 Cost of Service and for Electric Rate Design Purposes, Wa.UTC, Docket No. UE-  
10 141368.
- 11 • In re Pacific Power & Light Company, Request for a General Rate Revision Resulting in  
12 an Overall Price Change of 8.5 Percent, or \$27.2 Million, Wa.UTC, Docket No. UE-  
13 140762.
- 14 • In re Puget Sound Energy, Revises the Power Cost Rate in WN U-60, Tariff G, Schedule  
15 95, to reflect a decrease of \$9,554,847 in the Company's overall normalized power  
16 supply costs, Wa.UTC, Docket No. UE-141141.
- 17 • In re the Application of Rocky Mountain Power for Authority to Increase Its Retail  
18 Electric Utility Service Rates in Wyoming Approximately \$36.1 Million Per Year or 5.3  
19 Percent, Wy.PSC, Docket No. 20000-446-ER-14.
- 20 • In re Avista Corporation, General Rate Increase for Electric Services, RE, Tariff WN U-  
21 28, Which Proposes an Overall Net Electric Billed Increase of 5.5 Percent Effective  
22 January 1, 2015, Wa.UTC, Docket No. UE-140188.
- 23 • In re PacifiCorp, dba Pacific Power, Application for Deferred Accounting and Prudence  
24 Determination Associated with the Energy Imbalance Market, Or.PUC, Docket No. UM  
25 1689.
- 26 • In re PacifiCorp, dba Pacific Power, 2015 Transition Adjustment Mechanism, Or.PUC,  
27 Docket No. UE 287.
- 28 • In re Portland General Electric Company, Request for a General Rate Revision, Or.PUC,  
29 Docket No. UE 283.
- 30 • In re Portland General Electric Company's Net Variable Power Costs (NVPC) and  
31 Annual Power Cost Update (APCU), Or.PUC, Docket No. UE 286.
- 32 • In re Portland General Electric Company 2014 Schedule 145 Boardman Power Plant  
33 Operating Adjustment, Or.PUC, Docket No. UE 281.

- 1       • In re PacifiCorp, dba Pacific Power, Transition Adjustment, Five-Year Cost of Service  
2       Opt-Out (adopting testimony of Donald W. Schoenbeck), Or.PUC, Docket No. UE 267.

CASE: UM 1897  
WITNESS: BRADLEY MULLINS

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**NWIGU EXHIBIT 102**

**COMPANY  
RESPONSES TO  
DATA REQUESTS**

**February 12, 2017**

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	10/06/2017
CASE NO.:	UM 1897	WITNESS:	Mark Thies
REQUESTER:	PUC Staff	RESPONDER:	Ed Schlect
TYPE:	Data Request	DEPT:	Corporate Development
REQUEST NO.:	Staff – 007(AVA)	TELEPHONE:	(509) 495-8100
		EMAIL:	ed.schlect@avistacorp.com

**REQUEST:**

Please clarify who performed and who funded each analysis described in the immediately prior DR No. 6.

**RESPONSE:**

The presentations Staff\_DR\_006HC(AVA) Highly Confidential Attachments A-E were prepared by BofA Merrill Lynch. BofA funded the analysis described, and the Company has agreed to pay BofA Merrill Lynch an aggregate fee plus expenses, each as described in the section “Opinion of the Financial Advisor” within the proxy statement at p. 51 (See Staff\_DR\_007(AVA) Attachment A), which is duplicated below:

The Company has agreed to pay BofA Merrill Lynch for its services in connection with the merger an aggregate fee currently estimated to be approximately \$28 million, \$1 million of which was payable upon the delivery of BofA Merrill Lynch’s opinion, approximately \$2.8 million of which was payable upon execution of the merger agreement, approximately \$5.6 million of which is payable upon receipt of the requisite approval of the merger by holders of the Company common stock and a significant portion of which is contingent upon consummation of the merger. The Company also has agreed to reimburse BofA Merrill Lynch for its expenses incurred in connection with BofA Merrill Lynch’s engagement and to indemnify BofA Merrill Lynch, any controlling person of BofA Merrill Lynch and each of their respective directors, officers, employees, agents and affiliates against specified liabilities, including liabilities under the federal securities laws.

Staff\_DR\_006HC(AVA) Highly Confidential Attachment F, the five year forecast, was prepared by and funded by Avista.

Staff\_DR\_020(AVA) Attachment A, which is the list of risks and uncertainties as outlined in our 2016 10-K, was prepared by Avista staff and advisors, and funded by Avista.

**AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Oregon	DATE PREPARED:	09/26/2017
CASE NO.:	UM 1897	WITNESS:	Mark T. Thies
REQUESTER:	PUC Staff	RESPONDER:	Jennifer S. Smith
TYPE:	Data Request	DEPT:	State and Federal Regulation
REQUEST NO.:	Staff-031(AVA)	TELEPHONE:	(509) 495-2098
		EMAIL:	Jennifer.smith@avistacorp.com

**REQUEST:**

Please provide work papers in electronic excel format with cell formulas intact, showing how each immediate benefit in Table No. 1 from Avista/300, page 15 was calculated. Please provide documentation used in supporting any assumptions made in calculating the benefit.

**RESPONSE:**

Please see Staff\_DR\_031(AVA) Attachment A.

**Table No. 1 – Estimated Immediate Cost Savings – Post-Closing**

		<b>Washington</b>	<b>Idaho</b>	<b>Oregon</b>	<b>System Average</b>
Board of Director Costs	\$ 538,136	\$ 538,136	\$ 538,136	\$ 538,136	\$ 538,136
D&O Insurance	439,104	439,104	439,104	439,104	439,104
Investor Relations	365,333	365,333	365,333	365,333	365,333
Accounting	245,250	245,250	245,250	245,250	245,250
Proxy	200,120	200,120	200,120	200,120	200,120
Annual Report	188,951	188,951	188,951	188,951	188,951
Costs Excluded for Ratemaking		(312,978)	(269,068)	(219,552)	(267,199)
	<b>\$ 1,976,893</b>	<b>\$ 1,663,915</b>	<b>\$ 1,707,825</b>	<b>\$ 1,757,342</b>	<b>\$ 1,709,694</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)				
<b>Total</b>	<b>\$ 1,709,000</b>				

**Estimated Immediate Cost Savings – Post-Closing**

	Proxy	BOD Activities	Annual Report	Investor Relations	Insurance	Accounting	Total
Board of Director ( <i>reduction of 3 paid members</i> ) <sup>(1)</sup>	\$ -	\$ 538,136	\$ -	\$ -	\$ -	\$ -	\$ 538,136
Reduction of D&O Insurance <sup>(2)</sup>					439,104		439,104
Reduction in Deloitte Audit Fees for SOX <sup>(3)</sup>						245,250	245,250
Kludt Hosmer Design			188,951				188,951
Computershare INC				149,066			149,066
Nasdaq Corporate Solutions LLC				122,396			122,396
Broadridge ICS	112,444			-			112,444
NYSE Market INC				63,870			63,870
Investor Conferences				30,000			30,000
RR Donnelley Receivables INC	26,835						26,835
Pillsbury Winthrop Shaw Pittman LLP	23,388						23,388
American Stock Transfer & Trust CO	21,772						21,772
Ogletree Deakins Nash Smoak & Stewart PC	11,722						11,722
Mediant Communications LLC	1,812						1,812
S&P Capital IQ LLC	1,027						1,027
ICE Systems INC	504						504
Foliofn Investments INC	486						486
Inveshare INC	131						131
	\$ 200,120	\$ 538,136	\$ 188,951	\$ 365,333	\$ 439,104	\$ 245,250	\$ 1,976,893

<sup>(1)</sup> A portion of the BOD fees are excluded from recovery (adjustment has been made for the exclusion below)

<sup>(2)</sup> Estimated that the D&O premium would be reduced by 50%. A portion of the D&O insurance is excluded from recovery (adjustment has been made for the exclusion below)

<sup>(3)</sup> Per discussion with Deloitte they indicated there could be a reduction in audit fees of approximately 15% due to less internal control testing for SOX and no audit opinion

Note: Equity issuance costs of \$1.02 million are not included above as the costs are charged directly to equity

**Potential Corporate Activity Reduction by Jurisdiction**

Washington	\$ 1,663,915					
Idaho	\$ 1,707,825					
Oregon	\$ 1,757,342	16167542.69	9.227	0.09227	162149.9091	

**Corporate activity exclusions by % and \$**

	WA	ID	OR	WA	ID	OR
Directors fees	50%	50%	0%	\$ 269,068	\$ 269,068	\$ -
D&O Insurance	10%	0%	50%	\$ 43,910	\$ -	\$ 219,552

Based on 2016 Actuals

	Board of Director Fees and Expenses Twelve Months Ended December 31, 2016	Compensation Expenses for 6 of 9 Board of Directors	Annual Expenses for Board of Directors	
BOARD STOCK COMPENSATION	609,428	406,285.53		
JOHN F KELLY	127,570	85,046.87		
KRISTIANNE BLAKE	119,875	79,916.49		
R JOHN TAYLOR	115,950	77,299.69		
REBECCA A KLEIN	109,183	72,788.75		
DONALD C BURKE	105,999	70,666.27		
HEIDI B STANLEY	103,326	68,884.31		
ERIK J ANDERSON	101,241	67,494.17		
JANET WIDMANN	95,614	63,742.39		
MARC F RACICOT	93,301	62,200.72		
CORP CREDIT CARD	65,738		65,738	
SCOTT H MAW	32,920	21,946.97		
NYSE BOARD MEMBER LLC	10,850		10,850	
THE DAVENPORT GRAND	4,239		4,239	
Schlect, Edward D	2,219		2,219	
Durkin, Marian McMahon	1,386		1,386	
Thies, Mark T	1,132		1,132	
Thackston, Jason R	927		927	
Feltes, Karen S	791		791	
THE DAVENPORT HOTEL	755		755	
GUCKENHEIMER SERVICES LLC	639		639	
Kensok, James M	588		588	
Morris, Scott L	464		464	
Christie, Kevin J	344		344	
Norwood, Kelly O' Neal	307		307	
ENTERPRISE RENT A CAR	222		222	
Fleming, Susan Yvonne	84		84	
Williams, Linda K	63		63	
Woodworth, Roger D	41		41	
Rosentrater, Heather Lynn-Beese	31		31	
Vermillion, Dennis P	25		25	
Krasselt, Ryan L	23		23	
RICOH USA INC	13		13	
	<b>1,705,288</b>	<b>1,076,272</b>	<b>90,880</b>	<b>1,167,152</b>
			<b>Estimated Savings</b>	<b>538,136</b>

**HYDRO ONE LIMITED  
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	OREGON	DATE PREPARED:	1/18/2018
CASE NO.:	UM 1897	WITNESS:	Chris Lopez
REQUESTER:	PUC Staff	RESPONDER:	Adele Pantusa
TYPE:	Data Request	DEPT:	Law
REQUEST NO.:	Staff – 276(H1)	TELEPHONE:	416.345.6310
		EMAIL:	apantusa@hydroone.com

**REQUEST:**

Please provide a copy of each “draft” credit rating report routed to Hydro One from any rating agency since January 1, 2015, inclusive, indicating any changes, edits, or comments made by the Company to the “draft” report or otherwise indicated or expressed by Hydro One and returned to or otherwise provided to the rating agency.

**RESPONSE:**

Copies of draft credit rating agency reports are provided as PC\_DR\_276(H1) Attachments A-J.

The scope of Hydro One’s review of draft credit rating agency reports is typically limited to the identification of factual errors and/or inadvertent disclosure of confidential information.

Hydro One provides its comments on draft reports verbally, via telephone, and does not keep a record of these comments. Differences between final and draft reports may reflect Hydro One’s comments or edits initiated by credit rating agency staff.

Hydro One Ltd. And Hydro One Inc. Outlooks Revised To Negative  
From Stable On Proposed Avista Corp. Acquisition  
S&PGR Revises Hydro One Ltd, Hydro One Inc Outlook To Negative

Ng  
Goltz

#### Overview

- On July 19, 2017, Toronto-based Hydro One Ltd. (HOL) announced the US\$7.6 billion proposed acquisition of Avista Corp., a U.S.-based electricity and gas utility.
- We are revising our outlook on HOL and subsidiary Hydro One Inc. (HOI) to negative from stable.
- We are also affirming our ratings on HOL and HOI, including our 'A' long-term corporate credit rating on both.
- The outlook revision reflects the shift in HOL's business strategy, as well as the slightly weakened business risk from the acquisition.

#### Rating Action

On July 19, 2017, S&P Global Ratings revised its outlook on Toronto-based Hydro One Ltd. (HOL) and subsidiary Hydro One Inc. (HOI) to negative from stable. At the same time, S&P Global Ratings affirmed its ratings on HOL and HOI, including its 'A' long-term corporate credit rating on both.

#### Rationale

The outlook revision follows HOL's proposed acquisition of Avista Corp., a U.S. based-electricity and gas utility operator. Historically, HOL's focus on Ontario provided the company with incremental business strength based on a favorable market position, regulation, and operational history. With the Avista acquisition, we believe HOL's business risk has been slightly eroded in addition to the additional leverage which the transaction introduces.

Overall, we expect HOL's consolidated excellent business risk profile will continue with the Avista acquisition. We believe the jurisdictions in which Avista operates benefit from reasonably supportive regulatory environments. In addition, the purchase gives HOL some geographic diversity and entry into natural gas distribution. However, we believe that the overall weaker business risk profile of Avista offsets this to a certain degree.

From a financial risk perspective, we forecast consolidated adjusted funds from operations (AFFO)-to-total debt for HOL, when the transaction closes, at about 10% in 2018. This is consistent with a significant financial risk profile, but does not allow for cushion in credit metrics.

The transaction's financing plan benefits from an equity issuance in the form of CDN \$1.4 billion in convertible debentures. While the form of these debentures has been used in the Canadian market with almost 100% conversion to equity, we treat this financing as debt until the conversion occurs. While the debentures are outstanding we forecast that AFFO-to-debt will be around 9%.

In addition, part of the financing plan for the acquisition includes HOL issuing debt, which would be structurally subordinated to the debt at each operating entities. As per our methodology, we expect to rate this new debt one notch below the corporate credit rating on the company.

We continue to believe the HOI is core to HOL, so we continue to equalize the corporate credit rating on HOI with that on HOL. We further consider Avista to be highly strategic to HOL under our criteria. For more information on Avista, [see the article](#) published July 18, 2017, on RatingsDirect.

Our base-case assumptions include the following:

- HOL will continue focusing on its regulated utility business with no plans to expand into unregulated business segments
- The operating subsidiaries will not experience any adverse regulatory decisions from any of the respective jurisdictions that would impair predictable and steady cash flows

Based on these assumptions, we arrive at consolidated AFFO-to-debt of 10%-12% after closing.

#### Liquidity

Our assessment of HOL and HOI's liquidity is adequate. We expect liquidity sources to exceed uses more than 1.1x over the next 12 months. In the event of a 10% drop in the company's EBITDA, we also expect liquidity sources will cover uses. In our view, the company has sound relationships with banks and generally satisfactory standing in the credit markets. In the unlikely

event of liquidity distress, we expect HOL to scale back its capital spending to preserve credit metrics.

**Principal liquidity sources include:**

- Cash FFO of about C\$1.74 billion over the next 12 months
- Committed credit facilities availability of about C\$2.55 billion as of March 31, 2017, maturing in 2021

**Principal liquidity uses include:**

- Debt maturities of about C\$1.06 billion over the next 12 months, including short-term debt
- Capital spending of about C\$1.7 billion over the next 12 months
- Dividend payments of about C\$550 million over the next 12 months

**Outlook (Hydro One Ltd.)**

The negative outlook on HOL reflects our view that the Avista acquisition signals a shift in HOL's business strategy, which will align the company with its global peers removing the historical rationale for a one-notch rating uplift. The negative outlook also reflects the execution and financing risk inherent in any large acquisition. We recognize that the use of the convertible debentures will create a temporary impact on credit metrics, with AFFO-to-debt forecast at about 9% until conversion. However, we expect the debentures will be converted to equity in full.

**Downside scenario**

We could take a negative rating action on HOL if we expect that the transaction will conclude as expected. This would include a financing plan that relies on the equity issuance as anticipated, which will lead to AFFO-to-debt of about 10% after the debentures' conversion. In the meantime credit metrics are expected to be below 10%. If conversion of the debentures does not occur as expected and metrics remain below 10%, we could lower the ratings on HOL by more than one notch.

**Upside scenario**

We could revise our outlook to stable within our outlook period in the unlikely event that the transaction does not close, the

company continues its historic focus on Ontario regulated utilities and we expected HOL's consolidated AFFO-to-debt to be above 13%, on a consistent basis.

### **Outlook (Hydro One Inc.)**

The negative outlook reflects our outlook on the parent, HOL, and our view that HOI is core to HOL under our group rating methodology.

#### Downside scenario

We could take a negative rating action on HOI if we take a similar rating action on HOL.

#### Upside scenario

We could revise the outlook on HOI to stable if we take a similar rating action on HOL.

### Ratings Score Snapshot (Hydro One Ltd.)

Corporate Credit Rating: A/Stable/--

Business risk: Excellent

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

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

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

Stand-alone credit profile: a

Group credit profile: a

- Status within group: Parent

Ratings Score Snapshot (Hydro One Inc.)

Corporate Credit Rating: A/Stable/A-1

Business risk: Excellent

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

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

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

Stand-alone credit profile: a

Group credit profile: a

- Status within group: core (no impact)

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008



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## INVESTORS SERVICE

### CREDIT OPINION

27 November 2017

Update

Rate this Research &gt;&gt;

#### RATINGS

##### Hydro One Inc.

Domicile	Toronto, Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

#### Contacts

Gavin Macfarlane 416-214-3864  
VP-Sr Credit Officer  
gavin.macfarlane@moodys.com

Natividad Martel, 212-553-4561  
CFA  
VP-Senior Analyst  
natividad.martel@moodys.com

Jim Hempstead 212-553-4318  
Associate Managing Director  
james.hempstead@moodys.com

#### CLIENT SERVICES

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## Hydro One Inc.

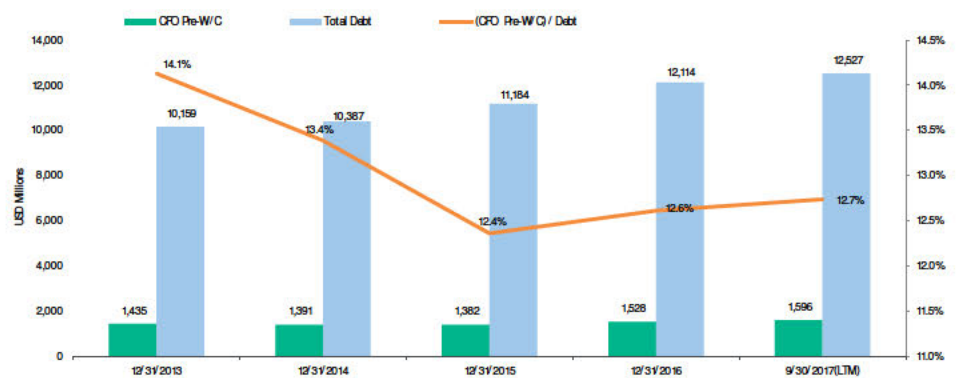
Update following affirmation and outlook change to negative

### Summary

Hydro One Inc.'s (HOI) credit profile reflects its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa2 stable). HOI's BCA of baa1 is derived from our Regulated Electric and Gas Utilities rating methodology, and reflects its low business risk profile driven by its supportive regulatory environment. We expect cash flow from operations to remain predictable and financial metrics to remain weak for the ratings primarily as a result of the existing allowed return on equity and deemed capital structure established by the regulator. The one notch uplift attributed to HOI as a government related issuer incorporates our expectation of an enduring, albeit weaker link between HOI and the Province.

On July 19, 2017 HOI's parent Hydro One Limited (HOL: unrated) announced that it plans to acquire Avista Corp., a U.S. based electric and gas utility company. HOI's negative outlook reflects our view that the probability of extraordinary support from the province will be reduced as a result of the acquisition.

Exhibit 1  
Historical CFO pre-W/C, Debt and CFO pre-W/C to Debt



Source: Moody's Investors Service

## Credit Strengths

- » Supportive regulatory environment
- » Predictable cash flow and stable financial metrics
- » Relationship with the Province of Ontario

## Credit Challenges

- » Acquisition of Avista could reduce support from the province
- » High Leverage

## Rating Outlook

The outlook on HOI is negative, reflecting the expectation of a declining probability of extraordinary support from the Province.

## Factors that Could Lead to an Upgrade

An upgrade at this time is unlikely given the negative outlook. The rating outlook could return to stable at the current rating level based on an upgrade to the baseline credit assessment of HOI offsetting the reduction in the probability of extraordinary support. This could result from more favorable regulatory outcomes or a sustained improvement in financial metrics including CFO pre-W/C to debt in the high teens (12.7% at 9/30/2017). A one notch upgrade of the Province would not lead to an upgrade of Hydro One.

## Factors that Could Lead to a Downgrade

The proposed acquisition of Avista Corp. could lead to a downgrade of HOI. A downgrade of HOI's BCA would lead to a downgrade of the senior unsecured rating, so long as Moody's opinion of likely support from the Province does not increase. This could result from a deterioration in regulatory outcomes or financial metrics, including CFO pre-W/C to debt below 11% on a sustained basis. A one notch downgrade of the Province would not lead to a downgrade of HOI.

## Key Indicators

Exhibit 2

### Hydro One Inc.

KEY INDICATORS [1]						
Hydro One Inc.						
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	9/30/2017(LTM)	
CFO pre-WC + Interest / Interest	4.0x	3.9x	4.0x	4.3x	4.3x	
CFO pre-WC / Debt	14.1%	13.4%	12.4%	12.6%	12.7%	
CFO pre-WC – Dividends / Debt	12.1%	10.7%	4.4%	7.5%	8.3%	
Debt / Capitalization	54.9%	53.4%	52.8%	55.0%	55.5%	

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

## Profile

Hydro One Inc. (HOI) is an electricity transmission and distribution company. HOI is about 49.9% indirectly owned by the Province of Ontario; however, its ownership position in Hydro One Inc. will likely decline to about 40% over the next several years. Hydro One Limited (HOL) is the publicly traded vehicle that owns 100% of HOI. HOI is regulated by the Ontario Energy Board (OEB) under cost-of-service and incentive rate frameworks. The transmission business owns and operates virtually all of Ontario's electricity transmission system representing 52% of HOI's total assets of \$25.8 billion as at 30 September 2017. The distribution business serves about 1.4 million customers and owns a substantial portion of the province's electricity distribution system representing 37% of HOI's total

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

assets. The remaining assets include the company's telecommunications business and other corporate activities that make a negligible contribution to revenue. HOI began operations in 1999, pursuant to the Electricity Act 1998, when the former Ontario Hydro was restructured into five entities: Ontario Power Generation Inc. (OPG), the Independent Electricity System Operator (IESO), Ontario Electricity Financial Corporation (OEFC), the Electricity Safety Authority and HOI. The Province does not guarantee HOI's debt obligations.

## Detailed Credit Considerations

### SUPPORTIVE REGULATORY ENVIRONMENT

The supportive regulatory environment is a key driver of HOI's credit quality and baa1 BCA. Supporting our view, HOI's monopoly position as a Transmission and Distribution (T&D) company with no commodity price risk underpins its credit strength. We expect the regulatory environment to remain relatively transparent, predictable and broadly credit supportive. The legislative and judicial underpinnings are well developed and we expect them to remain unchanged. Rates for the transmission business are established using cost of service principles with frequent cost of service rate resets. Distribution rates are currently established based on a cost of service methodology and are transitioning to an incentive rate mechanism, with periodic cost of service rate resets. The company does not have any direct commodity risk exposure since commodity costs are a pass through for the distribution business. However it does have some exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories. The company has inherently lower business risk as a T&D business compared to the price, volume, operational or environmental risks typically associated with generation activities. HOI does not have any supply obligations.

### PREDICTABLE CASH FLOW AND STABLE, ALBEIT WEAK FINANCIAL METRICS

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of the company's rate base, its deemed capital structure of 40% equity that is established by the regulator, the allowed return on equity that is currently set at 8.78% for 2017 (increasing to 9% in 2018) and depreciation. We have assumed that the company continues to perform broadly in line with the levels established by the regulator. While the company continues to move forward with a large capital program of about \$5 billion over the period 2017-2019. We believe that a combination of frequent cost of service rate resets in the transmission business and a combination of an approved rate base for 2015-2017 and in subsequent periods support for the capital program under incentive based regulation for the distribution business, mitigates the downward pressure the large capital program would otherwise place on financial metrics. We expect that HOI's CFO Pre-W/C to Debt will be maintained between 11-14% in 2017-2018. A September 2017 transmission decision included a sharing mechanism for Hydro One's large deferred tax asset. While Hydro One is contesting this aspect of the decision, the financial implications are limited as the downside case, including a similar tax sharing mechanism in the distribution business, appears to be an annual reduction in cash flow in the C\$50-60 million range, or about 3% of cash flow.

### RELATIONSHIP WITH THE PROVINCE OF ONTARIO

In accordance with Moody's Government Related Issuer (GRI) rating methodology, HOI's A3 rating reflects the following:

- » Aa2/Stable local currency rating of the Province of Ontario.
- » High default dependence as a result of HOI's exposure to virtually all facets of the provincial economy and its operational and financial proximity to the government.
- » Moderate probability of extraordinary support from the Province reflecting the strategic importance of HOI to the provincial economy as an essential service provider, the partial planned privatization of Hydro One and the medium to long term decline in political willingness to provide support. The Province's stated objective in the privatization of HOI was to improve corporate performance.

Nonetheless, material acquisitions outside of Ontario such as that of Avista could reduce the probability of extraordinary support from the Province.

We believe the Province will continue to have effective control over Hydro One Inc. Following a series of offerings, the government's nominations over the board of directors will decline to 40%, with an assumption that the province maintains a 40% equity interest in Hydro One Limited as broadly required by legislation. HOI is restricted from selling a large portion of its regulated transmission or distribution business and will continue to be regulated by the Ontario Energy Board (OEB). In addition, limitations have been placed on other shareholders that restrict their equity interest in Hydro One to less than 10%. Further, the government may seek to remove the board of directors at its discretion. However, since the government has stated its intent is to engage Hydro One as an investor, this has, in our view reduced the long term probability of support. Mitigating its control somewhat the government has implemented a pre-defined set of criteria to promote an independent, professional board with relevant expertise and a commercial orientation. These changes have been made in a stated attempt to improve the efficiency of Hydro One and they also reduce the government ties to the company. We do not believe any public policy mandates in the past several years have had a material negative affect on credit quality and the probability of further public policy initiatives has declined with the initial equity offering.

### Liquidity Analysis

Hydro One has adequate liquidity.

Hydro One has demonstrated its ability to readily access capital markets. Up to \$1.5 billion can be issued under its commercial paper (CP) program which is backstopped by a bank syndicated committed revolver of \$2.3 billion maturing in June 2022. At 30 September 2017, HOI had \$894 million in CP borrowings and no revolver borrowings outstanding. HOL has its own \$250 million committed credit facility that expires in November of 2021.

Hydro One relies in part on debt to finance its ongoing capex. The company including parent HOL has cash and cash equivalents balance of \$622 million as of September 30, 2017. Together with available credit facilities and estimated operating cash flows of around \$1.5-1.7 billion in the next 12 months are sufficient to cover \$600 million long-term debt maturities, capex of around \$1.7 billion and dividends of about \$500 million.

## Rating Methodology and Scorecard Factors

Exhibit 3

Hydro One Inc.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2017		Moody's 12-18 Month Forward View As of Date Published [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	4.2x - 4.7x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	13.0%	Baa	11% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	7.4%	Baa	8% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	54.5%	Baa	53% - 58%	Baa
<b>Rating:</b>				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching				0
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				A3
<b>Government-Related Issuer</b>	<b>Factor</b>			
a) Baseline Credit Assessment		baa1		
b) Government Local Currency Rating		Aa2		
c) Default Dependence		High		
d) Support		Moderate		
e) Final Rating Outcome		A3		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 9/30/2017(LTM);

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 4

Category	Moody's Rating
<b>HYDRO ONE INC.</b>	
Outlook	Negative
Senior Unsecured -Dom Curr	A3
Commercial Paper	P-2

Source: Moody's Investors Service

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CASE: UM 1897  
WITNESS: BRADLEY MULLINS

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**NWIGU EXHIBIT 103**

**ARTICLE FROM  
Thestar.com**

**February 12, 2017**

# Kathleen Wynne defends Hydro One purchase of U.S. utility that owns coal plant

Coal-burning plants are banned in Ontario and Wynne says now the province can take that influence elsewhere.



Smoke rises from the Colstrip Steam Electric Station, a coal burning power plant in Colstrip, Mont. The plant is soon to be partly owned by Hydro One. (MATT BROWN / AP)

By **ROB FERGUSON** Queen's Park Bureau  
**ROBERT BENZIE** Queen's Park Bureau Chief  
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Premier Kathleen Wynne is defending Hydro One's takeover of an American utility that owns a coal plant after years of Liberal boasting that Ontario has [banned](#) the plants to cut pollution and greenhouse gases.

She suggested the \$6.7-billion purchase of Avista, based in Washington state, heralds the spread of Ontario's clean-energy push beyond the province's borders.

"As you all know, Ontario has shut down all of the coal-fired generation in the province. Hydro One has made a business decision to acquire a . . . company that has a small minority share in a coal plant," Wynne said Friday in Ottawa.

"Let me just say this: you won't find another jurisdiction — pretty much around the world — that has gone as far in terms of renewable clean energy as Ontario so I see this as a real validation of our opportunity to take that influence elsewhere."

Avista owns a 15-per-cent-stake in two of the four units at the Colstrip plant in Montana — a major coal-mining state — and plans to use them for electricity production until 2035, said a spokesperson for the company that also operates hydroelectric dams, natural gas and biomass generating plants and wind turbines.

Colstrip is one of the top carbon-producing plants in the U.S. and has become a target of environmentalists and lawmakers in the fight against climate change.

The [Associated Press reported in January](#) that two older units at the plant, dating to the 1970s and not owned by Avista, will be closed by 2022 under an agreement with environmental groups.

Hydro One said in a statement Friday it will be "reviewing" Avista's assets when the purchase, slated to close in mid-2018, is complete.

But critics said Ontario, which sold a majority of shares in Hydro One to raise money for transportation infrastructure and now owns a 49 per cent stake, is taking a step backward with the deal.

New Democrat MPP Peter Tabuns blamed the Wynne government's "fire sale" of Hydro One, which he said now operates on a profit motive to please shareholders.

"No one should be surprised they're doing stuff contrary to what Ontario has been doing," said Tabuns (Toronto-Danforth).

"It wouldn't even be legal in Ontario," he said of the Avista plant.

Colstrip supplies about 9 per cent of the electricity to Avista customers. The company, headquartered in Spokane, Wash., serves Washington, Oregon, Idaho, Montana and Alaska.

Ontario "is in the coal business again," said Progressive Conservative MPP Todd Smith (Prince Edward-Hastings).

The Green Party said the deal undermines the government's goal of reducing greenhouse gas emissions.

"This is a bad move for Ontario and for our planet . . . keep in mind Montana borders British Columbia, Alberta and Saskatchewan, and air doesn't respect national boundaries," said Jose Etcheverry, the Green candidate in Markham-Stouffville for next June's provincial election.

"Hydro One has slapped us in the face by going shopping for a utility that owns one of the largest polluters in the U.S. northwest," added Angela Bishoff of the Ontario Clean Air Alliance.

Wynne told reporters she talked with Hydro One chief executive Mayo Schmidt about the deal on Thursday, raising her concerns.

"I said: 'You know, what about this?' The fact is we have a coal-free electricity grid here in Ontario and . . . I expect that value system could be shared."

"I know that Hydro One will be reviewing all of the operations once the transaction is completed. But we are leading the way in terms of reducing greenhouse gas emissions," she added.

An article in [Scientific American last year](#) titled "Inside a Western Town That Refuses to Quit Coal" said the plant emits nearly 15 million tonnes of carbon dioxide a year, earning a spot among the top 20 carbon-producing power plants in the country.

The power plant is one of the largest employers in Colstrip and is located near a coal mine, which supplies it with fuel.

**Read more about:** [Kathleen Wynne](#), [Hydro One](#)

