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August 17, 2018

Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

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Re: Proposed Sale of Avista Corporation

To: Members of the Commission

This letter is to follow up on my letter to your office dated July 15th of this year. First of all, I am pleased that you agreed to postpone your decision on this matter until December. Enclosed for your consideration are further clippings from the Toronto Globe and Mail and the Toronto Star which reflect the fact that Hydro One is a constant source of Political Discord in the Province. This is true even though the new government and its Premier are barely off the ground.

The public in Ontario cannot understand why the outgoing CEO of Hydro One has such a lucrative financial package to reward him for his departure. This in view of the fact that this takeover of Avista by Hydro One was agreed to and started by the departing Board and will cost almost another seven billion dollars. Where will this money come from, and how will the ratepayers in Ontario ever get any relief?

What kind of governance will Avista receive after the takeover? This is a terrible deal that you should reject because the only people who will benefit are the stockholders of Avista. This takeover was engineered by Wall Street and its counterpart on Bay Street in Toronto for financial profit. Giving up control of the electrical system in Eastern Washington to a foreign government 2500 miles away could well prove to be a future disaster. What are the benefits, if any, to the State of Washington?

REJECT IT.

Donald D. Perkins

Donald D. Perkins

Report on Business

FRIDAY, JULY 13, 2018 | GLOBEANDMAIL.COM

Hydro One shares slide on news of board, CEO departures

Analyst downgrades, political uncertainty weigh on stock price following Ontario's move to force out CEO, board

DAVID BERMAN

Bay Street analysts downgraded their views for **Hydro One Ltd.** and investors drove down the utility's share price in response to the Ontario government's extraordinary move to push out the board and chief executive officer Mayo Schmidt.

After markets closed Wednesday, Hydro One announced that its entire board of directors will resign by mid-August and the CEO would retire immediately. The move was in response to threats by Ontario Premier Doug Ford to displace the board and Mr. Schmidt, whom he derided in the June election campaign as the company's "$6-million man," a reference to his compensation last year.

The leadership shakeup at Hydro One, which runs much of the province's electrical transmission network, fulfills one of Mr. Ford's campaign promises. But the market reacted badly, causing Hydro One shares to fall 6.2 per cent to a record low in early trading on Thursday before paring losses late to end down 3.2 per cent.

The decline knocked nearly $390-million off Hydro One's market capitalization, giving the provincial government – which owns 47 per cent of the company – a paper loss of about $180-million in one day.

While analysts remain largely upbeat about the long-term prospects of Hydro One – which the previous Liberal government partly divested through an initial public offering in 2015 – they have raised concerns about political uncertainty and further government moves that could cut the company's profitability, which could weigh on the utility's valuation.

Four analysts downgraded the stock. RBC Dominion Securities lowered its recommendation to "sector perform" from "outperform."

■ HYDRO ONE, B5

Cogeco eyes wireless entry amid public anger

Hydro One: Analysts believe shares could suffer from long-term 'Ontario overhang'

■ FROM B1

Similarly, Credit Suisse lowered its recommendation to "neutral" from "outperform" previously, arguing that political interference is going to be a drag on the stock's perception by the market. Laurentian Bank Securities and Industrial Alliance Securities also lowered their ratings to the equivalent of a hold.

"In our view, we believe Hydro One's shares will de-rate" – or begin to trade at a lower valuation relative to earnings – "and suffer from a potentially long-term 'Ontario overhang,'" Credit Suisse analyst Andrew Kuske said in a note.

Robert Catellier, an analyst at CIBC World Markets, also raised concerns in a note that slashed the 12-month target price on the stock to $20.50 from $24 previously – a nearly 15-per-cent reduction.

"While the transition will occur through a more orderly process than we had feared, it indicates the government is willing to meddle. Just as worrisome is the possibility that the government meddles with the company's rates [what it charges consumers for electricity] in some form, potentially impacting earnings and upside from incentive rate-making," Mr. Catellier said in a note.

He also raised concerns about Hydro One's planned acquisition of Avista, a U.S. energy utility that has not yet received all the necessary regulatory approvals.

Even filling the vacant CEO seat may be difficult, given that any prospective executive now faces possible intervention from the utility's biggest stakeholder.

"While someone will be motivated to take the CEO role, we view this vacancy as one that may be difficult to fill under the confines implied by the Progressive Conservative rhetoric on executive compensation," Mr. Catellier added.

Nonetheless, some analysts do see an upside.

"Investors will likely view the management changes as positive. But the enthusiasm will ultimately depend on the new makeup of the board of directors and who is chosen as the new CEO," David Galison, an analyst at Canaccord Genuity, said in a note.

The company is about to get a new 11-member board of directors, which is to include four nominees from the government, six from a committee of large shareholders and the new chief executive.

Mr. Galison, who has a 12-month price target of $22 on the share price, added he was not surprised by the retirement of Mr. Schmidt following the planned acquisition of Avista Corp., a deal he blames for the weak share price in recent months. The addition of Avista – a mid-sized utility supplying natural gas and electricity to 740,000 customers in the Northwestern United States – was part of Mr. Schmidt's long-term strategy to build a leading North American utility.

Mr. Galison added: "Despite other things, the impacts from the recent U.S. tax reform combined with the settlement agreements to complete the acquisition have eliminated the potential earnings accretion from the acquisition. Investors were also likely unhappy with the acquisition, seemingly reflected in the shares declining 16 per cent to a low of $18.93 from $22.53 on July 19, 2017," the date the Avista deal was announced.

Frederic Bastien, an analyst at Raymond James, is more enthusiastic about Hydro One over the longer term, given its efforts at controlling costs and improving operational efficiency: He has an "outperform" recommendation on the stock, with a 12-month price target of $24. However, he believes investors should brace themselves for a challenging period.

"While we maintain our constructive stance on Hydro One, the uncertainty surrounding a new board and CEO will likely weigh on the stock in the near-term," he said in a note.

But a sell-off, he believes, is ultimately a buying opportunity. "We advise investors to look beyond the noise and capitalize on the opportunity to add to positions near all-time lows in a company with solid long-term fundamentals," Mr. Bastien said.

With a file from Andrew Willis

HYDRO ONE (H)
CLOSE: $19.52, DOWN 65¢

> THE BIG DEBATE: SHOULD ONTARIO SELL THE REST OF HYDRO ONE?

Yes. Green energy can challenge monopolies

JOHN BARBER
OPINION

One of the smartest things the outgoing provincial government did was to sell half of Hydro One, the monopoly utility that distributes electricity throughout Ontario. Too smart, in fact, as the province's recent revolt against competence proved. A policy that made so much technocratic sense — transferring assets frozen as built infrastructure into infrastructure that needs building — proved fatally susceptible to emotional misrepresentation.

"You want people to believe that we sold Niagara Falls, and we did not," former premier Kathleen Wynne lamented helplessly as NDP leader Andrea Horwath channelled public disapproval during the final leadership debate. "We sold a piece of a piece of a piece."

So much for her — and for Horwath's plan to renationalize the copper wires that still carry the province's electricity. It's now up to Premier Doug Ford to complete the job of privatizing Hydro One.

Ford's promise to decapitate the corporation by firing CEO Mayo Schmidt, the *"six million dollar man,"* won a lot more votes than Horwath's promise to embrace it. Cutting Hydro One loose completely is a logical next step for a new government hunting cash to fund its irresponsible election promises.

The Ford government can now sell the rest of Hydro One with the assurance that a disapproving public will face no direct negative consequences as a result. The Ontario Energy Board will continue to set hydro rates no matter who owns the wires. After four years, nobody will remember what all the fuss was about.

One way or another, Hydro One will remain an ungainly behemoth teetering on obsolescence. The green energy revolution is challenging utilities worldwide, and none could be more vulnerable than a utility whose sole asset is 123,000 km of copper wire. Every new solar or wind installation in Ontario, and every new energy-efficient building, is a crack in the monopoly that Hydro One depends on for survival.

The reason is that green energy is a local resource that is being developed primarily for local consumption.

Rather than transmitting electricity from central power plants to consumers hundreds of kilometres distant, the emerging new system of "distributed generation" will ultimately comprise thousands of more-or-less self-sufficient micro-grids serving individual institutions, industries and homes. In this likely scenario, the primary grid becomes a backup, distributing a declining share of the province's electricity.

Home-based solar systems with battery storage are now feasible and indeed common elsewhere in the world. But the tipping point will come, as it already has in Germany and elsewhere, when steadily upward trending prices for grid-supplied power cross steadily downward trending prices for solar-battery installations.

Hydro One and its workers both understand the implications, and the company has responded by taking over U.S.-based Avista Utilities in an attempt to diversify its assets by adding generation as well as distribution. But the deal will add $6.7-billion in debt to the company's balance sheet while diluting public ownership to 42 per cent.

Meanwhile, Hydro One's revenues are declining and its share price is drifting well below the $20.15 opening price set three years ago.

Signs of decline that are obvious to company executives, as well as its workers and shareholders, made no impression on the province's independent Financial Accountability Office when it released its analysis of the sale earlier this year.

The FAO bolstered opposition with its conclusion that the province's strategy of deploying hydro assets to build transit will add $1.8-billion in avoidable costs to the multi-decade project. Naively, it assumed that everything is rosy at Hydro One, and its provocative conclusion rested on an assumption that the company's revenues will steadily increase in coming years.

It won't take much distributed generation to permanently cripple Hydro One's business. Losses in the utility's core business will translate into higher rates, no matter who owns it. And higher rates will hasten adoption of more home solar and micro-grids.

The tragedy of Hydro One is not that it's slipping out of public hands. The tragedy will occur when the ample proceeds from its sale — a tidy $9-billion so far, with as much as another $7-billion to come — are redirected from public transit to gas-tax cuts and buck-a-beer.

John Barber is a freelance journalist based in Lakefield, Ont.

No. Public utilities work better than privatized ones

SCOTT TRAVERS
OPINION

After an election where hydro rates were one of the key debate issues, some people are suggesting our new premier should sell off Ontario's remaining share of Hydro One.

Doing so would be to double down on not just a bad idea, but one that was quite possibly key to the downfall of the Wynne government, taking the Liberals below the threshold for official party status. It was a bad idea then and nothing has changed since that time.

Since the government's surprise announcement in 2015 that it intended to sell off part of Hydro One, public opinion has remained consistently 75 to 80 per cent opposed to the idea of a partial privatization. The subsequent election result should provide the incoming government with a reminder of the perils of ignoring voters' concerns.

The Liberals' justification for the sale of Hydro One was that there was just no other way to get money to build much needed transit infrastructure. The sale did yield a quick, one-time cash hit of $3.8 billion, however, it came at a high cost. Hydro One had contributed almost $1 billion a year the provincial government's revenues. Selling shares meant reducing those dividends by about $400 million annually.

Completely privatizing Hydro One would mean the loss of all remaining revenues, forever.

That's nearly $1 billion coming out of provincial revenues. From an accounting perspective, as Ontario's financial accountability officer made clear, using privatization to raise infrastructure capital needlessly cost the taxpayers of Ontario nearly $2 billion dollars compared to alternative means. Selling the remainder of Hydro One would almost double this cost.

While some have argued that a privatized utility would operate more efficiently, offsetting the lost revenue, there is no evidence of this. An independent study commissioned by the government in 2013 did not find any significant inefficiencies in the operation of Hydro One.

Further, a 2016 study by MPR Associates found that total costs for fully privatized local public utilities were 34 per cent higher than those that were partially privatized, and as much as 77 per cent higher than those that were fully public owned. Moreover, on three different measures of customer reliability, the fully public utilities performed markedly better than privatized entities.

Complete privatization also means complete loss of control and public accountability.

As a public entity, Hydro One's mandate is to ensure Ontario residents have access to safe, reliable, affordable energy in a way that benefits the province. Private corporations, on the other hand, are accountable to their shareholders, not to consumers dependent upon the services they provide.

While a romantic might characterize public ownership of our energy utilities as a birthright, a more pragmatic view is generations of Ontario residents have invested in and reaped the benefits of a publicly controlled Hydro One.

A privatized Hydro One would saddle future generations with more expensive, less reliable energy, and an annual billion-dollar hole in the province's revenues.

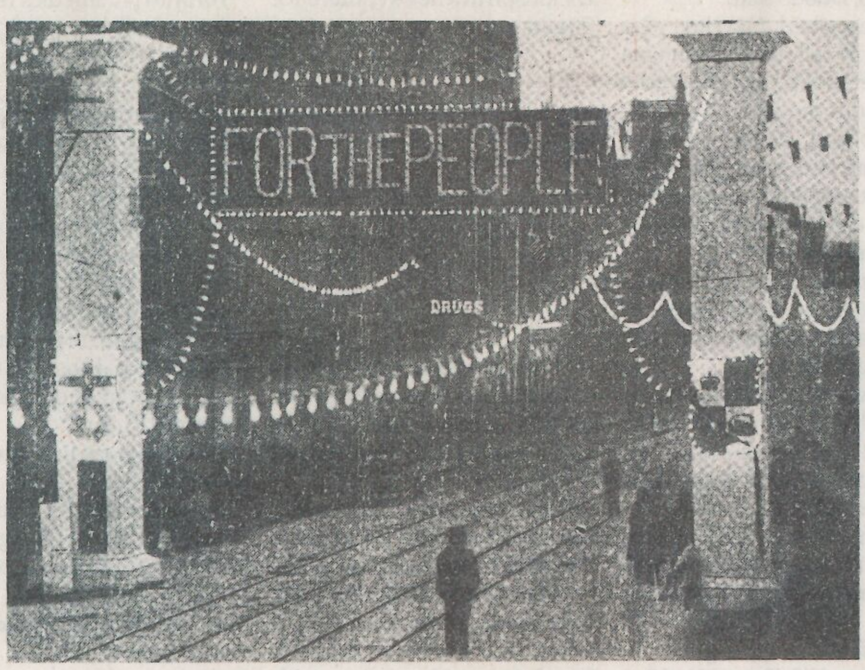
So if selling Hydro One is an expensive way to get cash that leads to higher costs for taxpayers and more expensive power prices while limiting the government's ability to make important policy decisions, who benefits?

The short answer is investors. Regulated electricity assets represent virtually risk-free investments with guaranteed rates of return through the regulator. This makes them ideal targets for Bay Street. That is the source of any push to fully privatize Hydro One.

There are lessons to be learned from history. On Oct. 10, 1910, at a ceremony in Berlin, Ont., Sir Adam Beck — the visionary behind Ontario's publicly owned electricity system — flipped the first ceremonial switch on Ontario's nascent transmission system, lighting up a sign proclaiming "FOR THE PEOPLE."

When Doug Ford chose "For the People" as his election campaign slogan, he may not have realized that he was echoing the voice of Beck through the decades. Perhaps the appropriate discussion at this point is not whether to further sell off of Hydro One, but, rather, how to reacquire majority ownership and return Hydro One to the vision of "For the People."

Scott Travers is an engineer and energy market analyst who has worked for over 30 years in Ontario's electricity sector. He currently serves as the president of the Society of United Professionals.

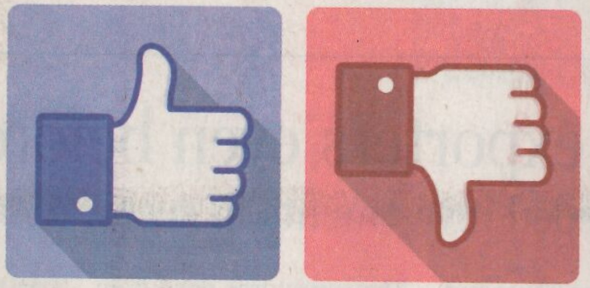


HYDRO ONE PHOTO

The phrase "For The People" is illuminated on Oct. 11, 1910 in what was then Berlin, Ont., now Kitchener, marking the launch of hydro power in Ontario.

PRIVACY PROBE

The SEC is investigating whether Facebook adequately warned investors about data breach, B4



DAMAGED GOODS

Even before U.S. trade dispute escalated, NAFTA talks were hurting Canadian exports, B2

Star BUSINESS Journal

Hydro One chaos sure to cause jitters over U.S. mega deal

Tossing its CEO and board likely won't help utility's already contentious takeover of Avista

Jennifer **Wells**

OPINION

Fun quiz — name the speaker:

"Hydro One is not any more vulnerable to political change than any other investor-owned utility in Canada, or the United States for that matter."

Or: "The province does not have a role with the Hydro One Board in the processes of appointment, removal, replacement and compensation related to executive officers or over related succession planning."

Or how about: "The province cannot interfere in the management or operations of Hydro One."

If you guessed Mayo Schmidt, you will understand the mess of confusion in Boise and Spokane and Coeur d'Alene and, heck, a vast swath of the Pacific Northwest now that the CEO of Hydro One is out the door, the board of directors has been tossed, and yet another government in power is promising a new era of accountability and transparency at the utility.

Heard that before? Of course you have.

Bonus points if you guessed that Schmidt offered those quotes in what was meant to be reassuring testimony in April before the Washington Utilities and Transportation Commission.

While he was CEO of Hydro One, Mayo Schmidt personally pledged a seamless marriage of the utility and Avista.

So yes, as Premier Doug Ford chest thumps over the departure of Schmidt and the board from Hydro One, this column turns its attention yet again south of the border where Hydro One's acquisition of Avista Corp. had, by mid-June, become even more contentious than it was when we last wrote about it in May.

A technical hearing, previously deemed unnecessary and vacated by the Idaho Public Utilities Commission, has been scheduled for later this month. Heated public hearings in Coeur d'Alene and Sandpoint in mid-June saw a robust turnout of disaffected members of the public opposed to the takeover.

Hundreds of complaints — 400 at last count — have been received by the commission. A customer group has been launched and seeks intervener status. "Help us do battle against this foreign takeover!" is the rallying cry of ratepayers.

WELLS continued on B3

Schmidt was 'pivotal' to multibillion-dollar deal with Avista

OPINION: WELLS from B1

In petitioning for status before the commission, the group argues that Hydro One has failed to provide sufficient information as to how costs will be allocated to Avista customers, without which the commission can't possibly determine that there will be no cost-of-service increases to consumers, as has been promised.

All this was before events of this week when Ford, in his baby Trump way, tossed a grenade into the Hydro sandbox and then moved quickly to create wreckage elsewhere.

Remember that the partial privatization gambit for Hydro was to refashion the utility as an integrated transmission and distribution business now in big boy pants, guided by Ed Clark's advisory council on government assets. "Make Ontario's assets work better for consumers and taxpayers!" was the government of the day's rallying cry. Go public, go for growth and make a return to the provincial economy by driving the proceeds into infrastructure investments. Soothe the jitters of Ontarians by pledging that no single investor would own more than 10 per cent of the essential service company and that the province's stake wouldn't fall below 40 per cent, at least not initially.

All those decades of Hydro chaos, from governance issues to outsized executive compensation to a lack of transparency throughout, were supposed to be behind us. The acquisition of Avista, announced a year ago as a $5.3-billion (U.S.) all-cash transaction, was the new Hydro's first big play. Sure there was the acquisition of Haldimand Hydro and Norfolk Power and others. But this big leagues deal would extend Hydro's customer base through Washington state, northern Idaho, Montana and Oregon. Approval for the takeover is still pending with utility commissions in Oregon, Washington and Idaho.

Whose values are going to run the transaction now? And how will Avista reassure its investors that Hydro One is the right partner?

So already the targeted mid-August approval deadline — and a September close — was looking uncertain.

Opponents in Idaho are hoping the state's utilities commission will question whether the transaction can be deemed in the public's interest, which is not precisely defined in state law. Post-merger service rates, the commission's jurisdiction over Avista after the merger and Hydro One's "intentions and financial ability" are just a few of the concerns to be addressed in the hearing scheduled for July 23.

Then, boom!

In commission testimony, Schmidt personally promised the seamless marriage of the two companies, calling the combination a "confederation" as opposed to an integration because Avista would still operate as a stand-alone utility, albeit one wholly owned by Hydro.

The Spokesman-Review, based in Spokane, where Avista is headquartered, says Schmidt was "pivotal" to the deal, which makes sense. In previous profiles, the Kansas-born Schmidt has spoken of his formative corporate years at General Mills and his affinity for the Midwest. According to the Spokesman, when Avista CEO Scott Morris introduced Schmidt to employees at the time of the takeover announcement, he described the acquiring CEO as "a wonderful man who shares our values."

So whose values are going to run the transaction now?

And how will Avista, which expressed "surprise" at this week's corporate chaos, reassure its investors that Hydro One is the right partner, confederation or not? Avista wanly offered in a statement that it was monitoring developments.

No doubt Hydro One will be working double-time trying to convince the target company of the promised "orderly transition" of the Hydro board and CEO succession.

No doubt the utilities commissions are wondering how the testimony before them turned out not to match reality.

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Globe & Mail July 21/18

Hydro One shakeup delaying planned acquisition of Avista

DAVID MILSTEAD

The mass resignations at **Hydro One Ltd.** are causing multiple stumbling blocks in the company's proposed acquisition of U.S. utility **Avista Corp.**, as state regulatory commissions are postponing their decisions, and states that already blessed the deal are mulling revisiting their approvals.

The problems kill the chances of meeting the Aug. 14 deadline Hydro One and Avista initially requested from regulators for all the approvals.

Hydro One said in a statement on Friday that it has not requested any time extensions for the U.S. utility regulators to issue their decisions. "However," it added, "we expect there will be a delay to accommodate the additional processes the commissions will require. … Hydro One remains very committed to its merger with Avista."

Avista operates or owns utility companies in the states of Alaska, Washington, Oregon, Montana and Idaho. Hydro One's purchase of the company requires approvals not only at the federal level in the United States, but also with the states' utility regulators. With the companies' requested deadline approaching, Hydro One and Avista had either gained some sort of conditional approval, or at least entered into settlement agreements laying out specific promises, with the states.

In Washington state, regulators on Friday postponed their decision deadline by four months, to December, as allowed by law, while they ask the utilities for new filings on the impact of the Hydro One leadership transition. The state of Idaho has indefinitely postponed its final, most important hearing, scheduled for Monday. Now the state says it wants new Hydro One management in place before it even sets a new date. Ontario and Hydro One are aiming for Aug. 15 to appoint a new board. Meanwhile, a lawyer for Hydro One sent a letter on Wednesday to regulators in Alaska, which had approved the transaction with conditions, asking them not to revisit their decision.

Hydro One cited multiple safeguards in their agreements with state regulators. "Avista and Hydro One explain in this letter why the commission's order … does not need to be reopened in response to the recent developments concerning the management of Hydro One," the letter said. Montana, which gave final approval on July 10, the day before Hydro One announced CEO Mayo Schmidt and its entire board would leave, is exploring how to take another look at the merger, said Bowen Greenwood, the communications director for the state's Public Service Commission.

"It's our understanding right now that we don't have the authority to unilaterally reopen the docket, but we're exploring whether we can send them a letter asking them to show cause why there shouldn't be further action," Mr. Greenwood said. The state's commission meets next on Tuesday.

Idaho's Public Utilities Commission had planned to hold a "technical hearing" on Monday in which the companies and some critics would "address concerns and issues raised in public comments and testimony provided to [the] commission."

The Idaho PUC said on Thursday the hearing is postponed indefinitely. "Once new leadership is in place at Hydro One," it said in its statement, it "expects the parties to meet for a hearing conference, to propose a new procedural timeline for the case."

"I'd hate to speculate on a timeline, going forward," Matt Evans, the Idaho PUC's public information officer said on Friday. "The new [Hydro One] board maybe needs some time to review the settlement proposal and the merger itself."

Alaska has statutory requirements for merger approval, so its regulatory commission issued its order on June 4, with a handful of conditions. Hydro One must now assure the state that the management transition will not affect its promises on how Avista's Alaska Electric Light and Power Co. will be managed. Because the approval was conditional, the case docket is technically still open, says Grace Salazar, media liaison and chief of the Alaska regulatory commission's consumer protection section. As part of Wednesday's letter to Alaska