

**Exh. CSH-2  
Docket U-170970  
Witness: Christopher S. Hancock**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Joint Application of  
Hydro One Limited and Avista  
Corporation for an Order Authorizing  
Proposed Transaction**

**DOCKET U-170970**

**EXHIBIT TO  
TESTIMONY OF**

**Christopher S. Hancock**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Attachment A to Hydro One Response to ICNU Data Request No. 30, Moody's*

**April 10, 2018**

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's Affirms Hydro One's senior unsecured A3 ratings; outlook changed to negative

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Global Credit Research - 19 Jul 2017

#### Approximately \$11 billion of debt affected

Toronto, July 19, 2017 -- Moody's Investors Service, ("Moody's") affirmed the ratings of Hydro One Inc. (HOI) A3 senior unsecured; (P)A3 MTN program; commercial paper P-2 and changed the outlook to negative.

#### RATINGS RATIONALE

"The negative outlook on Hydro One Inc. reflects our view that the probability of extraordinary support from the Province of Ontario will be reduced," said Vice President and Senior Credit Officer Gavin MacFarlane. "This follows today's announcement that Hydro One Limited, the parent company of Hydro One Inc., plans to acquire Avista Corp., a U.S. based electric and gas utility company."

The government will retain control of Hydro One Limited (HOL: unrated), the holding company that owns 100% of HOI. The acquisition of Avista Corp. (Baa1 stable), the first major acquisition by the organization, will be financed with about C\$3.4 billion of holding company debt at the parent HOL level, which sits between HOI and the Province of Ontario (Aa2 Stable) in the overall corporate structure, reducing the probability of support to HOI from the Province. In addition, any provincial support would likely also provide indirect benefits to ratepayers in U.S. jurisdictions, which further reduces the probability of support from the Province. Following the completion of the Avista acquisition, we expect the government to continue to own between 40-50% of HOL.

Consistent with other Canadian regulated utilities acquiring US regulated utilities, the announced acquisition will rely on debt financing, a credit negative. The additional debt that Hydro One Limited plans to issue will not limit the ratings of Hydro One Inc.

As a government related issuer, HOI's A3 rating reflects its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the historically moderate probability of extraordinary support from the Province of Ontario. HOI's BCA of baa1 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 baseline credit assessment of baa1 remains unchanged following the acquisition announcement.

#### Rating Outlook

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

#### What could change the rating: up

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 (11.3% at 9/30/2016). A one notch upgrade of the Province would not lead to an upgrade of Hydro One.

#### What could change the rating: down

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 remains unchanged or is reduced. 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 (11.3% at 9/30/2016). A one notch downgrade of the Province would not lead to a downgrade of HOI.

The methodologies used in these ratings were Regulated Electric and Gas Utilities published in June 2017 and Government-Related Issuers published in October 2014. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Outlook Actions:

..Issuer: Hydro One Inc.

...Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: Hydro One Inc.

...Senior Unsecured Commercial Paper, Affirmed P-2

...Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

...Senior Unsecured Regular Bond/Debenture, Affirmed A3

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