

**Exh. CSH-3
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 B to Hydro One Response to ICNU Data Request No. 30, S&P

April 10, 2018

S&P Global
Ratings

Research

Hydro One Ltd. And Hydro One Inc. Outlooks Revised To Negative From Stable On Proposed Avista Corp. Acquisition

Primary Credit Analyst:

Andrew Ng, Toronto (416) 507-2545; andrew.ng@spglobal.com

Secondary Contact:

Stephen R Goltz, Toronto (416) 507-2592; stephen.goltz@spglobal.com

- On July 19, 2017, Toronto-based Hydro One Ltd. (HOL) announced the C\$6.7 billion (US\$5.3 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.

TORONTO (S&P Global Ratings) July 19, 2017--S&P Global Ratings today said it 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.

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 eroded slightly. Furthermore, the additional leverage that the transaction introduces also eroded HOL's credit metrics and financial risk.

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JULY 19, 2017 1

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Hydro One Ltd. And Hydro One Inc. Outlooks Revised To Negative From Stable On Proposed Avista Corp. Acquisition

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.

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.

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.

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

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

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

RELATED CRITERIA

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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

*Hydro One Ltd. And Hydro One Inc. Outlooks Revised To Negative From Stable On Proposed Avista Corp.
Acquisition*

- 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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