

Avista sale latest in trend of Canadian utility acquisitions

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Avista's headquarters are seen on Wednesday in Spokane. (Tyler Tjomsland / The Spokesman-Review)

By Chad Sokol chadso@spokesman.com(509) 459-5047

It was perhaps only a matter of time before Avista Corp. agreed to sell to a neighbor from the north.

Large Canadian power companies have been snapping up smaller American ones for several years, paying tens of billions of dollars to expand their geographic footprint into a country that offers lighter regulations and higher returns on investment.

Toronto-based Hydro One's \$5.3 billion pending purchase of Avista, announced Wednesday, follows major acquisitions by Canadian companies Enbridge Inc., TransCanada Corp., Fortis Inc., and Algonquin Power & Utilities Corp.

Each of those deals catapulted the buyer into the leading ranks of North American utilities. If the Avista purchase passes regulatory muster – a process that may take up to a year – Hydro One's assets will total \$25.4 billion.

With the industry consolidating, a Bloomberg report about a year ago [placed Avista on a list](#) of a dozen U.S. utilities that would be likely acquisition targets. In terms of size, Avista is ranked 46th of 50 publicly traded utilities in the U.S., said Scott Morris, the company's chairman, president and chief executive officer.

Also on that Bloomberg list was WGL Holdings Inc., a Washington, D.C.-based utility holding company that announced in January [it's being acquired](#) by Calgary-based AltaGas Ltd. for \$6.6 billion.

Like other Canadian buyers seeking stable investments, Hydro One was willing to pay a premium for Avista. The all-cash deal includes the assumption of Avista's \$1.9 billion debt.

[On Wednesday, Bloomberg reported](#) that the price was too high for some analysts, with Hydro One paying about 11.2 times Avista's earnings before interest, taxes, depreciation and amortization, more than the 9.3 average multiple for comparable deals.

Avista's shareholders stand to receive \$53 per share, about 24 percent higher than Wednesday's closing rate.

“That would be the highest premium paid for any company in the electric space today, so we think we did a nice job for shareholders,” Morris said.

In an interview Thursday, Morris was vague when asked whether Avista initiated the acquisition talks with Hydro One, or if there had been other offers on the table. He said only that a number of companies had inquired about potential deals over the past year and a half.

“I wouldn’t say ‘offers,’ because we were never for sale,” he said. “We never put ourselves up for sale.”

Morris said even with rate increases, it has been challenging to cover the cost of replacing decades-old power poles and transmission lines, while developing new technology for a “21st century grid.”

“For 100 years, all of the investments that we made were pipes and wires and transmission lines and generation facilities,” he said. “Very expensive capital projects, but you could spread and depreciate the cost over 30, 40, 50 years. So it worked really well. You didn’t have to have quite the scale.”

Now, he said, “most utilities are consolidating because it’s a lot easier to spread those costs” over a wider customer base.

Hydro One has about 1.3 million customers in rural Ontario, and Avista has about 700,000 customers in Eastern Washington, North Idaho and parts of Oregon and Alaska.

Morris also said the combined companies could get “more bang for our buck” when purchasing materials.

In 2015, Ontario’s ombudsman called on Hydro One to “overhaul its corporate culture” after his office received more than 10,000 complaints from ratepayers about overbilling and estimated bills. The ombudsman, André Marin, said the company provided “outrageously bad customer service” as it scrambled to fix technical glitches in its billing system, [according to the CBC](#).

Morris said he was unconcerned about the billing issue, which arose months before Mayo Schmidt took over as Hydro One’s CEO. The problem also resulted in a \$125 million class action lawsuit, which is still being litigated, and the company says the glitches were quickly fixed.

“They installed their new customer billing system, much like we did,” Morris said. “Unfortunately for them – it was before Mayo’s time – it didn’t go very well. They made some mistakes. It was tough technology. ... They are making it right with people.”

Morris also stressed that the acquisition would have no effect on electricity rates or jobs, and that it would more than double Avista’s charitable giving.

“Our intentions were to make sure that this gem of a company stayed a gem of a company, with local control, local management, making local decisions, for the right reasons for our customers,” he said. “In many ways, we have locked in our values, our culture.”

Editor's note: This story was changed on July 21, 2017. A previous version incorrectly stated which day Morris was interviewed by The Spokesman-Review

Sale of Avista would require 'net benefits' to ratepayers, Washington regulators say

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In this Jan. 11, 2005 file photo, student linemen at Avista Utilities' Jack Stewart Lineman School learn to climb a power pole in Spokane, Wash. The sale of Spokane-based Avista Corp. to a Canadian energy company must still win approval from shareholders and regulators. Hydro One, based in Toronto, Canada, announced Wednesday, July 19, 2017, that it would pay \$5.3 billion cash to buy Avista, which supplies electricity and natural gas to customers in five Northwestern states. (Christopher Anderson / The Spokesman-Review)

By Becky Kramer beckyk@spokesman.com(509) 459-5466

The [proposed sale of Avista Corp.](#) to Hydro One for \$5.3 billion would chart new territory for customers of the Spokane-based utility.

Here are a few answers to questions about what protections are in place for customers and how Canadians are reacting to the news.

Q: What's the story behind the sale?

A: Avista Chairman and CEO Scott Morris declined to answer direct questions about which company initiated the negotiations, or whether the deal is a “white knight sale,” where Avista recruited Hydro One as a buyer. Talks started this year.

Morris did say that Avista is being purchased at “a time of strength” for the company.

Over the years, Avista has been approached by other companies about potential mergers or acquisitions. In the mid-1990s, Avista – then known as Washington Washington Power – proposed a merger with Sierra Pacific Resources of Reno, Nevada, but that deal fell through.

Avista is among the smaller investor-owned utilities left in the nation. Analysts say it's a prime takeover target in a rapidly consolidating industry.

The sale to Hydro One will allow Avista to keep a high level of local autonomy while being part of a larger organization, Morris said.

Q: Will Avista executives benefit from the sale?

A: “Well, I'm a big shareholder,” Morris said Thursday, in response to questions about the deal's financial implications for him.

Part of Morris' executive compensation is paid in stock awards. That gives him and other top executives a direct interest in how Avista's stock performs, according to the company's executive compensation committee.

Morris has 188,730 shares of Avista stock, according to a report filed in March with the U.S. Securities and Exchange Commission. Hydro One is buying Avista stock for \$53 per share. So, if Morris holds on to his stock until the sale is finalized next year, the shares would be worth \$10 million.

Avista's four senior vice presidents also own a large number of shares. Based on stock ownership listed in public documents, the value of their shares at the time of the sale would be:

Mark Thies, chief financial officer and treasurer, about \$4.5 million.

Marian Durkin, general counsel and chief compliance officer, \$3.9 million.

Dennis Vermillion, environmental compliance officer, \$1.74 million.

Karen Feltes, corporate secretary, \$1.43 million.

Q: What is Hydro One?

A: Hydro One serves 1.3 million rural and suburban utility customers across vast geographic areas of Ontario. The company's headquarters are in Toronto.

Hydro One buys electricity and delivers the power to customers on its 95,000 miles of transmission and distribution lines. The government of Ontario phased out coal-fired electricity in 2014, so the province relies on hydro, wind, solar, biomass and nuclear for its energy.

The government of Ontario once owned 100 percent of Hydro One's assets but sold off a 51 percent stake in late 2015, which led to the publicly traded company. The province netted \$9 billion from the sale, which it used to pay off debts and invest in transportation infrastructure.

The Ontario government retains a 49 percent stake in Hydro One.

Q: What are Canadians saying about the deal?

A: The proposed sale is attracting quite a bit of interest north of the border. Canadians are worried that Hydro One's purchase of Avista could raise their electric rates.

The Toronto Star quoted Progressive Conservative Leader Patrick Brown as saying, "Hydro One is gouging ratepayers while using our money to buy up foreign companies." Brown also criticized Avista's ownership stake in a coal-burning plant in Montana.

Officials from both companies said the purchase will not affect rates for their customers.

Hydro One's stock initially slid on news of the sale, but share prices rallied Thursday.

A stock analyst at Guggenheim Securities in New York called the \$53 per share price a "very rich valuation" for Avista.

"While the acquisition provides Hydro One with exposure in the U.S., which seems to be in vogue with various foreign buyers, the terms are a bit of a head-scratcher," wrote Shahriar Pourreza in a research note.

Avista's growth potential is modest and it operates in a state with a "challenging regulatory" environment, the analyst said. However, Pourreza expected the sale to go through.

Q: What regulatory approvals are needed for the sale?

A: In addition to shareholder approval, the sale requires a sign-off from state and federal authorities.

In Washington, the state Utilities and Transportation Commission will evaluate the deal and decide whether it's in the best interest of Avista ratepayers. Members of the public

will have a chance to weigh in. Public utility commissions in other states where Avista operates – Idaho, Oregon, Alaska and Montana – will conduct similar reviews.

The transaction will be reviewed by U.S. authorities for potential national security implications. The U.S. Federal Energy Regulatory Commission also must give its approval.

Q: What protections are in place for Avista’s Washington customers?

A: For Avista’s sale to go through, Hydro One has to demonstrate that ratepayers would not be harmed, and would actually benefit from the sale.

“We have a statute called ‘the net benefit’ standard,” said Amanda Maxwell, a UTC spokeswoman.

The Legislature passed the requirement after an Australian company purchased Puget Sound Energy, the state’s largest utility, in 2009.

The net benefit can be expressed in a variety of ways, such as credits on bills for ratepayers, increased consumer protections or financial incentives for energy conservation, Maxwell said.

If Hydro One buys Avista, the company will remain a regulated utility, she said. Requests for higher electric and natural gas rates would continue to be reviewed by the UTC, she said.

Q: How will the new company rank in size?

A: Avista and Hydro One say the sale will create one of North America’s largest regulated utilities. After the acquisition, the company would have about 2 million customers and a market capitalization in the \$14 billion range, based on current share prices.

That’s still much smaller than utilities such as Duke Energy Corp., Southern Company, Exelon and PG&E Corp., which have market caps in the \$30 billion to \$60 billion range, according to the Edison Electric Institute

Local leaders offer optimism following Avista's announced sale to Hydro One

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Regional lawmakers and elected officials on Wednesday expressed optimism about the continued support of Avista Corp. in Spokane, citing projects like Huntington Park near City Hall, seen here in a 2014 file photo that also shows the Monroe Street Dam and Washington Water Power building. (Jesse Tinsley / The Spokesman-Review)

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- [Avista's community leadership role expected to continue](#)
- [Avista selling to Canadian firm Hydro One for \\$5.3 billion](#)

Local lawmakers expressed confidence Wednesday that Avista Corp. would remain a dedicated community partner, despite the unexpected announcement of its sale to a Canadian company after operating independently in Spokane for more than a century.

"I'm confident that if they continue with (a locally based) board of directors – which they stated they would – and continue with the same senior leadership at Avista, they've always been great partners, and none of that is going to change," City Council President Ben Stuckart said.

In a statement, Mayor David Condon said the city is looking forward "to getting to know Hydro One and welcoming them to Spokane."

The Ontario-based utility and Avista announced a \$5.3 billion cash-only acquisition Wednesday afternoon in a statement the public and decision-makers received at the same time.

"Avista is a great employer and community partner. I have the privilege of witnessing firsthand every day locals and visitors enjoying the Gathering Place outside of City Hall, one of Avista's many great contributions to Spokane," Condon said in his statement. "We are encouraged to hear about Hydro One's stated commitment to Spokane, Avista employees and the customers they serve."

Other elected officials praised the utility's longstanding commitment to the community, including charitable giving and spurring job opportunities.

“Avista has been an incredible corporate partner for the city of Spokane, Spokane Valley, Spokane County. Losing that kind of corporate presence would be a real setback,” said Spokane County Commissioner Al French, who also served as a Spokane city councilman and worked for Washington Water Power in the 1970s before it became Avista.

French believed, based on conversations with Avista officials and others, the level of commitment to the community would not diminish after the transaction, a point the utility echoed in its public statements Wednesday.

“The fact that they’re going to be able to keep the headquarters here, with all the consolidations happening all over this country, that’s a big deal,” French said.

U.S. Rep. Cathy McMorris Rodgers also praised Avista’s regional ties in a statement responding to the announced sale.

“I’m proud of the clean, renewable and reliable energy we produce in Eastern Washington, and Avista has long maintained a strong commitment to our community and to delivering energy throughout the Inland Northwest,” the statement said. “I look forward to learning more about Hydro One, but I’m pleased to hear of their dedication to the employees and ratepayers in Eastern Washington and to maintaining Avista’s legacy of economic development here in Spokane.”

Todd Mielke, chief executive officer of Greater Spokane Incorporated, the region’s chamber of commerce, said he learned of the deal on a plane ride and was pleased to see that Avista would maintain much of its autonomy and local leadership under the terms disclosed Wednesday.

“The notion that they could go pick a partner that would allow them to maintain a strong control of their destiny and maintain their legacy, I think is phenomenal,” Mielke said.

Mielke said he also believed the partnership would allow the utility to continue and expand its economic development efforts in Spokane.

The Avista Foundation, the charitable arm of the utility, [reported gifts last year of \\$641,332 to the IRS](#), according to the organization’s most recent filing with the agency. Among the top beneficiaries were the foundations supporting Whitworth University, Eastern Washington University, Gonzaga University, the Northwest Museum of Arts and Culture, the United Way and Providence Health Care.

“Avista has been such an important part of our community, and I would imagine they will be into the future, regardless of the ownership entity,” said state Sen. Andy Billig, D-Spokane.

State Sen. Michael Baumgartner, R-Spokane, said he, too, was surprised by the announcement Wednesday afternoon.

“I want to make sure that our ratepayers are protected, and I will work hard to find out more about the deal,” Baumgartner said by phone.

Avista operates five hydroelectric dams on the Spokane River, and has been involved in what Spokane Riverkeeper Jerry White called “tough dialogue” on ecological issues in the past. The conservation group will be closely evaluating Hydro One’s environmental efforts, White said, and hopes what he called a “pretty functional and positive relationship” with Avista will continue as the sale is finalized.

“We’re going to reserve judgment, right now,” White said. “But, certainly, there’s grounds to be concerned when an international company acquires a company that has such a profound impact on our river and our environment.