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IDAHO PUBLIC  
UTILITIES COMMISSION

Attorneys for Intervenor Avista Customer Group

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE JOINT  
APPLICATION OF HYDRO ONE LIMITED  
AND AVISTA CORPORATION FOR  
APPROVAL OF MERGER AGREEMENT

CASE NOS. AVU-E-17-09  
AVU-G-17-05

**AVISTA CUSTOMER GROUP'S  
RESPONSE TO REPORT ON HYDRO  
ONE MANAGEMENT CHANGES AND  
MOTION FOR SCHEDULING  
CONFERENCE**

1

**I. INTRODUCTION**

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The Idaho Public Utilities Commission (“Commission”) previously vacated the July 23, 2018 Technical Hearing in this matter and ordered that the parties meet and confer to discuss case processing after Hydro One has a new CEO and board of directors in place. *Order No. 34111* at 2 (July 20, 2018) (“*Order*”). Once new leadership is in place at Hydro One, the Commission said it expects the parties to meet for a prehearing conference, to propose a new procedural timeline for the case. *Commission Press Release* (July 19, 2018).

The Commission also ordered that the Applicants update the Commission of progress relating to Hydro One executive governance by August 15, 2018. *Order* at 2. In response, the

1 Applicants filed their *Report on Hydro One Management Changes* on August 15, along with a  
2 *Motion for Scheduling Conference* (“*Report and Motion*”). Hydro One also held a teleconference  
3 briefing on August 14. A copy of the transcript from the briefing is attached hereto as Exhibit A  
4 (“*Briefing Transcript*”).

## 5 II. INTRODUCTION

6 The status report provides that Hydro One announced the 10 members of its new board on  
7 August 14, 2018. *Report and Motion* at 2. This was as expected from the information previously  
8 provided to the Commission. See *Idaho Letter* at 2 (July 18, 2018) (“Hydro One has committed to  
9 completing the transition process to a new board of directors by August 15, 2018”).

10 It is clear that the new board had not been briefed, let alone provided any direction, on the  
11 Avista merger. In response to a question on this topic (“[H]ave you had a chance to socialize the  
12 Avista acquisition with the new board? In other words how do we know that this new board is in  
13 alignment with [the] Avista acquisition?”), Paul Dobson, Hydro One’s Chief Financial Officer and  
14 acting CEO responded at the company’s August 14 briefing: “So we have not sat down with the  
15 new board and gone through the Avista transaction.” *Briefing Transcript*.

16 The status report also provides that Hydro One has not selected a new CEO to replace Mayo  
17 Schmidt who retired on July 11, 2018, the same day that Hydro One’s Chief Financial Officer, Paul  
18 Dobson, was named Hydro One’s acting CEO. *Report and Motion* at 2-3. The information about  
19 the interim CEO was already known to the Commission at the time that it issued its Order on  
20 July 20. See *Idaho Letter* at 2 (July 18, 2018) (“Paul Dobson, Hydro One’s chief financial officer,  
21 has been appointed as acting chief executive officer until such time as the replacement board of  
22 directors, once constituted, can appoint a new chief executive officer”).

1           There is no indication in the report from Hydro One when the new CEO will be named, only  
2 the assurance that: “The CEO search will be the new Board’s highest priority” and that they will  
3 “proceed with all deliberate speed in that regard.” *Report and Motion* at 3. They indicate that the  
4 Board “will immediately launch a search for a replacement CEO” and “the search may take some  
5 time.” *Report and Motion* at 5. At the August 14 briefing, the company made this equally clear:  
6 “That is certainly a matter for the new board that they will be kicking off. I imagine that is a very  
7 high priority for them.” *Briefing Transcript*.

8           In support of its motion, the Applicants state that counsel for Avista Customer Group  
9 refused to confer with the parties to establish a procedural schedule. *Report and Motion* at 5. What  
10 counsel for Avista Customer Group told Hydro One/Avista is that it is premature, and contrary to  
11 the Commission’s Order, to discuss rescheduling the hearing until after the new Hydro One board  
12 and CEO are in place.

13           Avista Customer Group is a full party to this matter and is prepared to meet and confer at  
14 the time ordered by the Commission. What the Commission ordered is crystal clear and very solid  
15 in its reasoning. The Commission issued its Notice of Vacated Technical Hearing on July 20. That  
16 notice stated:

17           . . .[w]e find it reasonable to postpone the technical hearing until a  
18 new CEO and executive board are in place at Hydro One. Applicants  
19 are directed to update the Commission when the new management  
20 team is in place. If a CEO and new board are not in place by August  
21 15, 2018, the Applicants are directed by the Commission to provide  
22 a status update. . .the parties shall meet and confer to discuss a  
23 procedural schedule once Hydro One has a new CEO and board of  
24 directors in place.” The Commission went on to order: “IT IS  
25 FURTHER ORDERED that the July 23, 2018, Technical Hearing is  
26 vacated. The parties shall meet and confer to discuss case processing  
27 after Hydro One has a new CEO and board of directors in place.  
28

1     *Order* at 2. Having no idea when the new CEO may be in place, Hydro One/Avista now want the  
2     Commission to reconsider its July 20 order and require the parties to meet and agree to a new  
3     schedule prior to the new CEO being in place. And they want a new schedule by August 30. All of  
4     this without any idea when the new CEO will be in place. In fact, Hydro One/Avista readily admit  
5     that under their scheduling proposal, the new Hydro One CEO may not even be selected by the time  
6     of the hearing. The previous CEO, Mayo Schmidt, was a driving force in the merger proposal and  
7     was set to testify at hearing. Now the Commission and the parties are being told that there may be  
8     no CEO available to testify at the hearing at all. That would be contrary to the clear intent of the  
9     Commission's Order.

10           Compounding this problem, one of the Applicants' previously submitted witnesses in this  
11     matter (see *Direct Testimony of Ferio G. F. Pugliese* (filed Sept. 14, 2017)) has left the company  
12     and there is no indication when there will be a replacement. As reported by Hydro One during the  
13     August 14 briefing: "Ferio Pugliese, Executive Vice President, Customer Care and Corporate  
14     Affairs. . .will be departing Hydro One at the end of this week. . .we are confident that we will be  
15     in a position to appoint a well-qualified and experienced replacement in the near future." *Briefing*  
16     *Transcript*.

17           Avista Customer Group has respected and adhered to the Commission's Order. The  
18     Commission and the parties have been waiting for Hydro One to put its new CEO and board in  
19     place. The new CEO has not yet been named by Hydro One. The status report doesn't tell the  
20     Commission and the parties when the new CEO will be in place. As a result, nothing has changed.  
21     Hydro One's *Report and Motion* do not provide a basis for changing the Commission's deliberate  
22     and well-reasoned decision in this matter, offering only that "[t]o not proceed with scheduling at


1 this time. . .will put Idaho well behind other jurisdictions, and may put at risk any closing of the  
2 transaction this year.” *Report and Motion* at 5. While the Applicants would like to have the merger  
3 done before the end of the year, it is clear that this is not a firm deadline. As James Scarlett, Hydro  
4 One’s Chief Legal Officer, stated during the company’s August 14 briefing: ”There is an outside  
5 closing date of September 30, but either party has the right to extend it for six months.” *Briefing*  
6 *Transcript*. Obviously that option will need to be exercised to extend this matter, presumably  
7 changing the closing date to the end of March, 2019.

8 **III. CONCLUSION**

9 The appointment of a new CEO is fully within Hydro One’s control. The sooner that the  
10 Hydro One board takes care of its self-proclaimed “highest priority”, the sooner the merger proposal  
11 can be addressed with a new schedule. The *Report and Motion* provide no basis for changing the  
12 Commission’s previous Order.

DATED this 23rd day of August, 2018.

PARSONS BEHLE & LATIMER

By:   
Norman M. Semanko

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing document was served on the following on this 23rd day of August, 2018 by the following method:

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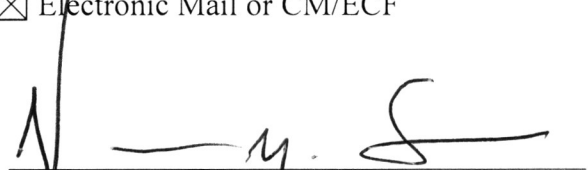
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Norman M. Semanko



# **EXHIBIT A**

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## Hydro One Ltd (HRNNF) CEO Paul Dobson on Q2 2018 Results - Earnings Call Transcript

Aug. 14, 2018 11:23 AM ET | 1 Like

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Slides



News

EPS of \$0.32 | Revenue of \$1.48B (+ 8.0% Y/Y)

Hydro One Ltd (OTC:HRNNF) Q2 2018 Results Earnings Conference Call August 14, 2018 8:00 AM ET

### Executives

Omar Javed - IR

Paul Dobson - President, CEO and CFO

Greg Kiraly - COO

Judy McKellar - Chief Human Resource Officer

Patrick Meneley - Chief Corporate Development Officer

Ferio Pugliese - EVP, Customer Care and Corporate Affairs

Jimmy Scarlett - Chief Legal Officer

### Analysts

Linda Ezergailis - TD Securities

Robert Catellier - CIBC World Markets

David Galison - Canaccord Genuity

Ben Pham - BMO

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Robert Catellier - CIBC World Markets

David Galison - Canaccord Genuity

Ben Pham - BMO

Andrew Kuske - Credit Suisse

Robert Kwan - RBC Capital Markets

Mona Nazir - Laurentian Bank

David Casado - Raymond James

Jeremy Rosenfield - Industrial Alliance

### **Operator**

Good day ladies and gentlemen, and welcome to the Hydro One Limited Second Quarter 2018 Result Investment Community Teleconference. As a reminder, this call is being recorded.

I'll now like to turn the call over to Mr. Omar Javed with the Hydro One Management team. Please go ahead.

### **Omar Javed**

Good morning, everyone and thank you for joining us. I'm here in Toronto today with Hydro One's leadership team including our acting President and CEO and Chief Financial Officer, Paul Dobson; our Chief Operating Officer, Greg Kiraly; our Chief Human Resource Officer, Judy McKellar; our Chief Corporate Development Officer, Patrick Meneley; our Executive Vice President of Customer Care and Corporate Affairs, Ferio Pugliese; and our Chief Legal Officer, Jimmy Scarlett.

We'll provide some brief comments on our second quarter results and then spend the majority of our call answering as many of your questions as time permits.

There are also several **slides** which illustrates some points we'll go over in a moment. This should be up on the webcast now, or if you've dialed in to the teleconference, you can find them in the Hydro One's website in the Investor Relations section under Events & Presentations.

Today's discussions will likely touch on estimates and other forward-looking information. You should review the cautionary language in today's earnings release in our quarterly MD&A, which we filed this morning, regarding various factors, assumptions and risks that could cause our actual results to differ as they all apply to this call.

With that, I turn the call over to Paul Dobson.

### **Paul Dobson**

Thank you, Omar. And thank you to everyone for joining me on the call today.

I'm looking forward to reviewing with you our robust second quarter results, but also to address some of the questions you have undoubtedly. As we understand you have questions, so we will endeavor to keep this initial portion of the call short with plenty of time at the end to address them. If however, you don't have a chance to speak, please reach out to Omar and his team as we take feedback from our shareholders very seriously.

First, let's review our financial results for the second quarter. We saw increases in earnings per share and adjusted earnings per share compared to the second quarter of last year. Taken as a whole, the strong results were due to timing of the transmission rate decision, which also resulted in new rates approved by the Ontario Energy Board, increased consumption from more favorable weather, higher return on equity in the transmission business and lower operation maintenance and administration costs. The difference between the headline EPS and the adjusted EPS number is due to the adjustments for Avista acquisition, such as the fair value, unrealized gain on the deal contingent foreign exchange forward contract to convert CAD 1.4 billion to U.S. dollars.

Revenue net of purchase power was higher by 11.2% year-over-year driven primarily by the transmission business which reflects the decision on our 2017-2018 transmission rate filing that was implemented in the third quarter of last year. The transmission revenue was also possibly affected by higher return on equity and more favorable weather resulting from higher peak demand.

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OM&A was lower in the quarter versus the same period last year by 6.6% driven in large part by lower cost for information technology work based on our new service provider contract, lower cost for emergencies and storms, and lower spend on customer programs and lower corporate support costs.

Financing charges were lower by 3.9% year-over-year primarily on an unrealized gain driven by the same deal contingent currency exchange I mentioned earlier that affected adjusted EPS. However, the gain was partially offset by increased interest expenses related to the convertible debenture issued last August to satisfy the equity component of the Avista transaction.

Assets placed in service were higher in the second quarter of 2018 versus the second quarter of 2017 due to the substantial completion of a major development work at our Clarington Transmission Station. This demonstrates our strong operational ability to continue to deploy capital in an efficient manner.

From a liquidity standpoint during the quarter, the company issued CAD 1.4 billion medium term notes at attractive rates that will be used primarily to repay short term debt. To help fund the Avista transaction, the company has secured a CAD 1 billion non-revolving equity bridge credit facility and a \$2.6 billion non-revolving debt bridge facility.

With respect to our ratings on June 28, Moody's Investor Services downgraded the long term debt rating for Hydro One, Inc. to BAA1 from A3 and revised its outlook to stable from negative. As per their press release, the downgrade resulted from Moody's no longer assigning any probability that extraordinary support from the Province of Ontario due to Hydro One credit analysis.

The Standard and Poor's placed Hydro One Limited and Hydro One Inc. on credit watch negative for up to a potential two notch downgrade. Per their release on July 18, S&P articulated the first notch was due to the Avista transaction and the second would be based on its assessment of whether recent developments of the Hydro One Limited's governance structure would fail to promote the interests of all stakeholders and adversely affect management's decision making. We will continue to engage with the rating agencies to demonstrate our financial strength.

Regarding regulatory updates, the Ontario Energy Board hearings for the 2018 and 2022 distribution applications were held in June. In July, the company submitted its Argument-in-Chief. Intervenors had until August 10th to respond and Hydro One will make its final submission by August 31. Post the final submission, we expect the decision from the OEB to be forthcoming.

The timing for the filing for the 2019, the 2022 transmission rates is currently under review following the OEB's request for Hydro One to file its transmission filing for a four-year test period to synchronize the transmission and distribution rate files. We'll provide further guidance as and when it becomes available.

During the quarter, Hydro One and a Orillia Power Distribution filed a motion to review and vary the OEB's decision denying Hydro One's proposed acquisition of Orillia Power. An oral hearing was held in July on the threshold question of whether the matter should be reviewed before evaluating the merit of their motion to review in their submission.

While we are on the subject of LDC consolidation, we recently announced that we reached a definitive agreement to acquire the business and distribution assets of Peterborough Distribution Inc. subject that will be approved. Hydro One will pay the city of Peterborough \$105 million for the transaction. This is consistent with the Ontario LDC consolidation strategy and we look forward to welcoming the customers and employees of Peterborough Distribution to the Hydro One family.

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Moving to the regulatory approval process for the Avista transaction, we have made good progress with approvals from Alaska and Montana. We've also achieved all required federal regulatory approvals, consents and clearances to go forward with a merger.

More recently on July 19, the Idaho Public Utilities Commission issued an order vacating the technical hearing that was scheduled for July 23rd and a new date has not yet been established. On July 20, the Washington Utilities and Transportation Commission extended the deadline for a decision on the proposed merger by four months to December 14.

On July 25, the Public Utility Commission of Oregon issued a new procedural schedule and outlined the target date of December 14 for their decision. We continue to be fully committed to this transaction and anticipate closing in Q4.

If we look to operations, we see more proof that the company is aligned at all levels to improve every facet of the business. Referenced earlier in April, we completed the largest transmission project in the last six years, bringing clearance in station online, on schedule and 18% under the initial CAD 297 million budget.

We had four major storms within the quarter, which resulted in aggregate of over 1.4 million affected customers requiring power restoration, which was more than all the 2017. We met this challenge and set a new internal record for speed of restoration by utilizing new weather monitoring and outage prediction technology to align crews and resources in advance.

The company is further on track to achieve a one hour reduction in total average power outage duration for distribution customers compared to 2017. Thanks to improvements in response times for restoration crews through better outage planning, reporting and



analysis and more proactive storm readiness. The culture of continuous improvement in customer service is also driving results.

We demonstrated strong metrics for first call resolution and customer satisfaction with agents during the first full quarter, since bringing the new contact center in-house. There was a 30% year-over-year reduction in accounts receivable, thanks to support services for customers who were behind on their bills.

Along these lines, we continue to maintain an exceptionally high level of billing accuracy which came in at an actually high level of billing accuracy, which came in at 99.63% year-to-date. Transmission customer satisfaction also remains high at 90% up 2 points in the same period last year and the highest score on record due to new efforts to centralize large and industrial customer service to be more responsive to and engaged with their needs.

The intense focus on operations, customer service and corporate citizenship resulted in two awards from the U.S. based Edison Electric Institute for mutual systems and storm response. And a third from the Natural Resources Canada for supportive energy star products.

Three customer service initiatives designed to improve customer experience offered greater choice and lower cost recently received Chartwell's Best Practice Award, which recognized service excellence among North American electric and gas utilities. This is just a snapshot of how the company at all levels is committed to improving efficiency, controlling costs and putting the needs of our customers first.

Before we move to questions, I would like to take a moment to acknowledge the transition and leadership that is underway at Hydro One. We benefit greatly from the leadership and guidance of Mayo, David and other members of our Board of Directors as Hydro One emerge from a government entity into a publicly traded company under their tenure. They instilled in us corporate culture of continuous improvement as we strive to become a leading North American utility. For their leadership, we are grateful.

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I would also like to express how much the team and I are looking forward to working with our new Board of Directors. The nomination process has been completed and members of the new board were announced this morning. The members of the fully independent board are highly capable individuals, who bring with them substantial industry experience and significant expertise and strong governance.

As a management team, we look forward to working closely with the new board through the process of designating a new President and CEO new board with the process of designating a new President and CEO and addressing the strategic challenges and opportunities that lie ahead. We're pleased that the new board is coming at a time when Hydro One is building operational momentum and delivering strong financial results.

As everyone is aware the Ontario Government has introduced the Hydro One Accountability Act which among other things will expand the visibility of executive compensation and instructs the Ontario Energy Board to exclude executive compensation from rates.

At this point, we expect this decision will have an incremental annual impact of approximately \$0.03 per share to \$0.04 per share to our earnings. We will provide further guidance on this matter as and when appropriate.

Going forward, we continue to have a relentless focus on the fundamentals of the business, specifically we will continue to support customers, strive for operation excellence, sustainably drive down our OM&A cost and continue to add value to the business.

As discussed earlier, the recent decisions by commissions in Washington, Oregon and Idaho to include additional process in the regulatory review means our anticipated date to close the Avista transaction moves from Q3 to Q4 of this year.

We will provide additional input required in these regulatory processes and I iterate and I reiterate Hydro One remains fully committed to the transaction. In Ontario, we will also continue to work through the OEB processes with respect to Orillia and Peterborough and will review future M&A opportunities in due course.

Lastly, Ferio Pugliese, Executive Vice President, Customer Care and Corporate Affairs who has been with us since September 2016 will be departing Hydro One at the end of this week for another opportunity. We want to thank Ferio for his significant role in driving customer first culture across the organization. We will miss Ferio. We are pleased to have significant bench strength and management

We are pleased to have significant spend strength and management within Hydro One, and we are confident that we will be in a position to appoint a well-qualified and experienced replacement in the near future.

I will stop there, and we'll be pleased to take your questions.

### **Omar Javed**

Thank you, Paul. I will request the operator to please explain how she'd like to organize the Q&A polling process. Please go ahead, Christi.

### **Question-and-Answer Session**

#### **Operator**

[Operator Instructions] And our first question is from the line of Linda Ezergailis with TD Securities. Your line is open.

#### **Linda Ezergailis**

Can you give us an update on whether there has been any discussions yet or a process established for Hydro One to consult with the province on matters relating to executive compensation, as stated in your agreement. And if not, what sort of conversations have there been, and at what point with the effects of Bill 2 disallowing executive compensation be reflected in rates?

#### **Paul Dobson**

Thank you, Linda, for the question. So, first of all I'd just like to reiterate that the EOT is committed to a smooth transition with the new Board of Directors, and the impacts of the executive compensation.

The new board will be responsible for looking at executive compensation, and we expect that will be a priority for them as soon as they arrive. We look forward to working with them in that regard.

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Aug. 14, 2018 11:23 AM ET | 1 Like  
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Slides



News

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With respect to Bill 2, we do acknowledge the Bill 2 received do have a sense, and we'll manage the company within the parameters of that legislation. We're currently analyzing the impact of Bill 2. I did mention the \$0.03 to \$0.04 in my opening remarks about the expected impact of excluding it, we're continuing to analyze that and then work through that process, so more information will be forthcoming when we have it.

### Linda Ezergailis

And have you had any discussions with the regulators in the U.S. with respect to the change in the board and the CEO search that have given them an update or is it still all on hold until the official processes that are scheduled in the future?

### Paul Dobson

I'll ask Jamie to make a few comments here in a second, but I just want to reiterate that we're going to fall around Avista, how the company Hydro One remains fully committed to the merger with Avista. From our standpoint material fields of - material terms of the deal have not changed. We do recognize that the regulators have extended the process and have some questions for the new board. Jamie is there any other comments you'd like to make in that regard?

### Jamie Scarlett

Not really. I mean that's the essential message. These extensions that have been put on by the authorities in the states are really as we understand it designed to have a better understanding of the impact that these governance changes.

We have provided them with written updates and we have scheduled to have hearings with them later in the year October and November for Oregon and Washington. And we had discussions with the regulatory staff and some of the interveners, but it's all being of an informative and educational manner.

### **Linda Ezergailis**

And I realize you might not be able to comment too much on the CEO search, but maybe Judy can give us a sense of if the process has started or will that be something that the new board will be kicking off shortly?

### **Judy McKellar**

I'm happy to actually address that. That is certainly a matter for the new board that they will be kicking off. I imagine they would be kicking off in the very near future. I imagine that is a very high priority for them. And as I just said earlier, we look forward to working with them to help them in that regard.

### **Operator**

Our next question is from Robert Catellier with CIBC World Markets. Your line is open.

### **Robert Catellier**

Congratulations on the good quarter. Given the situation, I was wondering if it's fairly early days obviously with the new board being appointed, but have you had a chance to socialize the Avista acquisition with the new board? In other words how do we know that this new board is in alignment with Avista acquisition?

### **Paul Dobson**

So, it's a good question. The new board was announced this morning and the process to select the new board which was taken by not only the province, but their four nominees but then the six nominees from the investors with the ad hoc committee.

The management team here has not been involved in that that was a matter for the current board or the old board of Hydro One. And so we haven't been involved. So we have not sat down with the new board and gone through the Avista transaction. We will certainly as we go through and again be very supportive and committed to the merger. It's going to be the management standpoint with [indiscernible].

### **Robert Catellier**

Sorry to hear about Ferio's news, but Paul what are you doing in the interim knowing you have fairly limited scope, given your circumstances, but what are you doing to minimize turnover at ELT 2 level?

**Paul Dobson**

Well, first of all I'd say the entire ELT including Ferio was committed to a smooth transition. So even as Ferio moves out of his role which we've known about for a while, we are confident and are pleased that we have significant bench strength within the organization to fill these roles and to cover these responsibilities.

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Slides



News

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So we'll let them - we'll be looking to make an announcement in the near-term on Ferio's replacement. And I imagine though to that retention is on the mind of folks and certainly, will be a matter for the new board, there is tremendous talent here to go and my five or six months here with the company, I have continued to be impressed every day with the depth of talent that we have in the company and I believe it will be a very seamless transition as we go forward.

### Robert Catellier

My last question then is, do you have a sense of timing on Avista. A couple of dates were pushed out to December 14. But, at this point, Idaho has vacated their process and how much time does the Idaho process require and are the sort of mid-December dates really the way we should be looking at the transaction?

### Paul Dobson

I think, mid-December is our latest target date for closing the transaction. Maybe I'll ask Jamie to say if there could be some flexibility around that.

### Jamie Scarlett

Washington is our largest state regulator and under their legislative regime, they have an outside date which was August 14. They're pushed out by four months which they've done. So that's why the December 14 date is there. We expect to be through by then. We've got a schedule of other work that's being done at ease towards that date. I suppose there's always the possibility of some kind of potential extension, but we haven't even talked about that. Our expectation is that we'll be done by the end of the year.

### Operator



Our next question is from David Galison with Canaccord Genuity. Your line is open.

**David Galison**

So I'd also like to talk about the Avista acquisition. So besides the governance changes that were being discussed - is the extensions offer up or will they be including additional negotiations with the regulators or those all complete and now you're just waiting for the approval process?

**Paul Dobson**

Maybe I'll ask Jamie to talk about.

**Jamie Scarlett**

As I said we've had some discussions not with Idaho but with staff but with Oregon staff and with Washington staff and certainly my understanding in our operating premises that all of the extensions are really around helping the regulators to get their minds around the change of governance both at the board and at CEO level. There has been no suggestion that the settlements themselves would change in any respect that there will be new you know items added to them and that's not my expectation.

**David Galison**

And then we can negotiate our discussions with the provinces they offered an opinion on Avista acquisition or one way or the other?

**Paul Dobson**

Not to my knowledge as the province. We have met with the certain folks within the Ministry of Energy just as introductory meetings. Certainly there are very aware of the Avista transaction, but you know they are anxious to learn more about it and inform [indiscernible].

**Jamie Scarlett**

And let me just add one little point. It's Jamie Scarlett again just for completeness sake it has always been the case that when you get orders out of these various state regulatory bodies they can always add elements to their approval in those orders, so that's always out there that hasn't changed because of this extension.

**Operator**

Our next question is from Ben Pham with BMO. Your line is open.

**Ben Pham**

On the \$0.03 or \$0.04 you highlighted on the compensation, is that – can you talk about how you're calculating that? Is that just based on last year's number and then is there anything you can do to mitigate that impact perhaps O&M savings that you're seeing a little bit coming a little bit better than expected?

**Paul Dobson**

I think we certainly will continue to look at all on OM&A costs per efficient team and driving it down as we hopefully, everybody appreciate that and we've demonstrated that. The \$0.03 or \$0.04 comes from basically executive compensation as per the legislation VPs and above. And so I think that a lot of that information or some of that information certainly is in proxy circulars for the executive team and the remainder is for VPs and ex-VPs.

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Slides



News

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So, that's our estimate is \$0.03 to \$0.04 probably closer to \$0.03 than \$0.04 at this stage and we're going to continue to analyze that and look for ways that we can mitigate that and make it file.

**Ben Pham**

And then on some of the credit rating changes, whether it's expected or not? Could you comment on maybe any change in credit spreads you've seen and does that impact in any way the expected accretion on Avista?

**Paul Dobson**

We have not really seen any major changes in credit spreads. I think if you refer you to the releases from both Moody's and S&Ps, but I think they've done - they've had a pretty clear description of where the ratings are and where they could move to based on their criteria. But in terms of spreads, I don't think we've seen much movement at all.

**Ben Pham**

And then lastly maybe nay update on the income tax variance file and where is that at the moment?

**Paul Dobson**

I assume you're referring to the pretax asset issue in front of the OEB.

**Ben Pham**

That's right.

**Paul Dobson**

So we have not yet heard from them. So, if you recall we've filed a motion to review and vary in October 2017 I believe. We had a hearing with them in February of this year to review the merits of the motion and a decision from that hearing is still pending. We're expecting something – I think we're expecting something this year, but it is up to the OEB.

**Operator**

Our next question is from Andrew Kuske with Credit Suisse. Your line is open.

**Andrew Kuske**

I think the first question is for Paul and you mentioned your anticipation over Avista closing Q4 really in December. Can you just clarify the outside date on the convertible debentures that you issued just to give you some buffer?

**Paul Dobson**

The outside date I believe for the convertible debenture it's May I believe – March 2019.

**Andrew Kuske**

That's helpful. And then just shifting gears a little bit, just on the OM&A and the...

**Paul Dobson**

Sorry, I've been corrected again. It's the end of April 30, 2019.

**Andrew Kuske**

April 30? Okay. Thank you. And then just shifting gears into the OM&A, it continues to cost side of the - out of the company, but one thing I just like a little clarity on that you had in the TX, now also thinking the DX higher project write-offs due to some investments that you're pursued originally than effectively called. How much impact was that on the cost reductions?

**Paul Dobson**

On a year-to-date basis that was about \$10 million. We didn't really have – I don't believe we had much of that in the second quarter, but on a year-to-date basis about \$10 million.

**Andrew Kuske**

And then, where would you classify your cost reduction strategy right now just in the test of time? Are you in the third inning, fifth inning? Whereabouts are you?

**Paul Dobson**

I'm not - I'm more of a hockey fan than a baseball fan, but I'd say...

**Andrew Kuske**

Okay. First period, second period then.

**Paul Dobson**

I don't think we are - yes, we're somewhere in the - coming out of the first period into the second period, I would say. We continue to see good opportunities around this because it's a very - it's a large substantial business with different opportunities and with certainly an experienced management team and even the new board I'm sure are going to come in with other ideas as well. So yes, I'd say ending the first coming into the second period.

**Operator**

Our next question is from Robert Kwan with RBC Capital Markets. Your line is open.

**Robert Kwan**

Just in terms of a couple of the regulatory processes you talked about the deferred tax R&D as well as the distribution rate case. Just, is there anything you can do to kind of pin down the timing other than just sometime this year? Is there any kind of expectation bonded wise?

**Paul Dobson**

Afraid it's in the hands of the OEB. We've had the hearing. We submitted our Argument-in-Chief. We're going to make our final submissions by the end of this year and expect their decision thereafter, we can't dictate or even guess what the timing is. We're certainly very hopeful that it will be this year.

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Slides



News

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### Robert Kwan

And just with the change in government, have you noticed any changes in your interactions with the OEB or are you expecting any changes with respect to the OEB?

### Paul Dobson

I don't think we've seen any changes. No, I mean the OEB is an independent board of the government, acting in the best interests of ratepayers overall. I wouldn't expect to see a difference in their and their posture towards us as a result the change in government.

### Robert Kwan

If I can just come back to a question asked earlier around Avista and just for greater clarity, the Q2 statements that came out today, the new board did not participate in the preparation of the Q2 MD&A in financials, is that correct?

### Paul Dobson

That's correct.

### Robert Kwan

And if I can just finish, it looks like the rate base figures and growth are down slightly. Is that just Clarington coming in under budget or is there something else going on?

### Paul Dobson

There's a little bit of that, but I think our spending in our in-service is ahead of last year. The spending is a bit lumpy though, you have to appreciate. These are very large projects, it's very - you know it's a large transmission, with the very large distribution assets that

we're putting in place.

So there is timing certainly plays a factor in the ups and downs with the rate case. But you know overall when you look over the long term, there is you know 4% to 5% rate case growth that we continue to expect.

### **Operator**

[Operator Instructions] Our next question is from Mona Nazir with Laurentian Bank. Your line is open.

### **Mona Nazir**

I'm just wondering firstly about - or if you could speak to the level of influence and involvement that the government has. I remember prior conversations with the management team surrounded the organization running pretty autonomously and that government did not see press releases or were not involved with this strategy in operations. I'm just wondering to what degree this has changed if at all?

### **Paul Dobson**

I don't think it has changed substantially. I think the government has acted within the parameters by and large of the governance agreement and I would expect them to continue to do that, that going forward as well. The new board coming on place will certainly look to that governance agreement and the way they operate and interact with the government as well going forward. So we see that being still in place.

### **Mona Nazir**

And then secondly should the Avista transaction approval get pushed out past the April 2019 kind of final installment notice date. Can you comment on the financing of the 1.5 billion of convertible debentures, is it possible to extend or would you have to do some sort of refinancing?

### **Paul Dobson**

We certainly would look at all of our various options to refinance at that point in time. But I just want to reiterate too that we remain fully committed to the Avista transaction. We believe the material terms of the deal are - are still in place in the strategic rationale for doing the deal still remains. But Jamie is there any other points you want to make around that?

**Jamie Scarlett**

I think that's good answer on the financing question.

**Mona Nazir**

And just lastly from for me, is it possible that FERC and approved states of Alaska and Montana reverse their decisions at all? And are you having any conversations with them currently or is that chapter is kind of closed from the Avista transaction perspective?

**Paul Dobson**

So, I think overall - I'll throw it over to Jamie here in a sec, but I don't think that we've heard anything from either about the person decisions, I think it would be highly unusual to see that, we're not anticipating that. Is there anything else you want to add Jamie?

**Jamie Scarlett**

That's correct, Paul. I mean Alaska and Montana are important states. They're not where the bulk of the business lies and I don't think there's anything in the approvals that they've given that would suggest they're going back to us.



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Slides



News

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In terms of the Federal approvals there are some time limits around the approvals around HSR. And I think the Federal Communications Commission, but those are pretty straight forward approvals and if we have to get them refresh we'll do that without an incident.

### Operator

Our next question is from David Casado with Raymond James. Your line is open.

### David Casado

My first question here just on the topic of LDC consolidation in Ontario. I'm wondering if you expect to see any change in the government's stance or procedure with respect to approving those transactions going forward?

### Paul Dobson

I'll maybe ask Pat to make a few comments on LDCs, but I think overall we believe that consolidating LDCs in Ontario certainly in many instances can make economic and operational sense as it has for Peterborough and Orillia provincial goal at the moment is your stated goal is to consolidate. And so, we'll continue to look at LDCs when it makes sense from both the customer and shareholder perspective. Pat, is there is anything else you want to add around the LDC consolidation?

### Patrick Meneley

No, David. Just to clarify we don't have any indication at all of any change in the government's perspective on this. And we are looking at these where we can add value as for repairs and for community and for Hydro One and we see for both Peterborough and Orillia wherever we surround those LDCs completely from an operational perspective.

There are opportunities to really deliver on all of those criteria and have it beneficial to shareholders as well. So, our perspective is that we'll continue to monitor those opportunities and pursue them as it makes sense for all parties and have no indication at this point that the government's perspective is changing.

### **Operator**

Our next question is from Jeremy Rosenfield with Industrial Alliance. Your line is open.

### **Jeremy Rosenfield**

Just following up on the LDC consolidation issue for Peterborough specifically does the rate base from Peterborough roll into Hydro One's rate base or is that going to stay separate for a period of time?

### **Paul Dobson**

Well, there's a period of time where we jointly filed a MAAD application and that will go through the OEB process and that will be subject to the OEB approval timelines. Certainly, I believe those assets come into our rate base, but there are procedures in place into the MAAD process which provide for monitoring. The undertakings have been made by the parties in those transactions. So, from a fundamental perspective as part of our rate base but we do monitor it as we go forward through the process.

### **Jeremy Rosenfield**

And then just turning back to the Avista acquisition. Paul or Jamie, the agreement itself with Avista, I think has an expiration date. Does that need to be extended? Are you in discussions with Avista right now to extend that agreement?

### **Jamie Scarlett**

There is an outside closing date of September 30, but either party has the right to extend it for six months. It does not need consent of both parties so.

### **Jeremy Rosenfield**

So it's unilateral on one side. Okay.

### **Jamie Scarlett**

Either side. Yes.

### **Operator**

[Operator Instructions] I'm not showing any further questions. I'd like to turn the call back over to Omar Javed for any further remarks.

**Omar Javed**

Thank you, Christie. The management team at Hydro One thanks everyone for their time with us this morning during what is definitely a busy period. We appreciate your interest and your ownership. If you have any questions that weren't addressed in the call, please feel free to reach out and we'll get them answered for you. Thank you again and enjoy the rest of your day.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude today's program and you may all disconnect. Everyone have a great day.