

FW: Statement from Minister of Energy on Hydro One Acquisition

From: "McPhail, Blane (OPO)" <blane.mcphail@ontario.ca>
To: "Killorn, Bill (OPO)" <bill.killorn@ontario.ca>, "Forgione, Andrew (OPO)" <andrew.forgione@ontario.ca>
Date: Wed, 19 Jul 2017 17:04:51 -0400
Attachments: H1 Acquisition Statement 2017-07-19 FINAL - EN.PDF (103.75 kB); H1 Acquisition Statement 2017-07-19 FINAL FR.PDF (231.88 kB)

Not sure if it was discussed already but this article from a weeks ago has some helpful quotes:

<https://www.theglobeandmail.com/report-on-business/streetwise/why-hydro-one-is-eyeing-us-takeovers-to-fuel-expansion/article35494090/>

Why Hydro One is eyeing U.S. takeovers to fuel expansion

Smart CEOs don't surprise the market with deals. They take the time to sell investors on a growth strategy long before they announce a takeover.

Hydro One Ltd. chief executive officer Mayo Schmidt knows this. He's a veteran deal maker who built a dominant grain-handling business at Viterro Inc. by doing two dozen acquisitions over 12 years, before the company was sold and carved up.

Now Mr. Schmidt is almost two years into running a newly privatized utility that hasn't done a major transaction outside its home territory, Ontario's electricity market. And Hydro One's boss is taking every opportunity to bang the drum on U.S. expansion. There's clearly something in the works.

While we don't know the name of the U.S. utility that Hydro One is targeting – in fact, there's every indication that Mr. Schmidt is still trying to find a dance partner – we do know the game plan, and on Bay Street there is plenty of well-informed speculation on what exactly the Toronto-based company will eventually acquire.

In looking outside Ontario for growth, Hydro One is taking a page from peers such as Enbridge, Fortis and TransCanada; these are three of the six Canadian companies that collectively spent \$87-billion on six well-received U.S. utility takeovers over the past 18 months. In large part, these companies looked abroad because they saw limited opportunities to expand in their home markets, and because the American companies were willing sellers.

"With several Canadian utility peers deciding to acquire assets south of the border, we would not be surprised if Hydro One were to make an acquisition in the U.S.," said Laurentian Bank Securities analyst Mona Nazir in a recent report that also said the company could pull the trigger on a deal later this year or in 2018.

The Hydro One executive team – several of whom were recruited from U.S. utilities – were paving the road for a potential deal this week at a JPMorgan conference in New York. Mr. Schmidt told the crowd that **Hydro One had a top-grade single-A credit rating and could shoulder more debt than U.S. peers while maintaining this coveted rating, and also use an acquisition to take advantage of the U.S. tax regime.**

"There's quite a number of metrics that make it look favourable," Mr. Schmidt said in discussing a potential takeover. He also said Hydro One would be a disciplined buyer and "any opportunity we see at home or beyond our borders needs to be accretive on every measure in the first 12 months of operation," a criteria applied to every one of the 24 takeovers Mr. Schmidt authored while running

Viterra.

With an enterprise value of \$24-billion, investment bankers who work with Hydro One predict the company will make a \$2-billion to \$7-billion acquisition as an opening foray into the United States – anything smaller doesn't move the dial financially, anything larger is likely to spook investors.

If Hydro One decides to acquire an electrical transmission or distribution business – the sectors it owns in Ontario – it makes sense to buy a network that's linked to its existing grid, which is directly connected to U.S. networks in New York, Michigan and Minnesota. However, there's a school of thought that says investors would be well-served by seeing the company move into new sectors, where returns remain predictable due to government regulation, but there's additional growth potential.

"We believe Hydro One is closer to making acquisitions outside of Ontario, including the possibility of new business lines," said a recent report from **CIBC Capital Markets analysts Robert Catellier and Ian Woodward**. **"We would view the diversification as beneficial, notwithstanding our view that Ontario is a relatively attractive jurisdiction.** Diversification into other utility lines, such as gas distribution, could also be attractive in providing larger growth opportunities while not greatly changing the character of the company's operations."

To date, Mr. Schmidt has telegraphed he's interested in snagging a U.S. utility, but steered clear of referring to specific sectors. When Hydro One executives start talking up the virtues of wires or pipes that run to American homes, we'll know they've zeroed in on a target, and that a deal is imminent.

From: Berry, James (ENERGY)
Sent: July-19-17 4:52 PM
To: Berry, James (ENERGY)
Cc: Nekolaichuk, Colin (ENERGY)
Subject: Statement from Minister of Energy on Hydro One Acquisition

Good afternoon:

Please see attached statement (French and English) from Glenn Thibeault, Ontario's Minister of Energy, on Hydro One's announcement that the utility has agreed to acquire Avista, a utility company in the northwest United States.

Should you have any additional questions, please do not hesitate to contact me.

Thank you,

James Berry
Director of Communications
Minister's Office | Ministry of Energy
O: 416.327.3551 | C: 437.992.3824

