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IDAHO PUBLIC  
UTILITIES COMMISSION



July 18, 2018

Diane Hanian, Secretary  
Idaho Public Utilities Commission  
Statehouse Mail  
W. 472 Washington Street  
Boise, Idaho 83720

RE: Joint Application of Hydro One Limited and Avista Corporation for Order Authorizing Proposed Transaction Docket Nos. AVU-E-17-09 and AVU-G-17-05/Update on Recent Changes in Hydro One Management

Dear Ms. Hanian:

By this letter, Avista and Hydro One wish to advise the Idaho Public Utilities Commission (the "Commission") and all parties of recent developments concerning the management of Hydro One, to reaffirm our commitment to the transaction, and to reiterate our request for timely approval of the transaction. Avista and Hydro One believe that all of the reasons previously stated in support of the merger remain equally true today, and that approval is in the public interest. As discussed below, extensive safeguards have been incorporated into the agreed-upon commitments in the Settlement Stipulation filed on April 13, 2018, to protect and insulate Avista and its customers from any change in management at Hydro One. The structural safeguards were designed to withstand the test of time, and the inevitable changes in management.

Avista and Hydro One request that this letter be made part of the official record in this case.

#### **Recent Development Concerning Changes in Management**

On July 11, 2018, Hydro One, on behalf of itself and its wholly-owned subsidiary, Hydro One Inc. ("HOI"), announced that following an approach by Hydro One to the Province of Ontario (the "Province"), they have entered into an agreement for the purpose of the orderly replacement of the board of directors of Hydro One and HOI and the retirement of Mayo Schmidt as the chief executive officer effective July 11, 2018 (the "July 2018 Agreement"). Attachment A is a copy of the July 2018 Agreement. Highlights include:

- Consistent in principle with the ability of the Province to remove the entire board of directors pursuant to Section 4.7 of the Governance Agreement, each of the current directors of Hydro One will resign and be replaced by nominees identified as set out below.

- The new board of directors will initially consist of 10 members. Consistent with the Governance Agreement, the Province will nominate four replacement directors and the remaining six nominees will be identified through an Ad Hoc Nominating Committee comprised of representatives of Hydro One's largest shareholders other than the Province.
- The new board of directors will be responsible for appointing a new chief executive officer who will also be appointed as the eleventh member of the replacement board of directors.
- Hydro One has agreed to consult with the Province in respect of future matters of executive compensation.
- The replacement directors will serve until Hydro One's next annual meeting or until they otherwise cease to hold office.
- Paul Dobson, Hydro One's chief financial officer, has been appointed as acting chief executive officer until such time as the replacement board of directors, once constituted, can appoint a new chief executive officer.

Hydro One has committed to completing the transition process to a new board of directors by August 15, 2018.

During Doug Ford's campaign to become Premier of the Province, Premier Ford and his Progressive Conservative Party, which secured a majority of the seats in the Provincial legislature during the June 7, 2018 election, promised to remove Hydro One's CEO and board of directors. As with any general election, it was unclear up to the election day which party would win and whether that party would win a majority of seats. Further, it was unclear how the winning party would execute or implement its agenda. In the interest of securing an orderly resolution of this issue, Hydro One entered into negotiations with the new government on Thursday, July 5. Hydro One believes that the July 2018 Agreement reached with the Province, which provides for an orderly transition of the board of directors and CEO succession, is in the best interests of Hydro One and its various stakeholders and provides stability and clarity to Hydro One's governance and management structure going forward.

### **Hydro One Accountability Act, 2018**

On Monday, July 16, 2018, the new Provincial government introduced the *Urgent Priorities Act, 2018*, which, if passed, would enact the *Hydro One Accountability Act, 2018*. The *Hydro One*

*Accountability Act* (Attachment B), if passed, will not apply to Avista if Avista becomes a subsidiary of Hydro One. The Act's definition of "subsidiary" excludes subsidiaries "incorporated in a jurisdiction outside Canada."

If passed, the *Hydro One Accountability Act, 2018* would require the board of Hydro One to establish a new compensation framework for the Board of Directors, CEO, and other executives in consultation with the Province and the other five largest shareholders. The Act would also give the Management Board of Cabinet authority to approve this compensation framework and any amendments to it as well as to issue directives governing the compensation of the directors, CEO, and other executives.

The *Hydro One Accountability Act* also would amend the *Ontario Energy Board Act, 1998* to require the Ontario Energy Board to exclude any amount in respect of compensation paid to the Chief Executive Officer and executives from consumer rates for Hydro One or its subsidiaries. In addition, the Act would require Hydro One to annually publish on its website a record of the total compensation of executives as prescribed by regulation. The Act would also require Hydro One to publish on its website any proposed changes to its compensation frameworks for the board, CEO, or other executives at least 30 days prior to the date on which it seeks Management Board of Cabinet approval for those changes pursuant to the Act. The Act would also provide the Crown and Hydro One with immunity from civil liability with respect to certain actions.

This legislation has no impact on (1) Hydro One's contractual commitment to proceed with its acquisition of Avista, (2) the settlement stipulations Hydro One negotiated with parties in Oregon, Washington, Idaho, Montana, and Alaska, or (3) the authority of Avista's state regulators to continue to regulate Avista if the merger with Hydro One is consummated.

### **Moody's July 16, 2018 Report**

On July 16, 2018, Moody's Investors Service ("Moody's") published its "Credit Outlook" report. This is a report which Moody's publishes twice a week outlining its outlook on credit implications of current events. The July 16 report includes a section on Hydro One entitled "Hydro One's Board and CEO Are Forced Out, a Credit Negative." The report concludes that "Ontario's willingness to force out the current board clearly demonstrates that the utility is not immune to direct political interference, a credit negative." The report also concludes that if the Province follows through on its promise to reduce some customer rates by 12%, and that reduction reduces Hydro One's revenue and cash flow, it would be materially credit negative for Hydro One. Reiterating previous statements by Moody's<sup>1</sup>, the report states that Hydro One's

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<sup>1</sup> See Rating Action: Moody's downgrades Hydro One Inc. to Baa1 from A3; rating outlook stable (20 Jun 2018); and Rating Action: Moody's Affirms Hydro One's senior unsecured A3 ratings; outlook changed to negative (19 Jul 2017).

completion of the acquisition of Avista is credit negative for both Hydro One and Hydro One Inc. Finally, the report notes that Hydro One will be following an established process for establishment of a new board.

The report comments that the change in the board of directors may make it more difficult to complete the Avista transaction in the next few months. Avista and Hydro One agree that the change may result in modest delays in obtaining regulatory approvals but continue to believe that approvals will be forthcoming because the transaction is in the interests of Avista's ratepayers and the public.

The publication of this Credit Outlook does not change Moody's credit rating of Hydro One Inc.

### **Governance and Financial Ring-Fencing Effectively Separate Avista From Hydro One**

Hydro One, Avista, and all parties (collectively, the "Parties") filed a Settlement Stipulation on April 13, 2018. The Parties negotiated numerous commitments designed to provide governance and financial ring-fencing between Avista and Hydro One. Certain of these merger commitments were developed to ensure that Avista cannot be subjected to political interference or influence by the Province.

First, Avista will have a nine-member board separate from Hydro One that will govern Avista's management and operations. Three of the five Avista directors selected by Hydro One (not by the Province) must be independent under NYSE rules. Further, those three directors must be residents of the Pacific Northwest. Two of the four directors selected by Avista must be independent under NYSE rules. See Stipulation Commitment No. 3.

Second, Avista's CEO must be selected by Avista's board -- not Hydro One or the Province. See Stipulation Commitment No. 2.

Third, Olympus Equity LLC's three-member board must include one independent director. See Stipulation Commitment No. 43.

Fourth, Avista's executive management will remain in place and must be selected by Avista's board -- not Hydro One. See Stipulation Commitment No. 2.

Fifth, Avista's employees will be retained. See Stipulation Commitment Nos. 9, 10.

Sixth, Hydro One is required to provide Avista with enough equity so that Avista can access debt on reasonable terms. See Stipulation Commitment No. 34. Therefore, neither Hydro One, nor the Province, can deprive Avista of its capital and assets.

Seventh, Avista will continue to have its own credit ratings. Hydro One is required to provide Avista with sufficient equity to ensure that Avista's credit ratings remain investment grade. See Stipulation Commitment No. 36. Therefore, again, neither Hydro One, nor the Province, can deprive Avista of its capital and assets.

Eighth, Avista will be prohibited from issuing dividends if certain financial metrics relating to the equity floor, credit ratings and debt coverage are not met. Basically, this operates to keep retained earnings at the Avista level where they will improve Avista's financial strength. See Stipulation Commitment No. 38. This too prevents Hydro One from depriving Avista of its capital and assets.

Ninth, several of the Stipulation commitments protect Avista from being drawn into bankruptcy proceedings that are not in the best interest of Avista and its customers. Avista will issue a single share of preferred stock referred to as the Golden Share to an independent third party. The vote of this share will be required to place Avista into voluntary bankruptcy. See Stipulation Commitment No. 42. Further, Avista's entry into voluntary bankruptcy would require the consent of a two-thirds majority of all of its directors, including the affirmative vote of a majority of the Independent Directors at Avista, which would have to include the affirmative vote of at least two Avista-designated Independent Directors. See Stipulation Commitment No. 43. Hydro One and Avista must also provide a non-consolidation opinion to confirm the effectiveness of the ring-fencing measures to prevent the substantive consolidation of the assets and liabilities of Avista with those of the entities above it in the corporate chain of ownership. See Stipulation Commitment No. 44. The corporate structure also includes Olympus Equity LLC, a bankruptcy-remote special purpose entity that will have no debt. See Stipulation Commitment No. 45. Therefore, neither Hydro One, nor the Province, can obtain Avista's capital and assets through a bankruptcy proceeding unless that would be in the best interests of Avista's customers.

Tenth, Avista's utility assets can be pledged only for the benefit of Avista, not Hydro One. See Stipulation Commitment No. 46. Therefore, neither Hydro One, nor the Province, can strip Avista of its capital and assets.

#### **Additional Commitment based on Recent Events**

In light of the recent events discussed earlier and consistent with the *Hydro One Accountability Act, 2018*, Avista and Hydro One have agreed upon an additional commitment to provide further protection to Avista's employees, such that Avista will be able to continue to recruit and retain the most highly qualified employee talent base for our customers:

Avista Employee Compensation: Any decisions regarding Avista employee compensation shall be made by the Avista Board consistent with the terms of the Merger Agreement between Hydro One and Avista, and current market standards and prevailing

practices of relevant U.S. electric and gas utility benchmarks. The determination of the level of any compensation (including equity awards) approved by the Avista Board with respect to any employee in accordance with the foregoing shall not be subject to change by Hydro One or the Hydro One Board.

This additional commitment is new and has not been shared with the other parties to this proceeding. Should any of the parties have concerns with it, we ask that those parties provide any concerns in subsequent reply comments.

Hydro One and Avista also acknowledge that, given recent events in Ontario, additional time may be necessary to understand the implications of those events to Avista. We also acknowledge that additional, or modified commitments related to Avista governance may be necessary to alleviate any lingering concerns that the province of Ontario could affect Avista and its operations. We remain open to addressing those concerns in a manner that satisfies your and our needs.

### **Subsequent Reporting of Developments**

Hydro One and Avista will file reports in this docket (until the docket is closed) whenever a significant event occurs or statement is made by the Province's new leadership that provides further new insight regarding the future of Hydro One's executive leadership and/or Board. Hydro One will file reports regarding any additional legislation that is proposed or statements made during the Province's legislative session, commenced on July 11, regarding Hydro One's executive leadership and Board.

Hydro One, Avista, and the other parties in this docket have included governance and financial ring-fencing in the Settlement Stipulation that will protect Avista and its customers. Even though Hydro One's CEO and Board are in the process of being replaced, that does not change anything with respect to Avista as established by the Parties in their Settlement Stipulation.

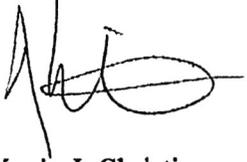
### **Conclusion**

Hydro One and Avista, along with the rest of the parties, developed the Settlement Stipulation to ensure that Avista could not be negatively impacted in any way by any of the events described in the previous sections. Hydro One is legally obligated to comply with the settlements it has reached in Washington, Montana, Oregon, Idaho, and Alaska. As a result, all of the protections described above that have been built into the Settlement Stipulation to ensure that Avista will continue as a financially sound, stand-alone utility will bind Hydro One regardless of political developments (e.g., Avista's independent board, financial ring-fencing, capital support) and change in management. Furthermore, through the Settlement Stipulation in this proceeding and the settlements in other jurisdictions, Hydro One and Avista have committed that none of the commitments in the settlements can be amended without approval from Avista's state regulators. See Stipulation Commitment No. 1.

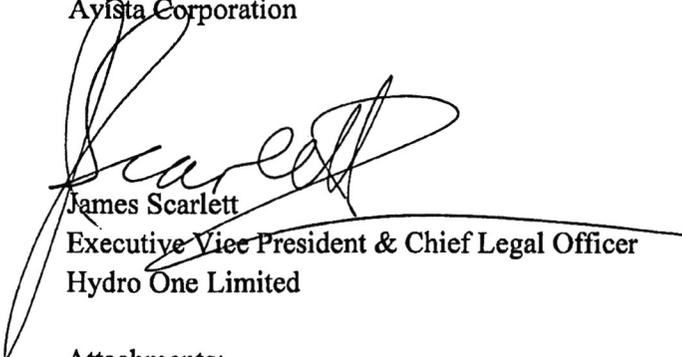
Finally, the Settlement Stipulation in this docket confirms that the Commission will continue to regulate Avista as it always has to ensure that Avista's customers are protected and continue to pay fair, just, and reasonable rates. See Stipulation Commitment Nos. 20-33.

We trust that this information will prove helpful as the Commission deliberates in this matter.

Sincerely,



Kevin J. Christie  
Vice President, External Affairs and Chief Customer Officer  
Avista Corporation



James Scarlett

Executive Vice President & Chief Legal Officer  
Hydro One Limited

Attachments:

Attachment A: July 11, 2018 Agreement

Attachment B: Hydro One Accountability Act, 2018

Cc: all parties

**Hydro One Inc.**  
483 Bay Street  
8th Floor South Tower  
Toronto, Ontario M5G 2P5  
www.HydroOne.com



David F. Denison  
Chair of the Board

July 11, 2018

Her Majesty The Queen in Right of Ontario  
as represented by the Ministry of Energy, Northern Development and Mines  
900 Bay Street  
4th Floor, Hearst Block  
Toronto, ON M7A 2E1

Attention: The Honourable Greg Rickford, Minister

Dear Sirs/Mesdames:

**Re: Hydro One Limited Governance Arrangements and Related Matters**

This letter agreement (the "**Agreement**") sets out the agreement between Hydro One Limited ("**Hydro One**") and the Province (as defined below) with respect to the process to facilitate the orderly replacement of the entire Board of Directors of Hydro One, the retirement of Hydro One's Chief Executive Officer, and related governance and compensation matters. This Agreement is effective as of the date hereof and shall be a legal and binding agreement enforceable against each of the parties hereto in accordance with the terms hereof.

### **Removal and Replacement of the Board of Directors**

1. The Hydro One Board of Directors (the "**Board**"), led by the Chair of the Board and with the cooperation of the Province, will facilitate the orderly resignation of all of the fourteen (14) existing directors on the Board (the "**Directors**") and their replacement on a future effective date to be mutually agreed upon by the Province and Hydro One as soon as reasonably practicable and, in any event, by no later than August 15, 2018, through an expedited process as follows:
  - a. Promptly following your acceptance of this Agreement, and in any event within five (5) Business Days hereof, the Chair of the Board shall coordinate the establishment of an Ad Hoc Nominating Committee consistent with the process set out in the Governance Agreement comprised of one representative of each of the five largest beneficial owners of Voting Securities of Hydro One, excluding the Province, or if one of such five beneficial owners of Voting Securities is not willing to provide a representative to serve on the committee, then the four representatives from the four of the five largest beneficial owners of Voting Securities shall form the committee, or if two of such five beneficial owners of Voting Securities are not willing to provide a representative to serve on the committee, then the three representatives from the three of the five largest beneficial owners of Voting Securities shall form the committee, or if three or more of such five beneficial owners of Voting Securities are

not willing to provide representatives to serve on the committee, then one representative of each of the three largest beneficial owners of Voting Securities who is willing to provide a representative to serve on the committee.

- b. Following the establishment of the Ad Hoc Nominating Committee, the Province and the Ad Hoc Nominating Committee, acting reasonably, shall identify, nominate and confirm a slate of ten (10) replacement Director nominees to be appointed to the Board (the "**Replacement Directors**"). Following their appointment to the Board, the Replacement Directors shall increase the size of the Board to eleven (11) members upon the appointment of a Replacement CEO, which Replacement CEO shall be appointed to the new Board pursuant to section 13 of this Agreement and consistent with the Governance Agreement. In accordance with the Governance Agreement, the Province shall be entitled to nominate the number of nominees that is equal to 40% of the Replacement Directors to be elected (being four nominees) and the Ad Hoc Nominating Committee shall be entitled to nominate the remaining 60% of the Replacement Directors to be elected (being six nominees). The Province and the Ad Hoc Nominating Committee will work expeditiously to identify, nominate, confirm and appoint all of the Replacement Directors as soon as reasonably practicable and, in any event, by August 15, 2018. The Replacement Directors (and each of them, as applicable) must meet the requirements set out in section 4.2 of the Governance Agreement, as applicable.
  - c. Following the identification and nomination of all of the Replacement Directors and, in any event, by August 15, 2018, the existing Chair of the Board shall call a meeting of the Board at which the existing Board shall accept the resignations of each of the existing Directors and fill the vacancies created by such resignations with the Replacement Directors in a sequential manner as contemplated by section 4.6.2(a) of the Governance Agreement. For greater certainty, the requirements to provide a Removal Notice or call and hold a Removal Meeting under the Governance Agreement are waived in connection with the replacement of the existing Directors with the Replacement Directors in the manner contemplated under this section 1.
  - d. Prior to the appointment of the Replacement Directors, the Province may designate one or more of its nominees for Replacement Directors to act as a liaison with Hydro One, the current Chair and the Ad Hoc Nominating Committee with respect to the identification, nomination, confirmation and appointment process for the Replacement Directors outlined in this Agreement.
  - e. Once all of the Replacement Directors have been appointed to fill all of the vacancies created on the Board in accordance with section 1.c of this Agreement, the newly appointed Board shall then appoint a new Chair of the Board in accordance with section 3.2 of the Governance Agreement and in consultation with the Province.
2. Each of the Replacement Directors nominated and appointed to the Board pursuant to section 1 of this Agreement shall serve on the Board until the earlier of the 2019 annual meeting of shareholders of Hydro One or until his or resignation or his or her successor is elected or appointed in accordance with the Governance Agreement and the OBCA.
  3. Each of the existing Directors shall be entitled to receive all remuneration, benefits, awards and other entitlements previously granted, awarded or earned on or prior to June 30, 2018, including all payments relating to director deferred share units acquired in lieu of cash board

fees on or prior to June 30, 2018 (plus dividend equivalents), without modification, amendment or derogation, and shall not be required to forfeit, return or have clawed back any previously granted, earned or awarded remuneration, benefits, awards or other entitlements. For greater certainty, the existing Directors' rights to indemnity under applicable law, the by-laws or other constating documents of any Hydro One Entity or any agreement between an existing Director and any Hydro One Entity and to coverage under and to contribution and indemnification pursuant to any directors' and officers' insurance policies of any Hydro One Entity shall continue following their resignation and retirement in accordance with their respective terms. Hydro One and the Province acknowledge and agree that, with immediate effect as of the date of this Agreement, the Board has voluntarily agreed to reduce the compensation of the existing Directors to the levels that existed as of December 31, 2017 pursuant to the then-existing director compensation policies, and the Board shall pass a resolution fixing such rate of compensation for the Directors with effect from and after the date hereof. It is further acknowledged and agreed that each of the existing Directors has voluntarily agreed to forego any further remuneration, benefits, awards or other compensation for his or her service as a Director following June 30, 2018 through to the effective date of resignation and retirement from the Board. For greater certainty, nothing under this section 3 shall prevent the replacement Board of Hydro One appointed under sections 1 and 2 of this Agreement from, following their appointment to the Board, determining the remuneration of the directors of Hydro One going forward in accordance with section 2.3(c) of the Governance Agreement.

4. The director deferred share units (plus dividend equivalents) referred to in section 3 above may be cash-settled based on the June 29, 2018 closing price of the Hydro One common shares on the Toronto Stock Exchange (the "TSX"), provided that the closing price of such common shares on another date as soon as practicable after June 29, 2018 may be used to the extent required or deemed advisable by Hydro One in its discretion. Director deferred share units will continue to accrue dividends until their date of settlement pursuant to the terms of the applicable plan.
5. The existing Directors shall not be required to meet or maintain any share ownership requirements of Hydro One from and after their resignation and retirement from the Board.
6. Each of the existing Directors, the Province, and Hydro One (on behalf of itself and its affiliates) shall execute mutual releases, including non-disparagement provisions, in form satisfactory to each of them, with effect upon each Director's resignation from the Board and subject to the payment of amounts owed to them in accordance with this Agreement in their capacity as Directors. For greater certainty, (i) the Province's non-disparagement commitments shall apply to all official government publications, communications or statements (written or oral and in any medium whatsoever) and (ii) such release shall not release any rights of the Directors to the compensation, indemnification and insurance contemplated under section 3 hereof.

#### **Retirement of Hydro One Chief Executive Officer**

7. Mayo Schmidt ("**Mr. Schmidt**"), the current President and Chief Executive Officer of Hydro One, shall retire pursuant to his employment agreement with Hydro One dated August 20, 2015, as amended (the "**Employment Agreement**") and Hydro One's existing Long Term Incentive Plan first adopted on August 31, 2015, as amended to-date (the "**Plan**") as an employee and officer of Hydro One and each other applicable Hydro One Entity and resign as a director of Hydro One and each other applicable Hydro One Entity, effective as of 5:00

p.m. (Toronto time) on July 11, 2018 (the "**Retirement Date**"). Mr. Schmidt's Retirement as President and Chief Executive Officer of Hydro One shall be approved by the Board in accordance with section 11 of the Employment Agreement and subsection 12.2(c) of the Plan.

8. In connection with such Retirement, Mr. Schmidt shall be entitled to receive all remuneration, benefits, awards and other entitlements previously granted, awarded or earned through to the Retirement Date as more particularly set out below in accordance with the terms of his Employment Agreement, the Plan and all other applicable compensation plans and policies of Hydro One in effect as of the date hereof. The Province acknowledges and agrees that a statement of all such remuneration, benefits, awards and other entitlements payable to Mr. Schmidt in connection with his Retirement on or after the Retirement Date based on achievement of target performance and a specified price per unit for the Awards, together with the presentation thereof that would be expected to appear in Hydro One's 2019 management information circular, has been separately provided to you (the "**Retirement Compensation**"). Hydro One represents and warrants that the information contained in the Retirement Compensation is accurate and complete in all material respects and reflects all compensation payable to Mr. Schmidt in connection with his Retirement. The parties further acknowledge and agree with respect to the Retirement Compensation that:
  - a. Mr. Schmidt shall receive the following amounts from Hydro One, as set out in the Retirement Compensation:
    - i. base salary prorated to the Retirement Date;
    - ii. the target short-term incentive plan ("**STIP**") bonus for the 2018 fiscal year prorated to the Retirement Date;
    - iii. the release of his benefit allowance prorated to the Retirement Date;
    - iv. the release of his accrued pension benefits, deferred share units ("**DSUs**") (plus dividend equivalents), and employee share ownership plan ("**ESOP**") common shares of Hydro One as of the Retirement Date, in accordance with the existing terms of the applicable STIP, DSU and ESOP policies and plans of Hydro One; and
    - v. a one-time lump sum cash payment of \$400,000 in lieu of all post-retirement benefits and allowances as provided in his contract or otherwise.
  - b. The Awards (as such term is defined in the Plan) previously granted to Mr. Schmidt pursuant to the Plan, consisting of Restricted Share Units and Performance Share Units (as such terms are defined under the Plan), as well as the DSUs, may be cash-settled at target levels at a specified price per unit. The DSUs will continue to accrue dividend equivalents until their date of settlement pursuant to the terms of the Plan; the RSUs and PSUs shall cease to accrue dividend equivalents after the Retirement Date. All Options will be cancelled on the Retirement Date for no consideration.

- c. Payments made to Mr. Schmidt shall be subject to applicable withholding tax, shall be paid without interest and, in the event of Mr. Schmidt's death, shall be made to his successors and assigns including the estate, heirs, executors, trustees, administrators and/or personal legal representatives of Mr. Schmidt, as applicable.
  - d. In no case shall the amounts paid pursuant to this section 8 exceed the aggregate amount of the remuneration, benefits, awards and other entitlements set out in the Retirement Compensation. For greater certainty, other than the payment referred to in section 8.a.v above, all such remuneration, benefits, awards and other entitlements represent recognized obligations of Hydro One as at the Retirement Date.
  - e. For greater certainty, Mr. Schmidt's existing rights to indemnity under applicable law, the by-laws or other constating documents of any Hydro One Entity or any agreement between Mr. Schmidt and any Hydro One Entity and to coverage under and to contribution and indemnification pursuant to any directors' and officers' insurance policies of any Hydro One Entity shall continue following his Retirement and resignation, as applicable, as an employee, officer and director of Hydro One and each other applicable Hydro One Entity, in accordance with their respective terms.
9. Mr. Schmidt shall not be required to meet or maintain any share ownership requirements of Hydro One from and after the Retirement Date.
10. The Province shall take no action or fail to take any action whatsoever, the result of which would or could reasonably be expected to, directly or indirectly, result in any modification, amendment, derogation from or supplement to any of Mr. Schmidt's existing arrangements relating to his Retirement Compensation as specified under this Agreement.
11. Mr. Schmidt shall not be entitled to receive the Separation Package (as such term is defined in the Employment Agreement) or any other severance payment, retiring allowance, change of control payment or any other compensation in connection with his Retirement on the Retirement Date except as set out in the Retirement Compensation, and any amounts paid in excess of the aggregate Retirement Compensation shall be repayable by Mr. Schmidt (or his successors and assigns, as applicable) to Hydro One.
12. Mr. Schmidt, the Province, and Hydro One (on behalf of itself and its affiliates) shall execute a mutual release, including non-disparagement provisions, in form satisfactory to each of them with effect upon Mr. Schmidt's Retirement and resignation as an employee, officer and director of Hydro One and each other applicable Hydro One Entity. The Province's non-disparagement commitments shall apply to all official government publications, communications or statements (written or oral and in any medium whatsoever).
13. The Replacement Directors appointed to the Board in accordance with sections 1 and 2 of this Agreement shall, following their appointment, identify, select and appoint a replacement President and Chief Executive Officer of Hydro One (the "**Replacement CEO**") in accordance with section 3.3 of the Governance Agreement, which CEO shall also serve as one of the Replacement Directors. The existing Board shall appoint an acting President and Chief Executive Officer, in consultation with the Province, for the interim period from Mr. Schmidt's Retirement Date until the appointment and election of the Replacement CEO by the Replacement Directors.

## Hydro One Executive Management Team

14. The Province acknowledges and agrees that, for greater certainty, the terms and conditions of employment of Hydro One's executive leadership team other than Mr. Schmidt (the "**Executives**") under their respective employment agreements, the Plan, all related Award Agreements under the Plan, and the other compensation plans and policies of Hydro One remain in full force and effect from and after the date hereof. The Province further agrees that the Executives shall remain entitled to receive, and the Province shall take no action that would require or result in the forfeiture, return or claw back (other than in accordance with Hydro One's policies) of, any remuneration, benefits, awards or other entitlements (whether vested or unvested) granted, earned or awarded prior to the date of cessation of employment of such Executives with Hydro One. For greater certainty, the foregoing does not address any severance entitlements of such Executives, under contract or otherwise.
15. The parties acknowledge and agree that the replacement Board of Hydro One appointed under sections 1 and 2 of this Agreement shall be responsible for determining the compensation of executives of Hydro One in accordance with the Governance Agreement and the other compensation plans and policies of Hydro One in effect from time to time, and nothing in this Agreement shall limit the actions that the Replacement Directors may take in carrying out their duties and responsibilities in this regard, provided that it is the intention of the parties that the Province, as the single largest shareholder of Hydro One, shall be consulted in a manner to be discussed and agreed upon between the Province and the replacement Board appointed under sections 1 and 2 of this Agreement on future matters relating to Hydro One's executive compensation arrangements.

## General Provisions

16. Reaffirmation: By entering into this Agreement, the Province ratifies and reaffirms its obligations under the Governance Agreement and agrees that, except as specifically set out in this Agreement with respect to the subject matter hereof, (i) the execution, delivery and effectiveness of this Agreement or any other documents delivered in connection herewith shall not amend, modify or operate as a waiver or forbearance of any right, power, obligation, remedy or provision under the Governance Agreement, and (ii) such agreement shall continue in full force and effect. Until each existing Director resigns as contemplated in this Agreement, such existing Director shall remain a director of Hydro One (unless such Director otherwise resigns, dies or is replaced) and shall be entitled to take such actions as a director as it determines to be appropriate, consistent with his or her fiduciary duties and the principles set out in section 4.7.4 of the Governance Agreement, provided such actions are not inconsistent with the terms of this Agreement.
17. Defined Terms: Unless otherwise defined, capitalized terms used in this Agreement shall have the respective meanings ascribed to such terms in the Governance Agreement dated as of November 5, 2015 between Hydro One and Her Majesty The Queen in Right of Ontario (the "**Province**", "**you**" or "**your**"), as represented by the Minister of Energy (the "**Governance Agreement**").
18. Non-Disparagement: The Province shall not, directly or indirectly, on its own behalf or on behalf of any other person, take, engage in or authorize any action or make any statement (written or oral and in any medium whatsoever) in any official government publication, communication or statement that (i) defames, criticizes, ridicules, disparages or is derogatory or otherwise would reasonably be expected to be deleterious or damaging to any

of the directors, officers, employees, agents and/or representatives of Hydro One or any other Hydro One Entity or encourages the making of such statements or the taking of such actions by someone else, or (ii) is inconsistent with the provisions of this Agreement. Hydro One agrees not to, directly or indirectly, on its or any other Hydro One Entity's own behalf or on behalf of any other person, take, engage in or authorize any action or make any statement (written or oral and in any medium whatsoever) that defames, criticizes, ridicules, disparages or is derogatory or otherwise would reasonably be expected to be deleterious or damaging to the Province in connection with the actions or matters contemplated by this Agreement, or encourages the making of such statements or the taking of such actions by someone else. Nothing in this section 18 shall prevent or restrict (i) any statement made in the Legislative Assembly of Ontario or communications in any form by elected officials who are not members of the government, or (ii) any party from making statements that are truthful if and to the extent required by applicable law or legal process.

19. Public Announcement: Each of Hydro One and the Province shall publicly announce the entering into of this Agreement promptly following the execution hereof, provided that the parties shall consult with each other with respect to the timing and content of any press releases, announcements or public statements relating to this Agreement or the subject matter hereof, having regard to the Province's governmental responsibilities and policy objectives as contemplated in sections 2.2.1(d) and 2.2.2 of the Governance Agreement, on the one hand, and the obligations of Hydro One as a reporting issuer subject to applicable securities laws and the rules of the TSX, on the other hand. For clarity, nothing in this Agreement shall restrict Hydro One from repeating in its public disclosure documents filed with securities regulatory authorities any statements or disclosure (in substance) previously made in accordance with this section 19 and this section 19 is subject to each party's overriding obligation to make disclosure or filings required from time to time under applicable laws or stock exchange rules, as applicable.
20. Governing Law: This Agreement shall be interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein.
21. Enurement; Assignment: This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns. This Agreement may not be assigned by either party except with the prior written consent of the other party.
22. Entire Agreement; Amendments: This Agreement, together with the Governance Agreement, constitute the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether written or oral. There are no conditions, covenants, agreements, representations, warranties or other provisions, express or implied, collateral, statutory or otherwise, relating to the subject matter hereof except as provided herein. This Agreement may be amended only by an instrument in writing executed by each of the parties hereto.
23. Counterparts: This Agreement may be executed and delivered in any number of counterparts, with the same effect as if all parties had signed and delivered the same document, and all counterparts shall be construed together to be an original and will constitute one and the same agreement.

Yours very truly,

**HYDRO ONE LIMITED**

By: "David Denison"

Name: David F. Denison

Title: Chair of the Board of Directors

The foregoing is acknowledged, accepted and agreed to this 11th day of July, 2018.

**HER MAJESTY THE QUEEN IN RIGHT  
OF ONTARIO AS REPRESENTED BY  
THE MINISTER OF ENERGY,  
NORTHERN DEVELOPMENT AND  
MINES, AND MINISTER OF  
INDIGENOUS AFFAIRS**

By: "Greg Rickford"

The Honourable Greg Rickford

**SCHEDULE 1  
HYDRO ONE ACCOUNTABILITY ACT, 2018**

INTERPRETATION

**Definitions**

1 In this Act,

“Chief Executive Officer” means the person holding the position of President and Chief Executive Officer of Hydro One Limited; (“chef de la direction”)

“compensation” means anything paid or provided, directly or indirectly, to or for the benefit of a person who performs duties and functions that entitle the person to be paid, and includes salary, benefits, perquisites and all forms of non-discretionary and discretionary payments; (“rémunération”)

“executive” means any person who holds the office of executive vice-president, vice-president, chief administrative officer, chief operating officer, chief financial officer, chief information officer, chief legal officer, chief human resources officer or chief corporate development officer, or holds any other executive position or office, regardless of the title of the position or office; (“cadre supérieur”)

“Minister” means the Minister of Energy, Northern Development and Mines or such other member of the Executive Council as may be assigned the administration of this Act under the *Executive Council Act*; (“ministre”)

“subsidiary” has the same meaning as in the *Business Corporations Act*, but does not include a subsidiary incorporated in a jurisdiction outside Canada. (“filiale”)

EXECUTIVE AND DIRECTOR COMPENSATION

**Compensation framework**

2 (1) The board of directors of Hydro One Limited shall, within six months of the day this subsection comes into force, establish a new compensation framework for the board, the Chief Executive Officer and other executives in consultation with the Government of Ontario and the other five largest shareholders of Hydro One Limited.

**Severance entitlements**

(2) For greater certainty, the compensation framework must include policies governing the severance and other entitlements of the Chief Executive Officer and other executives in connection with any termination of their employment with Hydro One Limited.

**Management Board approval**

(3) The compensation framework established by Hydro One Limited under subsection (1), and any amendments to the framework, are not effective until they are approved by the Management Board of Cabinet.

**Directives**

3 (1) The Management Board of Cabinet may issue directives,

(a) governing the compensation of the directors and the Chief Executive Officer and other executives of Hydro One Limited, including, without being limited to, directives restricting the total annual compensation payable to such persons; and

(b) governing the development, form, manner and timing of the compensation framework provided for in subsection 2 (1) and any amendments to that framework.

**Compliance**

(2) Hydro One Limited and its board of directors shall comply with every directive made under subsection (1).

**Publication**

(3) Every directive made under subsection (1),

(a) shall be made available to the public on request; and

(b) shall be publicly posted on at least one Government of Ontario website.

**Status**

(4) Part III (Regulations) of the *Legislation Act, 2006* does not apply with respect to directives made under subsection (1).

**Same, subsidiaries**

4 Sections 2 and 3 apply, with necessary modifications, to each of Hydro One Limited’s subsidiaries.

**Expiry**

5 Sections 2, 3 and 4 cease to have effect on January 1, 2023.

**TERMINATION OF RIGHTS AND CROWN IMMUNITY****No cause of action**

6 (1) No cause of action arises against the Crown or any current or former member of the Executive Council or any current or former employee or agent of or adviser to the Crown, or against Hydro One Limited or any of its subsidiaries, or any of their current or former officers, directors, employees or agents, as a direct or indirect result of,

- (a) the enactment, operation, administration or repeal of any provision of this Act;
- (b) anything done or not done under this Act;
- (c) anything related in any way to the involvement of the Government of Ontario in compensation matters, or other aspects of the corporate governance, of Hydro One Limited or any of its subsidiaries;
- (d) any alleged misrepresentation within the meaning of applicable securities laws in any prospectus, document or other public statement related in any way to the involvement of the Government of Ontario in compensation matters at Hydro One Limited or any of its subsidiaries; or
- (e) any adverse market consequences or diminishment in the value of any securities in Hydro One Limited, or any of its subsidiaries, or any other investment, resulting from the enactment of this Act, anything done or not done in order to comply with this Act or the involvement of the Government of Ontario in the corporate governance of Hydro One Limited or any of its subsidiaries.

**Proceedings barred**

(2) No proceeding, including but not limited to any proceeding for a remedy in contract, restitution, tort, misfeasance, bad faith, trust or fiduciary obligation, and any remedy under applicable securities laws or any other statute, that is directly or indirectly based on or related to anything referred to in subsection (1) may be brought or maintained against the Crown or any current or former member of the Executive Council or any current or former employee or agent of or adviser to the Crown, or against Hydro One Limited or any of its subsidiaries, or any of their current or former officers, directors, employees or agents.

**Application**

(3) Subsection (2) applies to any action or other proceeding claiming any remedy or relief, including specific performance, injunction, declaratory relief, any form of compensation or damages, or any other remedy or relief, and includes a proceeding to enforce a judgment or order made by a court outside of Canada.

**Retrospective effect**

(4) Subsections (2) and (3) apply regardless of whether the cause of action on which the proceeding is purportedly based arose before, on or after the day this subsection comes into force.

**Proceedings set aside**

(5) Any proceeding referred to in subsection (2) or (3) commenced before the day this subsection comes into force shall be deemed to have been dismissed, without costs, on the day this subsection comes into force.

**GENERAL****Salary disclosure**

7 (1) Despite any other Act or agreement, not later than March 31 of each year, Hydro One Limited shall publish on its public website a record of the total annual compensation paid in the previous year by Hydro One Limited to or in respect of executives provided for in the regulations made under subsection (3).

**Publication of proposed compensation changes**

(2) The board of directors of Hydro One Limited shall publish on its website any proposed changes to its compensation frameworks for the board, the Chief Executive Officer or other executives at least 30 days prior to the date on which it seeks approval from the Management Board of Cabinet under subsection 2 (3).

**Regulations**

(3) The Lieutenant Governor in Council may make regulations governing the application of this section, including, without being limited to,

- (a) providing for executives or categories of executives whose compensation must be published under subsection (1);
- (b) requiring and specifying additional information to be published;
- (c) providing for the contents of the notice required under subsection (2);

- (d) requiring and governing the application of this section, with necessary modification, to executives of subsidiaries of Hydro One Limited.

#### **Information and reports**

8 (1) The Minister may request Hydro One Limited and such other persons and entities as the Minister considers appropriate to give the Minister information the Minister considers necessary for the purpose of administering the provisions of this Act, including information that,

- (a) discloses the financial or other details of any employment agreement or other contract with any director, Chief Executive Officer or other executive in respect of their employment by Hydro One Limited or any of its subsidiaries; or
- (b) discloses anything related to the compensation paid, payable or available to a director, Chief Executive Officer or other executive of Hydro One Limited or any of its subsidiaries.

#### **Compliance**

(2) A person or entity who receives a request from the Minister for information or a report shall comply with the request.

#### **Authorization**

(3) The Minister may directly or indirectly collect personal information that the Minister is authorized to collect under this Act, and use it for the purpose of administering the provisions of this Act.

#### **No notice to individual required**

(4) Subsection 39 (2) of the *Freedom of Information and Protection of Privacy Act* does not apply with respect to any personal information collected under this section.

#### **Regulations**

9 (1) The Lieutenant Governor in Council may make any regulations that the Lieutenant Governor in Council considers necessary or desirable for carrying out the purposes, provisions and intent of this Act.

#### **Same**

(2) Without limiting the generality of subsection (1), the Lieutenant Governor in Council may make regulations defining or clarifying the meaning of any word or expression used in this Act but not otherwise defined.

#### ***Ontario Energy Board Act, 1998***

**10 Section 78 of the *Ontario Energy Board Act, 1998* is amended by adding the following subsection:**

#### **Same, Hydro One executive compensation**

(5.0.2) In approving or fixing just and reasonable rates for Hydro One Limited or any of its subsidiaries, the Board shall not include any amount in respect of compensation paid to the Chief Executive Officer and executives, within the meaning of the *Hydro One Accountability Act, 2018*, of Hydro One Limited.

### **REPEAL, COMMENCEMENT AND SHORT TITLE**

#### **Repeal**

11 (1) Subject to subsection (2), this Act is repealed on a day to be named by proclamation of the Lieutenant Governor.

(2) A proclamation may provide for the repeal of different provisions of this Act on different dates.

#### **Commencement**

12 (1) Subject to subsection (2), the Act set out in this Schedule comes into force on the day the *Urgent Priorities Act, 2018* receives Royal Assent.

(2) Sections 1 to 10 come into force on a day to be named by proclamation of the Lieutenant Governor.

#### **Short title**

13 The short title of the Act set out in this Schedule is the *Hydro One Accountability Act, 2018*.

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 18<sup>th</sup> day of July, 2018, served the foregoing letter regarding an Update on Recent Events in the Merger Case Nos. AVU-E-17-09/AVU-G-17-05, upon the following parties, by sending a copy via electronic mail:

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