

The Empire Club Presents



**MAYO SCHMIDT,
PRESIDENT &
CHIEF EXECUTIVE
OFFICER, HYDRO ONE**

WITH: A NEW ERA FOR HYDRO ONE

**Welcome Address, by Barbara Jesson President of Jesson +
Company Communications Inc. and President of the Empire
Club of Canada**

November 16, 2017

Good afternoon, ladies and gentlemen. From the Royal York Hotel in downtown Toronto, welcome, to the Empire Club of Canada. For those of you just joining us through either our webcast or our podcast, welcome, to the meeting.

Before our distinguished speaker is introduced today, it gives me great pleasure to introduce our Head Table Guests.

I would ask each guest to rise for a brief moment and be seated as your name is called.

I would ask the audience to refrain from applause until everyone has been introduced.

HEAD TABLE

Distinguished Guest Speaker:

Mr. Mayo Schmidt, President and Chief Executive Officer, Hydro One

Guests:

Mr. Anthony Haines, President and Chief Executive Officer, Toronto Hydro

Mr. Faisal Kazi, President and Chief Executive Officer, Siemens Canada

Mr. Michael Kobzar, Director, Ontario Energy Management, Siemens Canada
Director, Empire Club of Canada

Mr. Peter Langenhan, President, EPTCON and Co-Chief Executive Officer,
Columbus Utility Services

Mr. Jeff Lyash, President and Chief Executive Officer, Ontario Power Generation

Mr. Kirk Morrison, Executive Vice President, Energy and Resources, Stantec

Ms. MJ Perry, PhD Candidate, Theology (University of Toronto); Owner,

Mr. Discount Ltd.; Director, Empire Club of Canada

The Honourable Glenn Thibeault, Ontario's Minister of Energy

I am Barbara Jesson, the President of Jesson + Company Communications and the President of the Empire Club of Canada. Ladies and gentlemen, your Head Table Guests.

We have a number of special guests to be recognized from the podium. Of course, I have already alluded to the fact that the Honourable Glenn Thibeault, Ontario's Minister of Energy is with us. Thank you, sir. Chief Ava Hill, of Six Nations of the Grand River is here. Thank you for joining us. Chief Stacey Laforme, of the Mississaugas of New Credit First Nations is here. Thank you all for being with us.

Humanity has a deep and primordial relationship with heat and energy. There are many who believe that the control of fire is a source of warmth, and the method of cooking food marked a turning point in the human evolution. For ancient people, a central fire became, over time, a place to gather and

socialize. It also became a place of ceremony. Over millennia, the hearth evolved as a symbol of the home itself. Our relationship to energy runs deep in the human psyche. It plays an intimate role in family life, and, I think, in part at least, it explains why our modern relationship to our energy providers can be so complex.

Modern energy companies, such as Hydro One, stand at the very nexus connecting our deepest past and our way into the future. It has become one of our modern myths that the intercontinental railway was a major force for Canadian nation building in the late 19th century. In this province, I think Ontario Hydro played a similar role, propelling our industrial economy in the 20th century.

Toward the end of the 19th century, Ontario began the shift toward greater industrialization, made possible through an accessible source of inexpensive power, and it made us the powerhouse we are today.

Here, to introduce our guest speaker, who will share with us the future of Hydro One is Mr. Faisal Kazi, President and Chief Executive officer of Siemens Canada.

**Introduction, Faisal Kazi, President and Chief
Executive Officer, Siemens Canada**

Thank you, Barbara. The electrical energy sector around the globe is going through a transformation, which is basically induced by the integration of the renewable energy sources into the grid. Basically, we are changing the model from a unidirectional flow of energy and centralized generation to a model where the energy generation is distributed, and the energy flow is multidirectional.

In Germany, we call this introduction of the renewable sources and the change in the model of the grid as the ‘energie-wende’ or the ‘energy transition’. My company, Siemens, being a German global company, has participated in all energy transition projects around the world, and especially the one in Germany. One thing we could say, clearly, is that it is a great thing to do because it makes the energy sector green and, not only for us, for our generations, but for the generations to come.

On the other hand, based on our first-hand experiences of energy-transition projects around the world, we also see that these projects bring with them a lot of challenges, the first one being balancing demand and supply of energy. This is because the renewable energy sources, which are induced into the system are inherently not as reliable as the conventional energy sources which we have been used to, like nuclear hydro and coal.

Secondly, there is an issue and there is a challenge of man-

aging peak demand. We all know peak power is expensive, and, living in Ontario, we have all heard about the global adjustment. The bigger challenge, which I feel and which we have seen, is about ensuring the resiliency, the availability and the reliability of the grid, considering that the grid which we have today was not designed to have distributed energy generation and, for sure, not designed to have a multidirectional flow of energy.

Secondly, the grid, which we have today, especially, in North America, is a very aging grid. It needs to be upgraded, especially, on the distribution side. Then, finally, on top of that, we have seen over the last five to six years that weather-related events, like hurricanes, et cetera, are increasing tremendously in frequency.

These are all challenges, which the industry, the electrical energy industry, needs to manage, and especially the utilities. The utilities of the future need to become more agile. There has to be new business models to introduce the new technologies, et cetera.

Today, it is my pleasure and honour to introduce the President and CEO of Hydro One, Mayo Schmidt. He is going to talk about how he is transforming this utility into the utility of the future.

Mayo joined Hydro One in 2015 as President and CEO. He has already demonstrated a clear vision of growth and opportunity for his company. Under his leadership, he has transformed, within this short period of time, a purely public-owned utility into one of the leading investor-owned util-

ities in North America. That is a big step, achieved at a high speed.

Prior to joining Hydro One, Mayo was the President and CEO at Viterra, Inc. It is a global leader in food ingredients and trading, and it is a processing company. Mayo grew this company to become a truly global leader with operations in 14 countries and, I understand, a supply chain in more than 50 countries. This company was originally from Alberta, in the west of Canada, and now it is a true market leader.

Last year, also, the Ontario Energy Association named Mayo the Energy Leader of the Year. He is a graduate from Washburn University where he holds his BBA degree and an Honorary Doctorate of Commerce. Mayo sits on Agrium's board of directors and chairs the Governance Committee. He is a member of Harvard's Private and Public, Scientific, Academic and Consumer Food Policy Group as well Washburn University's Foundation Board of Trustees.

Before you help me welcome Mayo on the stage, I would like to show you a small video clip, which Mayo has brought with himself. This shows the history of Hydro One, but it also showcases the future direction of his company.

[VIDEO]

Ladies and gentlemen, please, help me to welcome Mayo Schmidt, President and CEO of Hydro One.

Mayo Schmidt

Thank you very much for joining us today. What a pleasure it is to be here. Thanks for enjoying the purpose film, "The Possibility with Hydro One." The employees got together and put this video together, so you know where their hearts and minds are.

It is really a pleasure to be here with you, today. As I look at Sir Adam Beck, the founder of Hydro One, I think about his comment, "Nothing is too visionary." He was talking about harnessing that power of the mighty Niagara River and bringing affordable power to the population, to homes and businesses across this great province. He also recommended the establishment of a publicly owned distribution system. The province established a Hydro-Electric Commission of Ontario in 1906, and they began delivering power to this province and towns in October of 1910.

When we think about World War I, about 59,000 customers were connected to our grid. Today, that number is over 13 million people in this province, which is twice the size of Spain. We are seeing a rebirth of technology and will accelerate energy delivery into the new century. Hydro One has an intention to remain at the forefront of that movement. We are going to continue with Beck's passion and hold that vision for the future to innovate and modernize the system and grid, which we have a great responsibility for, and we will do that with the same communities with the heart and the vision that Sir Adam Beck did.

Think about Hydro One: We power Saturday games and

Sunday dinners; the corner grocery store and the CN Tower; the power places where we heal; the hospitals; places of worship; and arenas and stadiums, where we play. We also think about the dreams that are born and the leaders that are made from the availability of power. Today, we see Hydro One as not only built to last, but built to change. The Hydro One of today aspires to be more thoughtful, more caring, more committed to customer organization. We are the fourth largest IPO now in Canadian history and a company that remains committed to the people of this province, and it remains in the hands of the people.

When Hydro One became publicly traded, some said it would not work. But it has, and there is a remarkable story to tell. Privatization has made it possible for us to enact powerful changes at Hydro One, changes that have made an even bigger goal possible. That is becoming a leading utility in North America. In the last two years, as an organization, we have taken great strides in doing just that.

We built a new leadership team defined by experience, diversity, talent, and a deep personal desire to serve the people, the team that has established a discipline and a focus and a determination to stretch beyond the traditional boundaries of our history while respecting our heritage. Some of the teams are here today. If I might, I would like to ask the team, if you would, please, stand for just a moment to share the arena with the guests, please. This is Hydro One.

These are many of the members that I have to thank for such a great video that I think suggests the personality and

the traits of this fine organization as we intend to be and the person we intend to be going forward.

At the end of each of our wires, there is a person. It could be a student pulling an all-nighter before a big exam; it could be a parent teaching their child to skate; it could be a business owner that is servicing customers. For us, being customer-focused is more than about rhetoric; it is all about action and advocacy, and it is woven into the things that we do and the team that we aspire to be. We are just getting started. I can tell you, I am very proud to be part of this transformation of this organization.

I arrived in Toronto in the fall of 2015 after accepting the current role at Hydro One. I knew that, historically, Hydro One had been perceived as a challenging place to do business. As a result, I expected less than a warm welcome. I can say it has been anything but that. I think about how the level of collaboration of my peers and staff has been extraordinary, and, even today, here in this hall, I would like to just mention a couple of those individuals. I think about the level of collaboration and the integration of the system, and I think about Jeff Lyash, who is the Chief Executive Officer and President of Ontario Power Generation, responsible for a fleet of 116 power plants and our nuclear fleet. And I think about Anthony Haines, the Chief Executive Officer of Toronto Hydro, who immediately reached out to myself and said, "We welcome you to the community and introduce you to the energy network." I do not think there could be three individuals that are more interconnected than the three of us, considering that

our wires run into the nuclear power plant and run right into Anthony's backyard as he powers the City of Toronto and the responsibilities that come with that, and the work, the collaboration and the effort we have come together with on cybersecurity, innovation and many, many other facets that are going to be important as we determine how our organizations prepare for our future collectively, together, representing this great province, which I know is also the financial centre of Canada. That is a great responsibility that we share together, and we work on these things collaboratively.

Together, along with our industry counterparts, the local distribution companies, regulators, policymakers, our Indigenous leaders that are here with us today, the unions, the generators, the contractors and the suppliers, we can champion positive change, and I think we can find unique ways to create value for the communities in which we live.

I want to thank you all, particularly, as I think about Jeff, Anthony and others in the room that have welcomed myself into the community.

Let me look back a little bit in time, a time with Viterra, which was mentioned earlier and was known before as the Saskatchewan Wheat Pool. And many people that have grown up in Canada would know about the Prairie pools that settled the western prairies. I went to Viterra at a time when it was broken financially, broken operationally, and broken in spirit. Many of my peers and mentors knew the circumstances and said, "Mayo, why would you consider leaving General Mills, where you have a good career going, and you have a

terrific opportunity here?" I had to reflect on this question deeply. Then, I thought about my beliefs, since I was a little guy, and I thought about leading a unique and exciting life, which has always been in my heart. I knew it was important to act on that belief and continue to contribute in a meaningful way at any opportunity.

Certainly, I have always been drawn to hard tasks, I know, as I think about my training; competitions in some extreme sports, 14 ironman triathlons and 100-mile cycling races; crossing Africa off-road on a motorcycle and, of course, I might mention raising my two daughters. My daughters will remember a time living in Regina, when the restructuring of the Saskatchewan Wheat Pool was going on. It felt like we did it together because they were always there with me often, after school in my office, and at dinners at night and dinners even with the global CEOs that came in to have conversations with us and accommodated them to spend time with us in the evenings, and at home when I helped with their homework, and certainly made their meals. Raising two daughters while restructuring a historic heritage company was no easy task, but, certainly, the results and benefits of it have been tremendous. I am certainly proud of my daughters and the people my daughters have become. They, too, are driven by hard tasks and are incredibly business-minded, while they also understand the importance of putting people first. They believe in service, hard work, and family. In fact, one of them happens to be in the room with me. I acknowledge my daughter, Grier, right over here. Many of you know another gentleman named

Ed Clark, former CEO of TD Bank. During the darkest days and the fires of restructuring of Saskatchewan Wheat Pool, Ed was an individual, a leader, that stood by us in a time, and allowed us the time, as one of our lead banks, to restructure, to rebuild an operational powerhouse in a market-leading dominant position in multiple countries, including at 50% market share in Canada.

Interesting story: Following the financial successful restructuring in the year of 2005, in a most effective consolidation of the Canadian agriculture and food ingredients market in 2006, Ed invited me over for lunch. He said, “Mayo, I am providing you with our full support to continue to grow your business. You and your team have done everything you said you would do through years of financial restructuring, even when hampered by years of draught. Now, go build Viterra to become a great Canadian company.”

Ed was a remarkable strategist and has also been the architect behind the bold and brilliant move to lead Hydro One’s 2015 IPO and the opportunity to unlock the full potential of one of Canada’s oldest and historic companies. In his wisdom, Ed designed a governance agreement to position the company for future success, an agreement that states the province will be a shareholder and a manager of the business. And by the leadership of our Minister of Energy, he has been an outstanding leader in that way, has been very strong in support of the organization to find its commercial footing and to do the things necessary to rebuild the enterprise to the position of strength.

The sale of Hydro One also unlocks \$9 billion of infrastructure capital for this province. It allows the province to build new industries while ownership largely remains in the hands of the public in Ontario.

When I started at Hydro One two years ago, one of our first initiatives was to advocate with the government for a rate relief on behalf of our customers. The result was the Fair Hydro Plan. Legislation has seen electricity bills reduced for the average Hydro One customer by 31%. That is a savings of about \$600 per household over the course of a year. If you look at our five-year distribution rate filing, that equates to \$3,000 over that five years for our customers. To our customers, that is a real impact.

As well, at the time, I wrote a letter to our customers introducing myself to them, talked about our vision for the future and the impact our commitments would have on each of our customers. My intention was to build connections with the people that we serve, who depend on us for power, and to show them we are not the same Hydro One they had experienced in the past.

Then, the team and I arrived at the call centre very early one morning. We took to the phones. We were there for 12 hours. We had invited all of our customers to dial in and speak directly with us. We took hundreds of calls. The calls were heartwarming, and they were heartbreaking, from new lives, started new homes, to citizens of all ages experiencing financial distress, from rising costs from all aspects of their lives. After the call centre day, we began to receive feedback

from our customers. Some was positive; some was negative; some was neutral, but it was all feedback.

There is one letter that I keep on my desk, today, and reflect on often, and it certainly pulls on my heartstrings because it reminds me of exactly why we are in business and the purpose that we, as an organization, as people, serve.

I had received a handwritten letter from Mrs. Kale. Mrs. Kale is an 89-year-old woman who lives alone on a very modest, fixed income. In her letter, she shared that with the cost reductions that would now be available, she could do more baking. She told me in her writing that her specialty was butter tarts. I sent her back a handwritten note and thanked her for her letter. Before I sent the note back, I also called my 85-year-old mother so that we could get butter tart ingredients for Mrs. Kale. Next, with a bag of baking ingredients, we paid Mrs. Kale a visit in her community. Mrs. Kale is a very tiny, very energetic woman who lives in a tidy, little house that smells of strong vanilla.

After our visit, Mrs. Kale sent us a thank-you note for the supplies. This time, she also sent us butter tarts. They were amazing, and they went very quickly.

The butter tarts arrived in Tupperware containers, as you can imagine—picture mismatched lids that she has probably had since the '60s. She then politely asked our team after we enjoyed her butter tarts whether we could please return her containers. Of course, the team pulled together very quickly in the office and said of course. At the end, to address the issue of mismatched lids, we then went out and procured quite

a number of new Tupperware containers to provide to Mrs. Kale.

At the end of every wire, there is a Mrs. Kale that counts on us to deliver electricity seven days a week, 365 days a year. Certainly, we are not naïve about the challenges that we face today. We know that the relationship behind Hydro One and its customers has been strained in the past, and we are certainly determined to better serve our customers now and in the future. We believe this can only be done through meaningful action and advocacy. We have the power in our hands to make life easier, better, healthier, more efficient and more enjoyable. We can make things run, and we can help ideas grow. We are driven to align our commercial success with customer success.

The winter of my arrival to Ontario, the first challenge that I was faced with was understanding the hardship some of our customers were facing on paying hydro bills. I learned there were tens of thousands of disconnections in this province each year. A family without power, without service, no doubt faces many challenges. We realize that we have the power and the responsibility to turn on the lights, not just turn them off. We decided to do just that.

We reached out by phone, by letter, to everyone in our system that had no electricity. We could not reach some customers. We went and sent our team to knock on their doors. That was the beginning of our Winter Relief Program. When we reconnected their power, our teams also worked with the families to set up manageable payment plans that fit within

their budgets. As a result, our customer accounts that were more than 90 days overdue declined by 15%; disconnection volumes were down by 68%; and our accounts receivable have declined year over year by 25% to the lowest level in our history.

This is where social responsibility meets the positive economics of running a business. The impact of the Winter Relief Program reaches far beyond the bottom line. We improved goodwill with our customers and shifted the public perception about Hydro One to a degree. I can tell you without reservation that turning the power back on for every family in need has such a significant personal and professional impact on my life as well as the lives of our teams that were responsible to, in fact, turn that power back on.

Just last month, a full month after establishing the Winter Relief Program, the Ontario Energy Board announced that all energy companies in this province would be mandated to follow Hydro One's lead and reconnect the power for vulnerable individuals and families this winter. We are all connected. These initiatives have an impact on all of us in the province, and I wish to thank all of my industry counterparts for their stand behind these necessary policy changes.

We have met with our customers, our shareholders, our key policymakers, influencers and our Indigenous communities. We do share the belief that building and maintaining positive and mutually beneficial relationships, along with partners with our First Nations community is not just a matter of good business; it is the right thing to do. We also believe

that by listening to our customers and acting on their needs with flexibility and consideration will take us further. We have empowered our employees, all our employees to build those relationships. Together, we must make the impossible, possible, not just for the customer, but for Hydro One, for the province and for Canada. The story, like Hydro One, continues to grow.

This past July, we marked a major milestone in the journey to becoming a leading utility in North America. On July 19th, in 2017, Hydro One and Avista jointly announced the transaction where Hydro One will acquire Avista in a \$6.7 billion, all-cash transaction, an historical transaction for both companies.

Avista is a market leader in the Pacific Northwest in the United States with operations in five western states, now for 129 years. They are known for innovation, their dominant market position and leadership and customer advocacy. In fact, their community contributions are more than double that of any peers in the industry and so are its successes.

The transaction has been well received from the market and the rating agencies. We used a Canadian bought deal subscription receipt program, and, in less than 24 hours, we raised \$1.5 billion, which was more than two times oversubscribed.

Standard & Poor's reviewed, in detail, our financial position relating to the transaction, our financing plan, our approach. They confirmed an A-category rating following the transaction. This deal has brought together two leading

industry-regulated utilities with over 230 years of collective operational experience to form a diversified North American utility leader with a considerable enterprise value. With this deal, we have established one of North America's top 20 regulated utilities with assets of approximately \$34.5 billion. Together, we intend to deliver long-term value and become a leader in the regulated electricity transmission and distribution businesses as well as, now, gas distribution and renewable generation businesses.

I cannot stress enough that customer rates will not be impacted by any cost associated with this transaction. Avista, being pursued by many Canadian and U.S. parties, had many choices. They chose Hydro One.

Hydro One has made a dramatic change in the way we approach and operate our businesses. Avista also did their research. They researched Hydro One. They looked at our Canadian, Ontarian peers and their histories. They looked at the ethos in the fit of their historic company with the Ontario companies. Many of those companies are here in the room, today, as I have mentioned.

Avista shared our commitment to our communities and is aligned with our balance between commercial business and social responsibility. They saw value in sharing our collective interest in innovation. The combined entity of Hydro One and Avista will serve more than two million retail and industrial customers and will hold assets throughout North America, the Pacific Northwest, which will include Ontario, Washington, Oregon, Idaho, Montana and Alaska. Put simply, this acqui-

sition is a strategic positioning of Hydro One in a growing region that is ready for consolidation, creating a diversified American market influencer, which we believe is a bold step beyond our traditional borders.

When we say 'turn on the power of possibility', that represents a shared commitment to building for the future. As organizations, we have opened the door for all Ontario utilities to join together in our efforts. We believe, together, we are stronger. We are the collective future of power in this province. Together, we are able to compete with U.S. market leaders for service and market share, while at home work to reduce energy poverty and to bring every one of us into the light. Our plans for the new Hydro One is bold and achievable, and we have the skilled teams on board to accomplish these objectives as we move forward with our four strategic priorities and they are clear customer focus, operational excellence, innovation, and growth.

This is an exciting time for Canadian utilities. It is a time that will redefine who we are and what we can accomplish together. As with much of life, windows of opportunity open, and they close. I believe that, after deep thought and analysis, due diligence, and planning, we must act on those beliefs.

The utility sector in North America is consolidating at a rapid rate unseen before in the history of this industry. Industry leaders of today will become the consolidators of tomorrow. As consolidation continues at this rapid pace, we expect to see organizations of \$100 billion in enterprise value competing in our sector in the coming years.

We expect to see unique future growth opportunities to create scale, diversity and strength.

Today, at home, we have much work to do seeking greater collaboration between policymakers, generators, regulators, distributors and transmitters seeking common ground. We must seek to lead through continued modernization of both the regulated system, customer service and commercial practices. This is why the only way we see in ensuring sustainable value creation is with our customers, with our shareholders and with the province as allies, because we are stronger. I believe that the value creation in this opportunity is beyond compelling. We do power the future together, and we follow Adam Beck's quest: Nothing is too visionary.

This is a new era at Hydro One for us, together, and this is really only the beginning. With myself, my colleagues in the industry, we believe the best is yet to come. I thank you for your time today and your attention. It has been remarkable spending this afternoon with you. Thank you.

**Note of Appreciation, by Michael Kobzar,
Energy Management, Siemens Canada Director,
Empire Club of Canada**

Thank you, Barbara. I am sure, for most of you, this is probably the first time that you have heard and seen Mayo, and only now you are putting together your first impressions. I have to say, the very first time I met Mayo, I was really

quite surprised at what a warm, calm, gentry person he was. I suppose I was surprised because I knew this is a man who has taken a new role that has got an ocean of challenges. It is a large, complex organization. You have to manage your way around the OEB and the IESO. You have shareholders now, 70-some-odd utilities that you need to supply power to, lots of employees, labour unions, a million kilometres of wires. I thought all these things would, perhaps, harden somebody, but, no, he manages with a very calm and steady hand, as you have seen today, which is obviously the mark of a very accomplished leader.

There are a couple of things I heard in your talk. It is a turn of phrase. I wrote this down. Excuse me for reading it here, but it says, "At the end of each of our wires is a person." I thought that was a very profound and admirable way to look at the responsibilities that you inherited in this role. The other thing I loved was your call centre day. I mean, what an incredible demonstration of leadership to get on the phones and talk to your customers. I did find out, through reading other biographies—and this was not mentioned earlier—a little-known fact about Mayo: He was a football player. In fact, he was a Miami Dolphin for three years. I have great difficulty actually imagining that about Mayo.

On behalf of the Empire Club of Canada and everybody here, thank you very much for your insightful talk.

Thank you.

Concluding Remarks, by Barbara Jesson

A sincere thank you to our generous sponsors, Siemens Canada, Stantec and Columbus Utility for making this event possible. Without sponsors like these great companies, Empire Club lunches like this would not be possible. Thank you, once again, for your very generous support.

We would also like to thank mediaevents.ca, Canada's on-line event space, for webcasting today's event for thousands of viewers around the world. Although our club has been around since 1903, we have moved into the 21st century and are active on social media. Please, follow us on Twitter @Empire_Club and visit us online at www.empireclub.org. You can also follow us on Facebook, LinkedIn and Instagram.

Finally, please, join us again soon at our next event, November 17th, which is tomorrow, with Dominic Barton, Global Managing Director at McKinsey & Company, at the Arcadian Court. And join us on November 20th, with Rachel Notley, Premier of Alberta, at the Royal York Hotel.

Thank you for your attendance, today.

This meeting is now adjourned.