

PUBLIC UTILITIES FORTNIGHTLY

Impact the Debate

JUNE 1, 2018

SDG&E President Scott Drury
Hydro One CEO Mayo Schmidt
Tony Clark, Barry Smitherman
Anastasia Palivos, Keith Dennis



In Our First Issue Under
New Management,
**A Day at the
PUC of Ohio**

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PUBLIC UTILITIES FORTNIGHTLY

Impact the Debate

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Cover photography: At the PUC of Ohio, from left to right,
Commissioner Dan Conway, Commissioner Tom Johnson,
Chair Asim Haque, Vice-Chair Beth Trombold,
Commissioner Larry Friedeman.



We Bought PUF!

Nineteen Hundredth Issue. And the First.

BY STEVE MITNICK

“Hello. I’m Victor Kiam. I used to be a dedicated wet shaver until my wife bought me this Remington M3 electric shaver. They said its two incredibly thin micro-screens and one hundred and twenty cutting edges shave as close as a blade or they’d give her money back. I was delighted and impressed. So impressed, I bought the company.”

Do you remember that funny television commercial of the eighties? The seasoned businessman, sitting at his desk, says those iconic words. I was so impressed, I bought the company.

Why am I quoting Victor Kiam? Because I too bought the company. That is, Joe Paparello and I were so impressed with the power of the PUF platform – for opinion, commentary and debate – we bought it.

First, we dotted the i’s and crossed the t’s in the docs the lawyers put before us. Then, we wrote some checks, each with a few trailing zeros.

We formed the new company in April – while finishing May’s issue – in our spare time. (What spare time?)

To provide the principal platforms for opinion, commentary and debate on utility regulation and policy. That’s the goal. That’s our job. Towards that end, taking nary a breath, we purchased the

venerated *Public Utilities Fortnightly*. We were open for business on the first of May.

This is the nineteen hundredth issue of this magazine, plus or minus. But it’s the first published by the new company.

Not to worry. The same team – Joe, Alexandra, Patricia, Mike, Angela and yours truly. The same mission – to be the Hyde’s Park Speaker’s Corner for utility regulation and policy.

And the same voices. Your voices.

When you submit an article or essay, or when you submit to our questions in interviews and roundtables, you want to impact the debate. Whether you’re a leader or

The same mission – to be the Hyde’s Park Speaker’s Corner for utility regulation and policy.

a thought-leader or both, we’re here for you.

Stand up on our platform for a few minutes, grab the megaphone, and say your piece. Speak up in PUF and you have a chance to redirect the conventional wisdom on market compensation, rate structure, business models, grid modernization, etc.

The new company’s name, Lines Up, derives from the title of my 2013 book, Lines Down (subtitled, How We Pay, Use, Value Grid Electricity Amid the Storm). That book looked at investment in the nation’s electric infrastructure from the public interest perspective.

The first word of the company name, Lines, has a double meaning. The word evokes existing transmission lines that can be knocked down in storms, and new lines that can be put up to improve reliability for electric customers; »

Steve Mitnick is Editor-in-Chief of *Public Utilities Fortnightly* and author of the book “Lines Down: How We Pay, Use, Value Grid Electricity Amid the Storm.”

Hydro One's CEO Mayo Schmidt



Leadership Lyceum's Podcast Summary,
hosted by Tom Linquist



joined Mayo Schmidt, President and Chief Executive Officer of Hydro One, at his office in Toronto in January 2018 for this discussion.

These are heady, exhilarating times for Hydro One, Ontario's largest electricity transmission and distribution company with 1.3 million customers. Mayo was appointed President and CEO of Hydro One in August of 2015.

He is unique among utility CEOs, hailing from the food and agriculture industry. Prior to joining Hydro One he was President and CEO of Viterro, Inc., a globally integrated agriculture export firm headquartered in Canada with operations in North America, Australia, New Zealand, China and a supply chain to fifty countries. Mayo also holds the distinction of having been drafted by the Miami Dolphins out of university.

In 1999, sixteen years before Mayo joined the company, the organization was called Ontario Hydro. The decision was made by the provincial government to separate the company into individual organizations, the largest of which were the generation of electricity (Ontario Power Generation) and the transmission & distribution of it (Hydro One).

In a recent issue of *Public Utilities Fortnightly*, we featured an interview with Jeff Lyash, President and Chief Executive Officer of Ontario Power Generation.

On November 5, 2015, just three months after Mayo joined, Hydro One completed its Initial Public Offering (IPO), selling approximately fifteen percent of the company and raising gross proceeds of approximately \$1.8 billion.

This was one of the largest IPOs in Canadian history. Since 2015 there have been two subsequent equity offerings, and the government of Ontario currently owns a 47.4 percent stake.

In July 2017, Hydro One announced a U.S. \$5.3 billion all-cash transaction to acquire Avista Corp., a utility based in Spokane, Washington with operations in five states. When approved, the acquisition will create one of North America's largest regulated utilities with over \$30 billion in assets.

Leadership Lyceum (LL): There are many more highlights worthy of our reflection, and it's not often that a utility experiences such changes as separation, IPO, acquisition, and growth on the back-end of already transformative events. You arrived in August 2015 with things moving at pace, it would seem, or perhaps even a sprint, to the IPO. Describe the context of your arrival.

Hydro One's Mayo Schmidt: It was certainly a time of great excitement and anticipation. The Province had contemplated an IPO for many years and the organization and the province were prepared with a strong, well-articulated plan.

They needed a leader to bring the team together and to execute on that plan. There was a lot of work to do, initially, in preparing the prospectus and the financials for the IPO, but then thinking about the strategy and building the organization and team with the anticipation of future possibilities.

LL: It would be easy to consider an IPO as an end in and of itself, but was it revealing and enabling something greater for the company?

Mayo Schmidt: It would have been very easy to just think about getting through the IPO, but our plans and goals for

Shortly after the IPO, we started analyzing growth opportunities as part of our strategy development. We prepared ourselves for participation in an expanded marketplace.

the organization were greater. We believed Hydro One's potential reached far beyond what it was at the time.

The IPO presented an opportunity to build a solid foundation as a commercial organization, to establish a leadership team with a customer-

centric focus and a strong commercial orientation to drive success. The IPO also created a much wider investor community to whom we would be accountable.

LL: The shareholder side of this is especially interesting in Hydro One's case, especially as the investor base shifted as the result of the IPO. The IPO transports you from a single shareholder, the Ontario government, to a group of new investors with perhaps different objectives and expectations for the new company. Describe this shift.

Mayo Schmidt: As I reflect back, the investor interest in the IPO from coast to coast was significant. The demand to participate was strong and ultimately resulted in the fourth largest IPO in Canadian history.

We still think of ourselves as Ontarians, and it is positive that the people of Ontario have a continued stake in the company; however, we are exploring growth both inside and outside of the provincial border.

This was a really well-thought-out plan. Ed Clark, a special advisor to the province, did a remarkable job in drafting the governance agreement. The agreement lays out both the expectations for the company and the expectations for the province and gives new shareholders comfort that there is a level playing field.

LL: When did you begin to start planning for the growth that culminated in the Avista acquisition last year?

Mayo Schmidt: Shortly after the IPO, we started analyzing growth opportunities as part of our strategy development. We undertook a deep analysis of industry trends. We prepared ourselves for participation in an expanded marketplace.

LL: What was the spectrum of assets that you were considering?

Mayo Schmidt: We respect our shareholders' investment thesis which centers on Hydro One as a regulated business with a core competency in electric transmission and distribution. We looked for opportunities in these and similar services that would support our core competencies and enable us to diversify our business by regulatory environment and by geography.

LL: Avista was a very fast transaction from beginning to conclusion. What enabled the speed?

Mayo Schmidt: I've been involved in over twenty-four M&A transactions in my career. This was certainly one of the most elegant and well executed transactions. I think it was a combination of good preparation and establishing our priorities ahead of time.

When we met with the team at Avista, the cultural fit was extraordinary, and that is where it came together. I have the highest regard for the Avista leadership team and the depth of talent at Avista.

We saw the company as complementary to Hydro One with alignment in core values. They are well-known and highly respected in the Pacific Northwest and have a remarkable innovation portfolio.

Avista had opportunities to partner with other organizations, but our approach to doing business, including customer service and advocacy, was very attractive to them. Avista made a bold and strategic decision at an opportune time and we're very excited about the combination.

LL: And as you look at the drivers for consolidation in the industry, is consolidation something that must continue in your strategic view?

Mayo Schmidt: Combining two companies with strategic fit creates value for customers, shareholders and other stakeholders. Under the right circumstance, I believe consolidation creates stronger industries and stronger companies.

LL: You mentioned earlier Hydro One's customer-centric



Hydro One employees working at the Grid Control Centre show Schmidt how they monitor the electrical system.

Avista had opportunities to partner with other organizations, but our approach to doing business, including customer service and advocacy, was very attractive to them.

to stop non-payment disconnections during winter months.

We coined this program "Winter Relief" which turned the power back on for all our customers during the winter months. We also worked with our customers to set up personalized payment plans that aligned with their unique circumstance.

Our employees went above and beyond to help families enroll in community support programs and to connect with social agencies. Remarkably, creating personalized payment plans also led to a decrease in our accounts receivables, which are at the lowest level in the Company's recorded history.

These actions and advocacy had a tremendous impact. The government of Ontario demonstrated strong support and the other local distribution companies followed our approach.

A year and a half later, our Winter Relief program became the industry standard as the regulator mandated a cease in winter disconnections. We are very proud that Hydro One assumed a leadership position and implemented policy for social

focus. You have spoken in other forums about developing and becoming a trusted brand. In that context you describe "meaningful action and advocacy." What does that mean at Hydro One?

Mayo Schmidt: I'll give you an example. I think back over my career, both domestically and globally, and one of the most impactful and satisfying actions was when Hydro One implemented a bold policy

good which led to meaningful change in how the industry does business.

Examples like this give us tremendous pleasure in our jobs. We have a great responsibility to drive value for shareholders and be bottom line-oriented, but we also have a responsibility to have a positive social impact on the communities in which we work and live.

LL: I want to turn to your leadership. You've come from another industry to integrate and lead a large utility. What is universal in your leadership between the industries?

Mayo Schmidt: It is an interesting question. I reflect on my sports background through high school and university and it really is about getting the right team on the field together with the right combination of skills.

You need a team that is able to collaborate, work together, and work as one. We have a saying at Hydro One that "we win as one." So, it really is a case of our collective efforts making a greater impact in the communities in which we operate.

It has been very interesting to come in and learn the attributes of a new industry and to apply skills that I gained over the course of a long career in global food and agriculture. The parallel I draw is that electricity and foods are commodities that are required for humans to live and have an enhanced quality of life. Both businesses move commodities from areas of surplus to areas of need. In Viterra's case, it was moving food to countries around the world.

When I assessed the opportunity to come to Hydro One, I was attracted to the opportunity to impact the quality of life of

millions of people. The servant leadership approach that we have as a team at Hydro One allows us to bring our collective energies to the task of supporting the communities across Ontario. That has been very rewarding.

LL: What are some of the things that stand out from your background in sports that you draw from or that were formative for you?

Mayo Schmidt: Much of it can be summarized as preparation, because with preparation comes discipline, focus, determination, and a relentless pursuit of an outcome that you aspire to achieve. It is also dreaming and thinking beyond what's obvious, pushing to realize the full extent of your goals or your dreams.

I think about coming on to a particular field of play and facing challenging odds or obstacles and thinking about how you can elevate yourself, both mentally and physically, to overcome those obstacles.

In a business context, we are constantly dealing with challenges and problems. As leaders we are tasked with solving the problems and learning from the experience to become stronger, faster and more agile. I see that as something we do here in business every day.

One of the most impactful and satisfying actions was when Hydro One implemented a bold policy to stop non-payment disconnections during winter months.



Avista employees meet Schmidt, and hear him speak about the opportunities the acquisition presents for Hydro One and Avista.

LL: Let me take you a little deeper on leadership. I went to business school at the University of Chicago, and there was a professor there, Professor Harry Davis, whose focus was leadership. He's still there, actually.

His focus is on leadership, strategy, creativity, and innovation. He has a unique approach of informing leadership principles and practices with perspectives from leaders from all walks of life.

This could include the visual and creative arts, performing arts, sports, you name it. He would bring these leaders in to talk to the class and inform leadership from the angles of different fields and apply it to business leadership.

I like to think that I absorbed that approach to leadership application. So, in Harry Davis fashion, let me introduce a screenwriting instructor into our conversation named Robert McKee.

He's the author of what's become a screenwriter's bible. It's called "Story, Substance, Structure, Style, and the Principles of Screenwriting." I relate this to leadership. McKee describes the climactic scenes in screenwriting, as seminal moments for the writer, providing one of the most powerful moments in a writer's life: self-recognition.

He goes on to say, "You may know who you are, but often you're amazed by what is skulking inside, in need of expression. If a plot works out exactly as you planned, you're not working loosely enough to give room to your imagination and instincts. Your story should surprise you again and again."

Over about a two-and-a-half-year tenure that you've had at Hydro One, you've led through some climactic events. What surprised you about your leadership in the context of entering a new industry and leading Hydro One through these momentous events?

Mayo Schmidt: When I think about surprises and leadership, it would be the degree to which the proper motivation, inspiration and empowerment can lead employees to rise to the challenge and operate at a level beyond how they perceive their capability.

When I think about inspired leadership, I think about a vision



Schmidt tours the site of Hydro One's new transmission station in Clarington.

that's compelling and that extends beyond tomorrow. A vision that people can relate to, connect with and one that inspires them to rise to the challenge.

I have seen this spirit infused at Hydro One. It is never about one person, idea or action. It is about empowering the team

I reflect on my sports background through high school and university. It really is about getting the right team on the field together with the right combination of skills.

and giving people the opportunity to contribute beyond what they believe are their accountabilities and responsibilities.

Upon my arrival at Hydro One, I assessed competencies but also examined what people believed to be their accountabilities. We made it clear that we

were empowering people to take responsibility and to think more deeply and act more broadly than they had been asked to do in the past. Of course, with responsibility comes accountability.

I see extraordinary potential and a great future for the organization. I think a bit of that was exemplified in undertaking the Avista transaction. In a very short period of time a lot of very good work was done. **PUF**

The Wizard of Menlo Park, Thomas Edison, had 1,093 U.S. patents. The first, on June 1, 1969, improved the voting machine for legislative bodies. In our industry, we talk about his patent of June 14, 1881 perhaps more than any other. No, not his famous patent of the light bulb. It was the electric meter that was patented by Edison on that June day in 1881, leading to a near infinite number of hours since of discussion, debate and dispute.