

ON BEHALF OF AVISTA CORPORATION

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ON BEHALF OF HYDRO ONE LIMITED

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT)
APPLICATION OF HYDRO ONE LIMITED) CASE NO. AVU-E-17-__
(ACTING THROUGH ITS INDIRECT) CASE NO. AVU-G-17-__
SUBSIDIARY, OLYMPUS EQUITY LLC))
AND)
AVISTA CORPORATION) DIRECT TESTIMONY
FOR AN ORDER AUTHORIZING PROPOSED) OF
TRANSACTION) SCOTT L. MORRIS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business
3 address.

4 A. My name is Scott L. Morris and I am employed as
5 the Chairman of the Board, President and Chief Executive
6 Officer of Avista Corporation (Company or Avista), at 1411
7 East Mission Avenue, Spokane, Washington.

8 Q. Would you please briefly describe your educational
9 background and professional experience?

10 A. Yes. I am a graduate of Gonzaga University with
11 a Bachelors degree and a Masters degree in organizational
12 leadership. I have also attended the Kidder Peabody School
13 of Financial Management.

14 I joined the Company in 1981 and have served in a number
15 of roles including customer service manager. In 1991, I was
16 appointed general manager for Avista Utilities' Oregon and
17 California natural gas utility business. I was appointed
18 President and General Manager of Avista Utilities, an
19 operating division of Avista Corporation, in August 2000.
20 In February 2003, I was appointed Senior Vice-President of
21 Avista Corporation, and in May 2006, I was appointed as
22 President and Chief Operating Officer. Effective January 1,
23 2008, I assumed the position of Chairman of the Board,
24 President, and Chief Executive Officer.

1 I am a member of the Edison Electric Institute board of
2 directors, a member of the American Gas Association board of
3 directors, a member of the Washington Roundtable, and I also
4 serve on the board of trustees of Greater Spokane
5 Incorporated. I am also on the board of directors of the
6 Federal Reserve Bank of San Francisco, Seattle Branch, and
7 Gonzaga University board of trustees. I currently serve as
8 Chair for both organizations.

9 **Q. Please provide an overview of your testimony.**

10 A. I will provide an overview of the Proposed
11 Transaction through which, if approved by this Commission,
12 Avista would become a wholly-owned indirect subsidiary of
13 Hydro One. My testimony will also provide a brief
14 introduction to the organization and operations of Hydro
15 One. I will explain that Avista's decision to merge with
16 Hydro One was driven by the unique partnership that will
17 allow Avista and its customers to benefit from being part of
18 a larger organization (the benefits of scale), while at the
19 same time preserving local control of Avista and the
20 preservation of Avista's culture and way of doing business.
21 Agreements to preserve Avista, essentially as it is today,
22 for the long-term are memorialized in the Merger Agreement.

23 I will summarize how the Proposed Transaction provides
24 benefits to what I have often referred to as the four legs

1 of the stool: customers, employees, shareholders, and the
2 communities Avista serves, and provide an overview of the
3 numerous commitments Avista and Hydro One have proposed as
4 part of our request for approval of the Proposed Transaction.
5 I will also briefly summarize Avista and Hydro One's proposal
6 to provide immediate financial benefits to Avista's
7 customers at the closing of the Proposed Transaction.

8 Finally, I will explain our request that the Commission
9 schedule a review of the Proposed Transaction in a time frame
10 that would allow a decision by the Commission on or before
11 August 14, 2018.

12 A table of contents for my testimony is as follows:

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8

9 **Q. Are you sponsoring exhibits with your direct**
10 **testimony?**

11 A. Yes. Exhibit 1, Schedule 1 includes a bar chart
12 that is indicative of investor owned utilities in North
13 America, ranked in size from largest to smallest, showing
14 Avista as one of the smallest investor-owned utilities in
15 North America. Exhibit 1, Schedule 2 includes a diagram
16 showing Avista's current corporate structure. Exhibit 1,
17 Schedule 3 includes a map of Avista's electric and natural
18 gas service area in the Pacific Northwest.

19

1 II. JOINT APPLICANTS' PROPOSAL AND REQUEST
2 OF THE COMMISSION
3

4 Q. Please identify the Joint Applicants in this
5 filing.

6 A. Joint Applicants include Avista Corporation, doing
7 business as Avista Utilities (hereinafter referred to as
8 "Avista"), and Hydro One Limited (hereinafter referred to as
9 "Hydro One"), acting through Olympus Equity LLC, an
10 indirect, wholly-owned subsidiary. Avista and Hydro One
11 will be referred to as Joint Applicants.

12 Avista is an investor-owned utility providing electric
13 generation, transmission, and distribution service to
14 approximately 378,000 retail customers in Idaho, Washington
15 and Montana, and the distribution of natural gas to
16 approximately 342,000 retail customers in Idaho, Washington
17 and Oregon. Alaska Electric Light and Power ("AEL&P"), a
18 wholly-owned indirect subsidiary of Avista, also provides
19 electric generation, transmission and distribution service
20 to approximately 17,000 retail customers in the City and
21 Borough of Juneau, Alaska.

22 Hydro One, through its subsidiary companies, is an
23 investor-owned electric transmission and distribution
24 utility headquartered in Toronto, Ontario, Canada. Hydro
25 One provides electric distribution service to approximately

1 1.3 million retail end-use customers, as well as electric
2 transmission service to many local distribution companies
3 and large industrial customers. Approximately 98% of Hydro
4 One's business consists of regulated utility operations,
5 which is regulated by the Ontario Energy Board. Additional
6 details related to both Avista and Hydro One will be provided
7 later in my testimony.

8 **Q. What are Joint Applicants proposing in this**
9 **filing, and what is the request of this Commission?**

10 A. On July 19, 2017, Avista, and Hydro One, Olympus
11 Holding Corp. ("US Parent"), and Olympus Corp. ("Merger
12 Sub") entered into a Merger Agreement. Following all
13 approvals, at the effective date, Avista will become a
14 wholly-owned indirect subsidiary of Hydro One. Through this
15 filing, Joint Applicants request an order of the Idaho Public
16 Utilities Commission (the "Commission") authorizing the
17 Proposed Transaction.

18

19 **III. JOINT APPLICANTS' WITNESSES SPONSORING TESTIMONY**

20 **Q. Please identify the Avista and Hydro One witnesses**
21 **sponsoring testimony on behalf of Joint Applicants, and a**
22 **brief summary of their testimony.**

1 A. In addition to myself, the following
2 representatives of Avista and Hydro One are sponsoring
3 testimony on behalf of Joint Applicants:

4 **For Avista:**

5 **Mark Thies**, Senior Vice President, Chief Financial
6 Officer and Treasurer of Avista, will describe Avista
7 from a financial perspective and will testify about the
8 financial details of the Proposed Transaction. Mr.
9 Thies will also describe the corporate and financial
10 structure and commitments that will be in place after
11 completion of the Proposed Transaction, and how the
12 Proposed Transaction provides protection for customers
13 by "Ring Fencing" Avista and its customers from Hydro
14 One and its affiliates.

15
16 **Kevin Christie**, Vice President of Customer Solutions,
17 will provide testimony describing how the Proposed
18 Transaction will be beneficial to Avista's customers.
19 He will also explain Hydro One's commitment to increase
20 funding for Avista's philanthropic initiatives and
21 maintain the support of economic development
22 initiatives, as well as a \$2 million annual
23 contribution to the Avista Foundation.

24
25 **Patrick Ehrbar**, Director of Rates at Avista, will
26 describe some of the regulatory commitments being
27 offered by the Joint Applicants, including testimony
28 regarding proposed Rate Credits that would be provided
29 to customers if the Proposed Transaction is approved.
30 He will also discuss the assignment of any costs between
31 Avista and Hydro One before and after the Proposed
32 Transaction, to prevent cross-subsidization. Finally,
33 he will provide testimony related to the interaction of
34 this application and the Proposed Transaction with the
35 pending general rate case currently before the
36 Commission.

37
38 **For Hydro One:**

39
40 **Mayo Schmidt**, President and Chief Executive Officer of
41 Hydro One, will describe Hydro One and its business
42 platforms, with a specific focus on its utility
43 business. He will describe the Proposed Transaction,

1 explain the reasons for Hydro One's proposed purchase
2 of Avista, and describe the corporate structure of
3 Hydro One and Avista after closing. Mr. Schmidt will
4 also explain why the Proposed Transaction is consistent
5 with the public interest and provides a net benefit to
6 Avista's customers, and will explain that Avista's
7 operations, once the Proposed Transaction closes, will
8 essentially be no different than Avista's current
9 operations.

10
11 **Christopher Lopez**, Senior Vice President, Finance of
12 Hydro One, will provide details regarding Hydro One's
13 corporate structure, Avista's place within that
14 structure, Hydro One's capital structure, the financial
15 and accounting aspects of the Proposed Transaction, how
16 Avista will become a ring-fenced business under Hydro
17 One, including the structural and financial commitments
18 to be provided by Hydro One, to ensure that the Proposed
19 Transaction will not expose Avista's customers to any
20 risk of harm.

21
22 **Ferio Pugliese**, Executive Vice President, Customer Care
23 and Corporate Affairs will provide an overview of Hydro
24 One from a customer care perspective, describing, among
25 other things, the various customer initiatives Hydro
26 One has put into place to provide and enhance service
27 to its customers.

28
29 **IV. DESCRIPTION OF THE PROPOSED TRANSACTION**

30 **Q. Please summarize the proposed transaction.**

31 A. On July 19, 2017, Hydro One, Olympus Holding
32 Corp., and Olympus Corp. entered into the Merger Agreement
33 with Avista which provides for, among other things, the
34 acquisition of Avista by Hydro One through Olympus Equity
35 LLC. The proposed merger was unanimously approved by the
36 Boards of Directors of both companies.

1 Following the receipt of all approvals and the closing
2 of the Proposed Transaction, Avista will become a wholly-
3 owned indirect subsidiary of Hydro One. At the closing,
4 Avista's common stock will be delisted from the New York
5 Stock Exchange ("NYSE"), and Avista will have one
6 shareholder i.e., Olympus Equity LLC, which is an indirect,
7 wholly-owned subsidiary of Hydro One.

8 Under the terms of the all-cash transaction, Avista
9 shareholders will receive \$53 per common share, representing
10 a twenty-four percent (24%) premium to Avista's last sale
11 price of \$42.74 per share on July 18, 2017. The aggregate
12 purchase price is approximately \$5.3 billion, comprised of
13 an equity purchase price of \$3.4 billion and the assumption
14 of approximately \$1.9 billion of debt. Hydro One's financing
15 plan is designed to maintain a strong investment grade
16 balance sheet following completion of the acquisition, and
17 Hydro One's regulated utility profile will remain intact
18 with approximately ninety-eight percent (98%) in regulated
19 earnings. Hydro One will finance the Proposed Transaction
20 through a combination of medium and long-term borrowings
21 amounting to approximately C\$3.4 billion, including C\$1.54
22 billion convertible unsecured subordinated debentures, which
23 will form the permanent equity component of the financing
24 plan upon conversion at closing of the Proposed Transaction.

1 Hydro One's common shares are listed on the Toronto Stock
2 Exchange ("TSX") under the ticker symbol "H".

3 Following the closing of the Proposed Transaction, the
4 customers, employees and communities Avista serves will see
5 little or no change in Avista's operations. Avista will
6 maintain its existing corporate headquarters in Spokane,
7 Washington, and will continue to operate as a standalone
8 utility in Idaho, Washington, Oregon, Montana and Alaska. It
9 will maintain its other office locations throughout its
10 service areas, continue to operate under the same Avista
11 name, and seek to retain its existing employees and
12 management team. All of these elements together with other
13 provisions embedded within the Merger Agreement are designed
14 to ensure that Avista's culture and its way of doing business
15 will continue for the long-term. In addition, Avista will
16 continue to have a local Board of Directors consisting
17 primarily of either board members chosen by Avista, and/or
18 members who reside in the Pacific Northwest.

19 Avista and Hydro One believe this preservation of
20 Avista's name, its headquarters, its culture and its way of
21 doing business, among other things, is important to Avista's
22 customers, in that customers can continue to expect and
23 experience reliable service and a high level of customer
24 satisfaction. In addition, customers will see immediate

1 financial benefits in the form of proposed retail rate
2 credits beginning at the close of the Proposed Transaction.
3 Furthermore, over time the merger will provide increased
4 opportunities for innovation, research and development, and
5 efficiencies by extending the use of technology, best
6 practices, and business processes over a broader customer
7 base and a broader set of infrastructure between the two
8 companies. Through this unique arrangement with Hydro One,
9 Avista's customers can receive the benefits of scale that
10 come with joining a larger organization while also avoiding
11 the risk of a potential subsequent acquisition by another
12 party that may not share Avista's culture and values. These
13 immediate and longer-term benefits to Avista's customers are
14 benefits that will otherwise not occur absent the merger.

15 Following completion of the merger, the communities
16 Avista serves will see increased charitable contributions
17 and a continuation of the strong support Avista provides in
18 economic development and innovation. Finally, Avista and
19 Hydro One employees will experience career development,
20 professional employment opportunities and personal growth as
21 the two companies pursue efficiencies and innovation through
22 the use of technology, best practices and business
23 processes.

24

1 **V. AVISTA'S REASONS FOR THE PROPOSED TRANSACTION**

2 **Q. Why did Avista choose to enter into the Merger**
3 **Agreement with Hydro One?**

4 A. Avista's decision to merge with Hydro One was
5 driven by the unique partnership that is possible with Hydro
6 One. The merger with Hydro One will allow Avista and its
7 customers to benefit from being part of a larger organization
8 (the benefits of scale), while at the same time preserving
9 local control of Avista and the retention of Avista's
10 employees and management team, as well as its culture and
11 its way of doing business.

12 With regard to scale, the number of investor-owned
13 electric and/or natural gas utilities in North America has
14 decreased significantly over the years through
15 consolidation. When comparing the size of investor-owned
16 utilities from largest to smallest, Avista is one of the
17 smallest investor-owned utilities remaining in North
18 America.¹ A bar chart indicative of the investor-owned
19 utilities in North America, from largest to smallest, is
20 attached as Exhibit 1, Schedule 1. The merger of Avista and
21 Hydro One will place the combined company toward the middle
22 of the range of investor-owned utilities, in terms of size.

¹As measured by equity value.

1 Through consolidation, larger utilities have the opportunity
2 to spread costs, especially the costs of new technology,
3 over a broader customer base and a broader set of
4 infrastructure which inures to the benefit of customers.

5 Hydro One has more than 1.3 million electric
6 distribution customers, and Avista has approximately 378,000
7 electric customers and approximately 342,000 natural gas
8 customers. This combination will provide opportunities for
9 efficiencies in the long-term through the sharing of best
10 practices, technology and innovation. The merger will
11 provide benefits to Avista's customers that otherwise would
12 not occur.

13 These benefits of scale will not occur in the near-term
14 following the closing of the transaction, but some are
15 expected to occur over the long-term. After all approvals
16 are received and the companies merge, both companies will
17 work together to identify, evaluate and execute on
18 opportunities to reduce costs for both companies through,
19 among other things, the sharing of technology, best
20 practices, and business processes. The benefits from these
21 cost savings will be flowed through to customers in future
22 general rate cases.

1 **Q. How was the Merger Agreement structured in order**
2 **to preserve Avista's culture and its way of doing business,**
3 **for the benefit of Avista's customers and the communities?**

4 A. The specific provisions in the Merger Agreement
5 will allow Avista to preserve its culture and the way it
6 does business for the long-term, including the retention of
7 its employees and management team. This includes a continued
8 focus on providing reliable service to customers and high
9 customer satisfaction at a reasonable cost. Provisions in
10 the Merger Agreement are also designed to increase the level
11 of support provided by Avista to the local communities it
12 serves, including, among other things, charitable giving and
13 continued support of economic development. The combination
14 with Hydro One accomplishes all of these important goals for
15 the indefinite future.

16 The agreements between Hydro One and Avista for
17 operation of the business post-closing were memorialized in
18 Exhibits A and B to the Merger Agreement, hereafter referred
19 to as the "Delegation of Authority" (see Appendix 5 in the
20 Joint Application). Under the Delegation of Authority,
21 Avista's Board of Directors retains its authority to review,
22 authorize and approve certain specified matters related to
23 Avista, without any obligation to obtain separate
24 authorization or approval from the Hydro One Board. Among

1 the matters decided by the Avista board pursuant to the
2 Merger Agreement are the following:

- 3 • Keeping Avista's headquarters in Spokane;
- 4 • Keeping Avista's brand the same;
- 5 • Keeping Avista's office locations in each of its
6 service areas, with no less of a significant presence
7 in each location than that in place prior to the
8 merger;
- 9 • Preventing workforce reductions resulting from the
10 Proposed Transaction;
- 11 • Retaining Avista's existing management team;
- 12 • Maintaining existing compensation and benefit
13 practices;
- 14 • Negotiating and entering into agreements with
15 bargaining unit employees;
- 16 • Maintaining Avista's safety and reliability standards
17 and policies and service quality measures in a manner
18 that is substantially comparable to, or better than,
19 those prior to the merger;
- 20 • Maintaining Avista's community involvement and
21 support initiatives at levels equal to or greater than
22 those prior to the merger;
- 23 • Maintaining a \$4.0 million annual budget for
24 charitable contributions (funded by both Avista and
25 the Avista Foundation), as compared to an approximate
26 \$2.5 million level prior to the merger;
- 27 • Making a \$2.0 million annual contribution to the
28 Avista Foundation (following a contribution to the
29 Foundation of \$7.0 million at the time the merger
30 closes);

- 1 • Maintaining at least the level of economic development
2 that existed prior to the merger, including the
3 expenditure of funds to support regional economic
4 development and related strategic opportunities
5 consistent with past practices;
- 6 • Maintaining existing levels of capital allocations for
7 capital investment in strategic and economic
8 development, including property acquisitions in the
9 university district, support of local entrepreneurs
10 and seed-stage investments;
- 11 • Continued development and funding of Avista's existing
12 and future innovation activities; and
- 13 • Maintaining dues paid by Avista to various industry
14 trade groups and membership organizations.

15 Changes to these provisions in the Merger Agreement
16 require a two-thirds majority vote of the Avista board. In
17 addition to these and other commitments, the makeup of the
18 Avista Board of Directors will further reinforce and
19 preserve the way Avista currently does business. After
20 completion of the merger, Avista will be governed by a nine
21 member Board of Directors, with myself serving as the
22 Chairman of the Board. Three additional board members will
23 be chosen by Avista and these four board members will be
24 referred to as Avista "designees." There will always be a
25 total of four members chosen by Avista designees, and these
26 Avista board members will choose their successors. Of the
27 five board members chosen by Hydro One, three of the five

1 will reside in the Pacific Northwest. The remaining two
2 board members will be executives of Hydro One or one of its
3 subsidiaries. The Avista board will be a local board
4 primarily consisting of either board members chosen by
5 Avista, and/or members who reside in the Pacific Northwest.

6 The Joint Applicants' agreements included in the Merger
7 Agreement and the makeup of the Avista Board of Directors
8 are designed to ensure that Avista's culture and its way of
9 doing business will continue for the long-term, inuring to
10 the benefit of customers. The Proposed Transaction is not
11 designed to target the elimination of jobs, or cost cutting
12 that may lead to a deterioration of customer service,
13 customer satisfaction, safety, reliability, or a
14 deterioration of charitable giving, economic development or
15 innovation in the communities Avista serves.²

16

17

²On July 19, 2017, S&P affirmed its ratings, including the 'BBB' issuer credit rating, on Avista and revised the outlook to positive from stable. The positive outlook reflects S&P's view of the potential for higher ratings on Avista if the merger is completed as proposed based on its view that Avista will be an important member of the Hydro One group, highly unlikely to be sold and integral to overall group strategy and operations. In addition, on July 19, 2017, Moody's affirmed the ratings of Avista's (i) issuer rating (Baa1); (ii) multiple seniority medium-term note program ((P)A2); (iii) senior secured medium-term notes (A2); (iv) senior secured first mortgage bonds (A2); (v) senior secured medium-term note program ((P)A2); and (vi) senior unsecured medium-term note program ((P)Baa1) and kept the outlook at stable. Moody's indicated that the stable rating outlook on Avista reflects its view that the merger will not materially affect the credit quality of Avista.

1 **VI. HYDRO ONE'S REASONS FOR THE PROPOSED TRANSACTION**

2 **Q. Why did Hydro One choose to enter into the Merger**
3 **Agreement with Avista?**

4 A. Mr. Schmidt, Hydro One's Chief Executive Officer
5 (CEO), will explain in his testimony why the proposed
6 transaction was attractive to Hydro One. He will discuss
7 how the Proposed Transaction with Avista achieves Hydro
8 One's goals by providing diversification both in terms of
9 jurisdiction and service area. The Proposed Transaction
10 will deliver the increased scale and benefits that come from
11 being a larger player in the utility industry. Hydro One
12 anticipates over time that there will be savings through
13 scale and collaboration in supply chain activity, IT
14 development and implementation, innovation, and potentially
15 other areas.

16
17 **VII. OVERVIEW OF HYDRO ONE**

18 **Q. Please provide a brief overview of Hydro One and**
19 **its operations.**

20 A. I will provide a brief overview of Hydro One, and
21 Hydro One's witnesses Mr. Schmidt, Mr. Lopez and Mr. Pugliese
22 will provide more details.

23 Hydro One is an investor-owned electric transmission
24 and distribution utility headquartered in Toronto, Ontario,

1 Canada. Through its subsidiaries, Hydro One provides
2 electric distribution service to more than 1.3 million
3 retail end-use customers, as well as electric transmission
4 service to many local distribution companies and large
5 industrial customers.

6 Hydro One connects to generating facilities owned and
7 operated by others and delivers the power to its retail
8 customers. The costs of these power purchases are a "pass-
9 through" to Hydro One's retail customers, i.e., these
10 customers pay a commodity power cost equal to that paid by
11 Hydro One. Hydro One's wholesale customers and its large-
12 use customers that are market participants purchase
13 commodity directly and do not rely on Hydro One to purchase
14 commodity for them. Therefore, Hydro One has no material
15 exposure to variations in the commodity cost of power.

16 Like Avista, Hydro One is committed to the communities
17 it serves, and has been rated as the top utility in Canada
18 for its corporate citizenship, sustainability, and diversity
19 initiatives. It is one of only four utility companies in
20 Canada to achieve the Sustainable Energy Company designation
21 from the Canadian Electrical Association.

22 Hydro One has approximately 5,400 full-time employees
23 and 3,300 casual and temporary employees (not including
24 external contractors) with total assets of C\$25 billion,

1 annual revenues over C\$6.5 billion, and with a market
2 capitalization of C\$14 billion. As explained by Mr. Lopez,
3 Hydro One maintains strong credit ratings from both Standard
4 and Poors (S&P) and Moody's.

5

6 **VIII. OVERVIEW OF AVISTA**

7 **Q. Please provide an overview of Avista and its**
8 **operations.**

9 A. Avista, headquartered in Spokane, Washington,
10 operates a vertically-integrated electric system in Idaho,
11 Washington, and western Montana. Avista's owned generating
12 resource portfolio includes a mix of hydroelectric
13 generation projects, base-load coal and base-load natural
14 gas-fired thermal generation facilities, wood-waste-fired
15 generation, and natural gas-fired peaking generation.
16 Avista-owned generation facilities have a total capacity of
17 1,925 MW, which includes 56% hydroelectric and 44% thermal
18 resources. Avista has approximately 18,300 miles of primary
19 and secondary electric distribution lines, and an electric
20 transmission system of 685 miles of 230 kV lines and 1,534
21 miles of 115 kV lines.

22 Avista provides natural gas distribution service in
23 northern Idaho, eastern Washington and in southwestern and
24 northeastern Oregon. Avista owns and maintains a total of

1 7,650 miles of natural gas distribution lines, and is served
2 off of the Williams Northwest and Gas Transmission Northwest
3 (GTN) pipelines. The Company is also one of the three
4 original developers of the underground storage facility at
5 Jackson Prairie, which is located near Chehalis, Washington.

6 Of Avista's 378,000 electric and 342,000 natural gas
7 customers (as of June 30, 2017), 129,000 and 81,000,
8 respectively, are Idaho customers. Avista serves
9 approximately 30 retail electric customers in western
10 Montana, many of whom are our employees who operate our Noxon
11 Rapids generating facility. In 2014, Avista acquired AEL&P,
12 which serves electric power to approximately 17,000
13 customers in the City and Borough of Juneau, Alaska. A
14 diagram of Avista's current corporate structure is provided
15 in Exhibit 1, Schedule 2.

16 A map showing the Company's electric and natural gas
17 service area in the Pacific Northwest is provided below in
18 Illustration No. 1 below, as well as in Exhibit 1, Schedule
19 3.

20

21

22

23

24

Illustration No. 1



As of December 31, 2016, Avista Utilities had total assets (electric and natural gas) of approximately \$5.0 billion (on a system basis), with electric retail revenues of \$760 million (system) and natural gas retail revenues of \$294 million (system). As of December 2016, the Utility had 1,742 employees.

Avista's credit ratings, assigned by S&P and Moody's are as follows:

Table No. 1

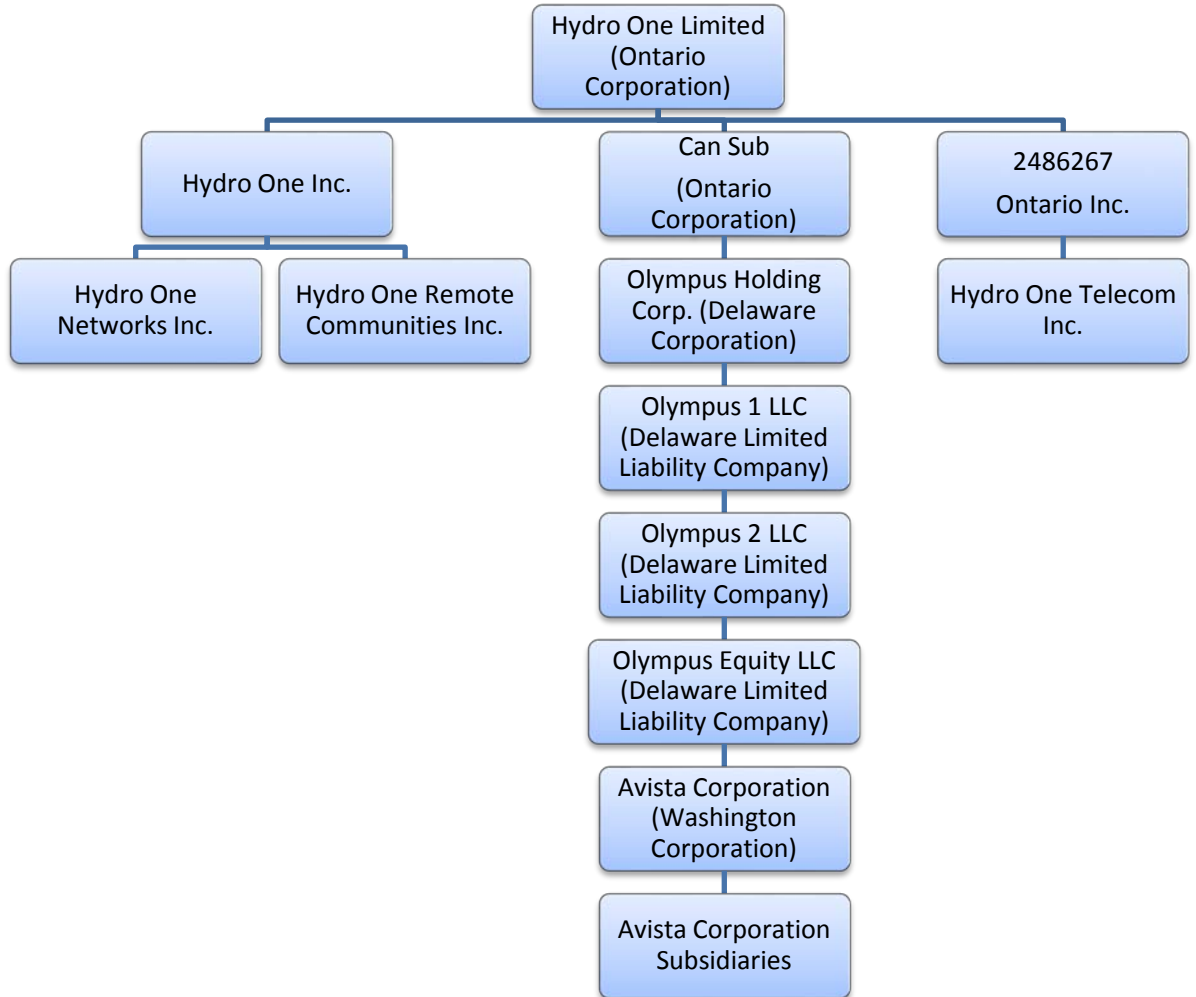
	S&P	Moody's
Corporate Credit Rating	BBB	Baa1
Senior Secured Debt	A-	A2
Outlook	Positive	Stable

1 **IX. POST-CLOSING CORPORATE STRUCTURE**

2 Q. Following the closing, where will Avista reside
3 within the corporate structure of Hydro One?

4 A. After the closing, Avista will be owned by Hydro
5 One Limited, through a series of wholly-owned subsidiaries,
6 as depicted in the Illustration No. 2 below:

7 **Illustration No. 2:**



1 Avista will continue to issue debt financing, as
2 needed. Hydro One will provide equity to support Avista's
3 capital structure that is designed to allow Avista access to
4 debt financing under reasonable terms and on a sustainable
5 basis. Mr. Thies and Mr. Lopez provide additional details
6 related to the post-closing corporate structure, as well as
7 the continuing financial strength of Avista following the
8 closing of the transaction.

9

10 **X. POST-CLOSING GOVERNANCE, MANAGEMENT**
11 **AND OPERATIONS OF AVISTA**

12

13 **Q. Please describe the governance, management and the**
14 **operations of Avista following the close of the Proposed**
15 **Transaction.**

16 A. As explained earlier, following completion of the
17 merger, Avista's customers and the communities Avista serves
18 will see little or no change in the operations of Avista, as
19 compared to Avista's operations prior to the Proposed
20 Transaction. Customers will, however, see immediate
21 financial benefits in the form of proposed retail rate
22 credits (the "Rate Credits") beginning at the closing of the
23 transaction, as well as opportunities for additional longer-
24 term benefits from efficiencies gained through the sharing
25 of best practices, technology and innovation. Avista's

1 customers can receive the benefits of scale while also
2 avoiding the risk of a potential subsequent acquisition by
3 another party that may not share Avista's culture and values.

4 The communities Avista serves will see increased
5 charitable contributions and a continuation of the strong
6 support Avista provides in economic development and
7 innovation. Avista and Hydro One employees will see
8 increased opportunities as the two companies pursue
9 efficiencies and innovation through the sharing of
10 technology, best practices and business processes.

11 The Merger Agreement provides for the retention of
12 Avista's existing employees and management team. Following
13 completion of the merger, Avista will be governed by a nine
14 member Board of Directors, as explained earlier, with myself
15 as the Chairman of the Board.

16 State regulators and other stakeholders will see a
17 continued focus by Avista on providing reliable service to
18 customers, high customer satisfaction, and energy service to
19 customers at a reasonable cost. The various provisions of
20 the Merger Agreement are designed to enable Avista to do so
21 for the indefinite future.

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1 **XI. BENEFITS TO CUSTOMERS FROM THE TRANSACTION**
2

3 Q. Are the Joint Applicants proposing immediate
4 benefits to customers following the closing of the
5 transaction?

6 A. Yes. There will be some immediate cost savings
7 following the closing, such as reduced expenses associated
8 with Avista no longer having publicly traded common stock.
9 Some savings will materialize with respect to filings with
10 the Securities and Exchange Commission ("SEC"), including
11 legal and accounting costs. In addition, the post-closing
12 Avista Board of Directors will have fewer non-employee
13 members which will result in lower costs. The total
14 estimated annual cost savings to customers, on a system
15 basis, for Avista is approximately \$1.7 million. Mr. Thies
16 provides details on the cost savings associated with the
17 Proposed Transaction.

18 Avista and Hydro One are proposing to flow through to
19 Avista's retail customers in Idaho, Washington and Oregon a
20 Rate Credit of \$31.5 million over a 10-year period, beginning
21 at the time the merger closes.³ The Rate Credit consists of

³The AEL&P operations in the City and Borough of Juneau, Alaska, operate substantially independent of Avista Utilities, and the costs from which the merger-related cost savings are derived, are currently not being charged to AEL&P. Therefore, there are no financial cost savings to flow through to AEL&P customers. For Avista's retail operations in Montana, Avista has approximately 30 retail customers and total retail

1 two components, and reflects an increased level of savings
2 in years 6-10 as illustrated in Table No. 2 below.

3
4 **Table No. 2**

5 **Two-Step Rate Credit Proposal**

6

	<u>Annual Credit</u> <u>Years 1-5</u>	<u>Annual Credit</u> <u>Years 6-10</u>	<u>Total Credit</u>
8 Total Credit	\$2.65 Million	\$3.65 Million	\$31.50 Million
9 Offsetable Credit	\$1.70 Million	\$2.70 Million	\$22.00 Million

10

11 The total Rate Credit to customers for the first five
12 years following the closing would be \$2.65 million per year,
13 and the credit would increase to \$3.65 million per year for
14 the last five years of the 10-year period. During the 10-
15 year period, the financial benefits of the Rate Credit will
16 flow through to customers either through a separate tariff

revenue of approximately \$74,000. Due to the very limited retail operations by Avista in Montana, for administrative efficiency the past practice by the Montana Public Service Commission has been to review the final rates recently filed and approved in the State of Idaho, and approve those for Avista's Montana customers, when a request is made by Avista. The date of the last approved retail rates in Montana for Avista was April 27, 2011. Since that time electric retail rates have increased in the State of Idaho, but Avista has not proposed similar increases for its Montana customers. Because Avista's current retail rates for its Montana customers are already below its cost of service, and for the sake of administrative efficiency, Avista and Hydro One are not proposing to flow through the small financial benefit to Avista's Montana customers related to the Proposed Transaction. (If a proportionate benefit to Montana customer were to be calculated based on the level of retail revenue, the total annual Rate Credit for all customers combined would be approximately \$190.)

1 schedule or through a reduction to the underlying cost of
2 service as these benefits are reflected in the test period
3 numbers used for ratemaking as described more fully below.
4 At the time of the closing, the \$2.65 million benefit will
5 be provided to customers through a separate Rate Credit, as
6 long as the reduction in costs is not already reflected in
7 base retail rates for Avista's customers.

8 A portion of the annual total Rate Credit would be
9 offsetable, as indicated in the table above. To the extent
10 Avista demonstrates in a future rate proceeding that cost
11 savings, or benefits, directly related to the Proposed
12 Transaction are already being flowed through to customers
13 through base retail rates, the separate Rate Credit to
14 customers would be reduced by an amount up to the offsetable
15 Rate Credit amount. The portion of the total Rate Credit
16 that is not offsetable effectively represents acceptance by
17 Hydro One of a lower rate of return during the 10-year
18 period.

19 The \$31.5 million represents the "floor" of benefits
20 that will be flowed through to Avista's customers, either
21 through the Rate Credit or through benefits otherwise
22 included in base retail rates over time. To the extent the
23 identifiable benefits exceed the annual offsetable Rate
24 Credit amounts, these additional benefits will be flowed

1 through to customers in base retail rates in general rate
2 cases as they occur. The increase in total benefits to
3 customers for years 6-10 provide time for Avista and Hydro
4 One to identify and capture an increased level of benefits,
5 directly related to the Proposed Transaction, that can be
6 flowed through to customers. As explained earlier, we
7 believe additional efficiencies (benefits) will be realized
8 over time from the sharing of best practices, technology and
9 innovation between the two companies. It will take time,
10 however, to identify and capture these benefits. The level
11 of annual net cost savings (and/or net benefits) will be
12 tracked and reported on an annual basis, and compared against
13 the offsetable level of savings.

14 Avista and Hydro One are not aware of any net increase
15 in costs to Avista's customers related to the Proposed
16 Transaction.⁴ Therefore, the annual Rate Credits proposed
17 by the companies represent an immediate net benefit to
18 customers. Mr. Ehrbar explains in his testimony the manner
19 in which the Rate Credit is proposed to be flowed through to
20 Avista's electric and natural gas customers.

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⁴None of the costs associated with the Proposed Transaction will be flowed through to the customers of Avista or Hydro One.

1 **XII. SATISFACTION OF THE PUBLIC INTEREST AND**
2 **JOINT APPLICANTS' COMMITMENTS**
3

4 **Q. What are the standards for approval of the**
5 **transaction by the Commission?**

6 A. The Commission has jurisdiction over this
7 transaction pursuant to Idaho Code § 61-328. This section
8 prohibits Hydro One from acquiring Avista without the
9 written authorization of the Commission. Before authorizing
10 such a transaction, the Commission must find that: (1) the
11 transaction is consistent with the public interest; (2) the
12 transaction will not cause the cost of or rates for supplying
13 service to increase; and (3) that Hydro One has the bona
14 fide intent and financial ability to operate and maintain
15 Avista's operations in Idaho.

16 As explained above, Avista and Hydro One have proposed
17 immediate financial net benefits for Avista's customers, as
18 well as presenting the opportunity for longer-term benefits
19 for customers from efficiencies gained through best
20 practices, technology and innovation. It is consistent with
21 the public interest and the transaction will not cause the
22 cost of or rates for supplying service to increase.

23 **Q. Please explain why the Proposed Transaction is**
24 **in the public interest.**

1 A. As explained earlier, Avista's choice to merge
2 with Hydro One will allow Avista and its customers to benefit
3 from being a part of a larger organization (the benefits of
4 scale), while at the same time preserving local control of
5 Avista and the retention of Avista's culture and its way of
6 doing business. Following completion of the merger, Avista
7 will continue to have a local Board of Directors consisting
8 primarily of either board members chosen by Avista, and/or
9 members who reside in the Pacific Northwest. The Avista
10 board will have the authority to maintain Avista's
11 headquarters in Spokane, Washington, to maintain its other
12 office locations throughout its service areas, to continue
13 to operate under the same Avista name, to retain its existing
14 employees and management team (although CEO selection is
15 subject to Hydro One approval), and otherwise to ensure that
16 Avista's culture and its way of doing business will continue
17 for the long-term. Following the closing of the transaction,
18 Avista's customers and the communities it serves will see
19 little or no change in the operations of Avista, as compared
20 to Avista's operations prior to the transaction.

21 Avista and Hydro One believe this preservation of
22 Avista's name, its headquarters, its culture and its way of
23 doing business, among other things, is important to Avista's
24 customers, in that customers can continue to expect and

1 experience reliable service and a high level of customer
2 satisfaction. In addition, customers will see immediate
3 dollar benefits in the form of proposed retail rate credits
4 beginning at the closing of the Proposed Transaction, as
5 well as opportunities for additional longer-term benefits
6 from efficiencies gained through the sharing of best
7 practices, technology and innovation. These immediate and
8 longer-term benefits will not otherwise occur absent the
9 proposed merger.

10 Following the closing of the Proposed Transaction, the
11 communities Avista serves will see increased charitable
12 contributions and a continuation of the strong support
13 Avista provides in economic development and innovation.
14 Furthermore, Avista and Hydro One employees will see
15 increased opportunities as the two companies pursue
16 efficiencies and innovation through the use of technology,
17 best practices and business processes.

18 Commitments between the two companies embedded in the
19 Merger Agreement, including the Delegation of Authority, and
20 the make-up of the post-closing Avista Board of Directors
21 are all designed to ensure that Avista's culture and its way
22 of doing business can continue for the indefinite future,
23 for the benefit of customers. Under the Delegation of
24 Authority, Avista's Board will retain the authority to

1 review, authorize and approve certain specific matters
2 related to Avista, without any obligation to obtain separate
3 authorization or approval from the Hydro One Board. These
4 commitments are set forth in Exhibits A and B of the Merger
5 Agreement, which is attached to Mr. Thies' testimony as
6 Exhibit No. 3, Schedule 3.

7 **Q. Are Hydro One and Avista offering additional**
8 **commitments through this filing as part of your request for**
9 **approval of the Proposed Transaction?**

10 A. Yes. As part of the Joint Applicants' request for
11 approval of the Proposed Transaction, Hydro One and Avista
12 are offering other commitments in addition to the Delegation
13 of Authority in the Merger Agreement. The commitments
14 included in the Joint Application total 55 commitments
15 offered by Hydro One and Avista related to approval of the
16 Proposed Transaction. The 55 commitments are grouped
17 together into the categories identified below. The master
18 list of all 55 commitments is attached as Exhibit 3, Schedule
19 4 to Mr. Thies' testimony.

20 A. Reservation of Certain Authority to the Avista
21 Board of Directors
22 1. Governance
23 2. Business Operations
24 3. Local Presence/Community Involvement
25
26 B. Rate Commitments
27
28 C. Regulatory Commitments

- 1
- 2 D. Financial Integrity Commitments
- 3
- 4 E. Ring-fencing Commitments
- 5
- 6 F. Environmental, Renewable Energy, and Energy
- 7 Efficiency Commitments
- 8
- 9 G. Community and Low-Income Assistance Commitments

10

11 **XIII. REQUIRED APPROVALS**

12 **Q. What approvals must be received prior to the**
13 **Proposed Transaction closing?**

14 A. The Proposed Transaction was unanimously approved
15 by the Boards of Directors of both companies. The merger
16 must be approved by Avista's shareholders, which involves a
17 majority vote (50% of shareholders voting, plus 1). A proxy
18 statement will be filed by Avista with the SEC in September
19 2017, in preparation for a vote of Avista's shareholders.
20 Approvals are required by this Commission, the Washington
21 Utilities and Transportation Commission, the Public Utility
22 Commission of Oregon, the Public Service Commission of the
23 State of Montana, the Regulatory Commission of Alaska, and
24 the Federal Energy Regulatory Commission. All of these
25 filings with state commissions and FERC requesting approval
26 are expected to be made on or around the same date.

27 A filing for approval from the Federal Communications
28 Commission will be made related to Avista's radio licenses.

1 In addition, clearance is required by the Committee on
2 Foreign Investment in the United States, and compliance with
3 applicable requirements under the U.S. Hart-Scott-Rodino
4 Antitrust Improvements Act of 1976, as amended, and the
5 satisfaction of customary closing conditions. Mr. Thies
6 will provide additional details related to these required
7 approvals.

8 Joint Applicants are anticipating receiving all
9 approvals in a time frame that would allow the Proposed
10 Transaction to close in the second half 2018.

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XIV. CONCLUSION

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**Q. Please briefly summarize why the proposed merger
is in the public interest.**

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A. Avista's choice to merge with Hydro One will allow
Avista and its customers to benefit from being a part of a
larger organization (the benefits of scale), while at the
same time preserving local control of Avista and the
preservation of its culture and its way of doing business.
Agreements to preserve Avista, essentially as it is today,
for the long-term are memorialized in the Merger Agreement.

The Proposed Transaction provides benefits to Avista's
customers, employees, shareholders, and the communities
Avista serves; including immediate financial benefits to

1 Avista's customers. Avista and Hydro One have proposed
2 numerous commitments as part of the Joint Application,
3 including ring fencing commitments and other protections for
4 various stakeholders.

5 Avista and Hydro One request that the Commission
6 schedule a review of the Proposed Transaction in a time frame
7 that will allow approval by the Commission on or before
8 August 14, 2018.

9 **Q. Does this conclude your pre-filed direct testimony?**

10 **A. Yes.**