

ON BEHALF OF AVISTA CORPORATION

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851
DAVID.MEYER@AVISTACORP.COM

ON BEHALF OF HYDRO ONE LIMITED

ELIZABETH THOMAS, PARTNER
KARI VANDER STOEP, PARTNER
K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WA 981014-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 370-6190
LIZ.THOMAS@KLGATES.COM
KARI.VANDERSTOEP@KLGATES.COM

**BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF
MONTANA**

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

FOR AVISTA CORPORATION

(ELECTRIC)

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

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

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4

5 **Q. Are you sponsoring exhibits with your direct**
6 **testimony?**

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

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II. JOINT APPLICANTS' PROPOSAL AND REQUEST
OF THE COMMISSION

17

18

19 **Q. Please identify the Joint Applicants in this**
20 **filing.**

21 A. Joint Applicants include Avista Corporation, doing
22 business as Avista Utilities (hereinafter referred to as
23 "Avista"), and Hydro One Limited (hereinafter referred to as
24 "Hydro One"), acting through Olympus Equity LLC, an
25 indirect, wholly-owned subsidiary. Avista and Hydro One
26 will be referred to as Joint Applicants.

1 Avista is an investor-owned utility providing electric
2 generation, transmission, and distribution service to
3 approximately 378,000 retail customers in Montana, Idaho,
4 and Washington, and the distribution of natural gas to
5 approximately 342,000 retail customers in Idaho, Washington
6 and Oregon. Alaska Electric Light and Power ("AEL&P"), a
7 wholly-owned indirect subsidiary of Avista, also provides
8 electric generation, transmission and distribution service
9 to approximately 17,000 retail customers in the City and
10 Borough of Juneau, Alaska.

11 Avista serves 32 customers in Montana. Of these
12 customers, 14 are Avista-owned structures/facilities, and
13 nine are Avista employees living in Avista-owned housing.
14 For the other nine customers, eight are small commercial
15 class customers, and one is a residential customer. These
16 customers are served under either Rate Schedule 1 -
17 Residential Service, or Rate Schedule 11 - General Service.
18 Avista also offers Rate Schedule 21 - Large General Service
19 in Montana, but does not currently serve any customers under
20 that tariff.¹

21

¹ Schedule 21 serves Avista's Noxon Rapids generating facility located on the Clark Fork River.

1 The Commission exercises jurisdiction over Avista's
2 Montana rates, services and operations. § 69-3-102, MCA.
3 Avista provides electric service within the state of Montana
4 and as such is deemed a public utility. § 69-3-101, MCA.
5 Avista, as a public utility, is required to provide
6 reasonably adequate service at just and reasonable rates. §
7 69-3-201, MCA.²

8 Hydro One, through its subsidiary companies, is an
9 investor-owned electric transmission and distribution
10 utility headquartered in Toronto, Ontario, Canada. Hydro
11 One provides electric distribution service to approximately
12 1.3 million retail end-use customers, as well as electric
13 transmission service to many local distribution companies
14 and large industrial customers. Approximately 98% of Hydro
15 One's business consists of regulated utility operations,
16 which is regulated by the Ontario Energy Board. Additional

² In prior rate applications, this Commission, in the interest of administrative efficiency, has approved rates based on tariffs approved by its neighboring jurisdiction, the Idaho Public Utilities Commission:

In prior Avista dockets the Commission has approved rates based on IPUC tariffs. (See Order No. 4672). In this case, this approach to setting rates for Avista's Montana tariff schedules comports with regulatory efficiency. The Commission finds that the opportunity costs of commissioners, staff, and Avista resources likely exceed any public interest benefits of further process and/or a hearing because the MCC has chosen not to contest the application and all but one of the affected customers are Avista facilities or employees. Avista asserts that BPA, its only other customer, does not object to the process of basing Avista's Montana rates on recently approved Idaho tariffs.

(Application, p. 1). (See Order No. 7130a, Docket No. D2010.11.107)

1 details related to both Avista and Hydro One will be provided
2 later in my testimony.

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

5 A. On July 19, 2017, Avista, and Hydro One, Olympus
6 Holding Corp. ("US Parent"), and Olympus Corp. ("Merger
7 Sub") entered into a Merger Agreement. Following all
8 approvals, at the effective date, Avista will become a
9 wholly-owned indirect subsidiary of Hydro One. Through this
10 filing, Joint Applicants request an order of the Public
11 Service Commission of the State of Montana (the "Commission")
12 authorizing the Proposed Transaction.

13

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

15 **Q. Please identify the Avista and Hydro One witnesses**
16 **sponsoring testimony on behalf of Joint Applicants, and a**
17 **brief summary of their testimony.**

18 A. In addition to myself, the following
19 representatives of Avista and Hydro One are sponsoring
20 testimony on behalf of Joint Applicants:

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For Avista:

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

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

Patrick Ehrbar, Director of Rates at Avista, will describe some of the regulatory commitments being offered by the Joint Applicants. He will also discuss the assignment of any costs between Avista and Hydro One before and after the Proposed Transaction, to prevent cross-subsidization.

For Hydro One:

Mayo Schmidt, President and Chief Executive Office of Hydro One, will describe Hydro One and its business platforms, with a specific focus on its utility business. He will describe the Proposed Transaction, explain the reasons for Hydro One's proposed purchase of Avista, and describe the corporate structure of Hydro One and Avista after closing. Mr. Schmidt will also explain why the Proposed Transaction is consistent with the public interest, and will explain that Avista's operations, once the Proposed Transaction closes, will essentially be no different than Avista's current operations.

1 **Christopher Lopez**, Senior Vice President, Finance of
2 Hydro One, will provide details regarding Hydro One's
3 corporate structure, Avista's place within that
4 structure, Hydro One's capital structure, the financial
5 and accounting aspects of the Proposed Transaction, how
6 Avista will become a ring-fenced business under Hydro
7 One, including the structural and financial commitments
8 to be provided by Hydro One, to ensure that the Proposed
9 Transaction will not expose Avista's customers to any
10 risk of harm.

11
12 **Ferio Pugliese**, Executive Vice President, Customer Care
13 and Corporate Affairs will provide an overview of Hydro
14 One from a customer care perspective, describing, among
15 other things, the various customer initiatives Hydro
16 One has put into place to provide and enhance service
17 to its customers.
18

19 **IV. DESCRIPTION OF THE PROPOSED TRANSACTION**

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

21 A. On July 19, 2017, Hydro One, Olympus Holding
22 Corp., and Olympus Corp. entered into the Merger Agreement
23 with Avista which provides for, among other things, the
24 acquisition of Avista by Hydro One through Olympus Equity
25 LLC. The proposed merger was unanimously approved by the
26 Boards of Directors of both companies.

27 Following the receipt of all approvals and the closing
28 of the Proposed Transaction, Avista will become a wholly-
29 owned indirect subsidiary of Hydro One. At the closing,
30 Avista's common stock will be delisted from the New York
31 Stock Exchange ("NYSE"), and Avista will have one

1 shareholder i.e., Olympus Equity LLC, which is an indirect,
2 wholly-owned subsidiary of Hydro One.

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

22 Following the closing of the Proposed Transaction, the
23 customers, employees and communities Avista serves will see
24 little or no change in Avista's operations. Avista will

1 maintain its existing corporate headquarters in Spokane,
2 Washington, and will continue to operate as a standalone
3 utility in Montana, Idaho, Washington, Oregon and Alaska. It
4 will maintain its other office locations throughout its
5 service areas, continue to operate under the same Avista
6 name, and seek to retain its existing employees and
7 management team. All of these elements together with other
8 provisions embedded within the Merger Agreement are designed
9 to ensure that Avista's culture and its way of doing business
10 will continue for the long-term. In addition, Avista will
11 continue to have a local Board of Directors consisting
12 primarily of either board members chosen by Avista, and/or
13 members who reside in the Pacific Northwest.

14 Avista and Hydro One believe this preservation of
15 Avista's name, its headquarters, its culture and its way of
16 doing business, among other things, is important to Avista's
17 customers, in that customers can continue to expect and
18 experience reliable service and a high level of customer
19 satisfaction. Over time the merger will provide benefits to
20 customers through increased opportunities for innovation,
21 research and development, and efficiencies by extending the
22 use of technology, best practices, and business processes
23 over a broader customer base and a broader set of
24 infrastructure between the two companies. Through this

1 unique arrangement with Hydro One, Avista's customers can
2 receive the benefits of scale that come with joining a larger
3 organization while also avoiding the risk of a potential
4 subsequent acquisition by another party that may not share
5 Avista's culture and values. These longer-term benefits to
6 Avista's customers are benefits that will otherwise not
7 occur absent the merger.

8 Following completion of the merger, the communities
9 Avista serves will see increased charitable contributions
10 and a continuation of the strong support Avista provides in
11 economic development and innovation. Finally, Avista and
12 Hydro One employees will experience career development,
13 professional employment opportunities and personal growth as
14 the two companies pursue efficiencies and innovation through
15 the use of technology, best practices and business
16 processes.

17

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

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

21 A. Avista's decision to merge with Hydro One was
22 driven by the unique partnership that is possible with Hydro
23 One. The merger with Hydro One will allow Avista and its
24 customers to benefit from being part of a larger organization

1 (the benefits of scale), while at the same time preserving
2 local control of Avista and the retention of Avista's
3 employees and management team, as well as its culture and
4 its way of doing business.

5 With regard to scale, the number of investor-owned
6 electric and/or natural gas utilities in North America has
7 decreased significantly over the years through
8 consolidation. When comparing the size of investor-owned
9 utilities from largest to smallest, Avista is one of the
10 smallest investor-owned utilities remaining in North
11 America.³ A bar chart indicative of the investor-owned
12 utilities in North America, from largest to smallest, is
13 attached as Exhibit 1, Schedule 1. The merger of Avista and
14 Hydro One will place the combined company toward the middle
15 of the range of investor-owned utilities, in terms of size.
16 Through consolidation, larger utilities have the opportunity
17 to spread costs, especially the costs of new technology,
18 over a broader customer base and a broader set of
19 infrastructure which inures to the benefit of customers.

20 Hydro One has more than 1.3 million electric
21 distribution customers, and Avista has approximately 378,000
22 electric customers and approximately 342,000 natural gas

³As measured by equity value.

1 customers. This combination will provide opportunities for
2 efficiencies in the long-term through the sharing of best
3 practices, technology and innovation. The merger will
4 provide benefits to Avista's customers that otherwise would
5 not occur.

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

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

19 A. The specific provisions in the Merger Agreement
20 will allow Avista to preserve its culture and the way it
21 does business for the long-term, including the retention of
22 its employees and management team. This includes a continued
23 focus on providing reliable service to customers and high
24 customer satisfaction at a reasonable cost. Provisions in

1 the Merger Agreement are also designed to increase the level
2 of support provided by Avista to the local communities it
3 serves, including, among other things, charitable giving and
4 continued support of economic development. The combination
5 with Hydro One accomplishes all of these important goals for
6 the indefinite future.

7 The agreements between Hydro One and Avista for
8 operation of the business post-closing were memorialized in
9 Exhibits A and B to the Merger Agreement, hereafter referred
10 to as the "Delegation of Authority" (see Appendix 5 in the
11 Joint Application). Under the Delegation of Authority,
12 Avista's Board of Directors retains its authority to review,
13 authorize and approve certain specified matters related to
14 Avista, without any obligation to obtain separate
15 authorization or approval from the Hydro One Board. Among
16 the matters decided by the Avista board pursuant to the
17 Merger Agreement are the following:

- 18 • Keeping Avista's headquarters in Spokane;
- 19 • Keeping Avista's brand the same;
- 20 • Keeping Avista's office locations in each of its
21 service areas, with no less of a significant presence
22 in each location than that in place prior to the
23 merger;
- 24 • Preventing workforce reductions resulting from the
25 Proposed Transaction;

- 1 • Retaining Avista's existing management team;
- 2 • Maintaining existing compensation and benefit
3 practices;
- 4 • Negotiating and entering into agreements with
5 bargaining unit employees;
- 6 • Maintaining Avista's safety and reliability standards
7 and policies and service quality measures in a manner
8 that is substantially comparable to, or better than,
9 those prior to the merger;
- 10 • Maintaining Avista's community involvement and
11 support initiatives at levels equal to or greater than
12 those prior to the merger;
- 13 • Maintaining a \$4.0 million annual budget for
14 charitable contributions (funded by both Avista and
15 the Avista Foundation), as compared to an approximate
16 \$2.5 million level prior to the merger;
- 17 • Making a \$2.0 million annual contribution to the
18 Avista Foundation (following a contribution to the
19 Foundation of \$7.0 million at the time the merger
20 closes);
- 21 • Maintaining at least the level of economic development
22 that existed prior to the merger, including the
23 expenditure of funds to support regional economic
24 development and related strategic opportunities
25 consistent with past practices;
- 26 • Maintaining existing levels of capital allocations for
27 capital investment in strategic and economic
28 development, including property acquisitions in the
29 university district, support of local entrepreneurs
30 and seed-stage investments;

- 1 • Continued development and funding of Avista's existing
2 and future innovation activities; and
3 • Maintaining dues paid by Avista to various industry
4 trade groups and membership organizations.

5 Changes to these provisions in the Merger Agreement
6 require a two-thirds majority vote of the Avista board. In
7 addition to these and other commitments, the makeup of the
8 Avista Board of Directors will further reinforce and
9 preserve the way Avista currently does business. After
10 completion of the merger, Avista will be governed by a nine
11 member Board of Directors, with myself serving as the
12 Chairman of the Board. Three additional board members will
13 be chosen by Avista and these four board members will be
14 referred to as Avista "designees." There will always be a
15 total of four members chosen by Avista designees, and these
16 Avista board members will choose their successors. Of the
17 five board members chosen by Hydro One, three of the five
18 will reside in the Pacific Northwest. The remaining two
19 board members will be executives of Hydro One or one of its
20 subsidiaries. The Avista board will be a local board
21 primarily consisting of either board members chosen by
22 Avista, and/or members who reside in the Pacific Northwest.

23 The Joint Applicants' agreements included in the Merger
24 Agreement and the makeup of the Avista Board of Directors

1 are designed to ensure that Avista's culture and its way of
2 doing business will continue for the long-term, inuring to
3 the benefit of customers. The Proposed Transaction is not
4 designed to target the elimination of jobs, or cost cutting
5 that may lead to a deterioration of customer service,
6 customer satisfaction, safety, reliability, or a
7 deterioration of charitable giving, economic development or
8 innovation in the communities Avista serves⁴.

9

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

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

13 A. Mr. Schmidt, Hydro One's Chief Executive Officer
14 (CEO), will explain in his testimony why the proposed
15 transaction was attractive to Hydro One. He will discuss
16 how the Proposed Transaction with Avista achieves Hydro
17 One's goals by providing diversification both in terms of

⁴On 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 jurisdiction and service area. The Proposed Transaction
2 will deliver the increased scale and benefits that come from
3 being a larger player in the utility industry. Hydro One
4 anticipates over time that there will be savings through
5 scale and collaboration in supply chain activity, IT
6 development and implementation, innovation, and potentially
7 other areas.

8

9

VII. OVERVIEW OF HYDRO ONE

10 **Q. Please provide a brief overview of Hydro One and**
11 **its operations.**

12 A. I will provide a brief overview of Hydro One, and
13 Hydro One's witnesses Mr. Schmidt, Mr. Lopez and Mr. Pugliese
14 will provide more details.

15 Hydro One is an investor-owned electric transmission
16 and distribution utility headquartered in Toronto, Ontario,
17 Canada. Through its subsidiaries, Hydro One provides
18 electric distribution service to more than 1.3 million
19 retail end-use customers, as well as electric transmission
20 service to many local distribution companies and large
21 industrial customers.

22 Hydro One connects to generating facilities owned and
23 operated by others and delivers the power to its retail
24 customers. The costs of these power purchases are a "pass-

1 through" to Hydro One's retail customers, i.e., these
2 customers pay a commodity power cost equal to that paid by
3 Hydro One. Hydro One's wholesale customers and its large-
4 use customers that are market participants purchase
5 commodity directly and do not rely on Hydro One to purchase
6 commodity for them. Therefore, Hydro One has no material
7 exposure to variations in the commodity cost of power.

8 Like Avista, Hydro One is committed to the communities
9 it serves, and has been rated as the top utility in Canada
10 for its corporate citizenship, sustainability, and diversity
11 initiatives. It is one of only four utility companies in
12 Canada to achieve the Sustainable Energy Company designation
13 from the Canadian Electrical Association.

14 Hydro One has approximately 5,400 full-time employees
15 and 3,300 casual and temporary employees (not including
16 external contractors) with total assets of C\$25 billion,
17 annual revenues over C\$6.5 billion, and with a market
18 capitalization of C\$14 billion. As explained by Mr. Lopez,
19 Hydro One maintains strong credit ratings from both Standard
20 and Poors (S&P) and Moody's.

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1 VIII. OVERVIEW OF AVISTA

2 Q. Please provide an overview of Avista and its
3 operations.

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

17 Avista provides natural gas distribution service in
18 northern Idaho, eastern Washington and in southwestern and
19 northeastern Oregon. Avista owns and maintains a total of
20 7,650 miles of natural gas distribution lines, and is served
21 off of the Williams Northwest and Gas Transmission Northwest
22 (GTN) pipelines. The Company is also one of the three
23 original developers of the underground storage facility at
24 Jackson Prairie, which is located near Chehalis, Washington.

1 Avista serves 32 retail electric customers in western
2 Montana, many of whom are our employees who operate our Noxon
3 Rapids generating facility. In 2014, Avista acquired AEL&P,
4 which serves electric power to approximately 17,000
5 customers in the City and Borough of Juneau, Alaska. A
6 diagram of Avista's current corporate structure is provided
7 in Exhibit 1, Schedule 2.

8 A map showing the Company's electric and natural gas
9 service area in the Pacific Northwest is provided below in
10 Illustration No. 1 below, as well as in Exhibit 1, Schedule
11 3.

12 **Illustration No. 1**



1 As of December 31, 2016, Avista Utilities had total
2 assets (electric and natural gas) of approximately \$5.0
3 billion (on a system basis), with electric retail revenues
4 of \$760 million (system) and natural gas retail revenues of
5 \$294 million (system). As of December 2016, the Utility had
6 1,742 employees.

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

9 **Table No. 1**

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

13

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

15 **Q. Following the closing, where will Avista reside**
16 **within the corporate structure of Hydro One?**

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

20

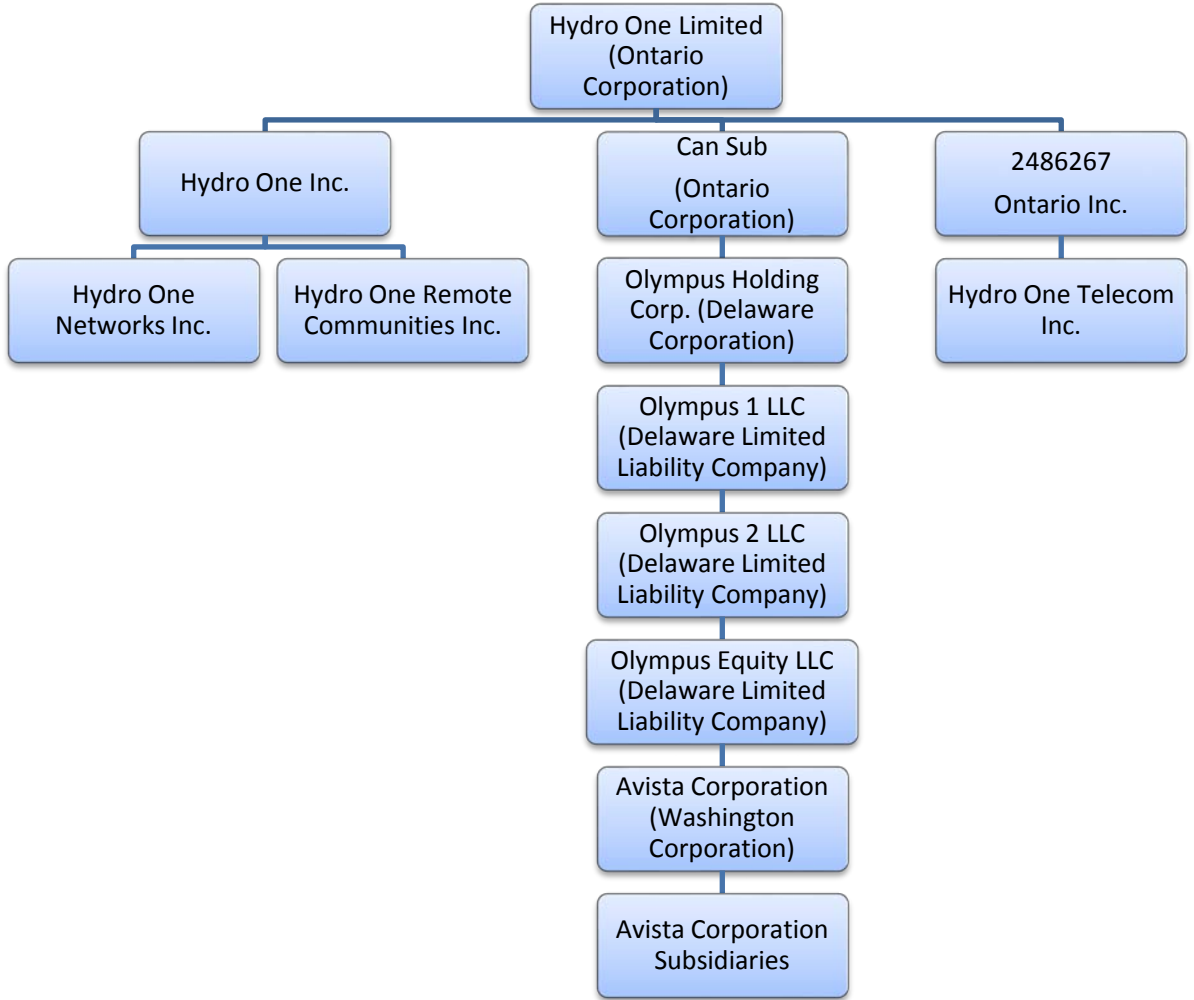
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Illustration No. 2:



17 Avista will continue to issue debt financing, as
18 needed. Hydro One will provide equity to support Avista's
19 capital structure that is designed to allow Avista access to
20 debt financing under reasonable terms and on a sustainable
21 basis. Mr. Thies and Mr. Lopez provide additional details
22 related to the post-closing corporate structure, as well as
23 the continuing financial strength of Avista following the
24 closing of the transaction.

1 completion of the merger, Avista will be governed by a nine
2 member Board of Directors, as explained earlier, with myself
3 as the Chairman of the Board.

4 State regulators and other stakeholders will see a
5 continued focus by Avista on providing reliable service to
6 customers, high customer satisfaction, and energy service to
7 customers at a reasonable cost. The various provisions of
8 the Merger Agreement are designed to enable Avista to do so
9 for the indefinite future.

10

11 **XI. BENEFITS TO CUSTOMERS FROM THE TRANSACTION**

12

13 **Q. Are the Joint Applicants proposing to provide**
14 **immediate benefits to customers following the closing of the**
15 **transaction?**

16 A. No. For Avista's retail operations in Montana,
17 Avista has 32 retail customers and total retail revenue of
18 approximately \$74,000. Due to the very limited retail
19 operations by Avista in Montana, for administrative
20 efficiency the past practice by the Montana Public Service
21 Commission has been to review the final rates recently filed
22 and approved in the State of Idaho, and approve those for
23 Avista's Montana customers, when a request is made by
24 Avista. The date of the last approved retail rates in

1 Montana for Avista was April 27, 2011.

2 Since that time electric retail rates have increased
3 in the State of Idaho, but Avista has not proposed similar
4 increases for its Montana customers. Because Avista's
5 current retail rates for its Montana customers are already
6 below its cost of service, and for the sake of administrative
7 efficiency, Avista and Hydro One are not proposing to flow
8 through a financial benefit to Avista's Montana customers
9 related to the Proposed Transaction.

10 If a proportionate benefit to Montana customers were
11 to be calculated based on the level of retail revenue, the
12 total annual Rate Credit for all customers combined would
13 be approximately \$190. The administrative costs for the
14 Commission, Avista, and interested parties related to the
15 accounting and implementation of a nominal Rate Credit in
16 each of the next ten years would outweigh the small benefit.

17 As indicated earlier, Avista's Montana customers can
18 expect to see benefits in the long-term as the two companies
19 pursue efficiencies and innovation through the sharing of
20 technology, best practices and business processes.

21

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1
2 XII. SATISFACTION OF THE PUBLIC INTEREST AND
3 JOINT APPLICANTS' COMMITMENTS
4

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

7 A. In its Order No. 6754e, at paragraphs 35-36,
8 Docket No. 02006.6.82 (Northwestern / Babcock & Brown), this
9 Commission articulated its standard of review for sales and
10 acquisition transactions:

11 Generally, there are three standards that
12 regulatory commissions employ: the public interest
13 standard, the no-harm to consumers standard, or
14 the net-benefit to consumers standard. In prior
15 orders, the Commission has based its authority on
16 the duty to ensure adequate service at just and
17 reasonable rates, but has not enunciated a
18 specific standard. It may be impossible to
19 enunciate a general standard that is applicable in
20 all cases. For example, if the Commission were
21 faced with the sale of a public utility that was
22 not providing adequate service, it would be
23 appropriate for the Commission to apply a net
24 benefit standard that assured customers would
25 receive adequate service. In another case, a
26 utility may be providing adequate service but just
27 rates for the potential acquirer may be higher
28 than currently charged. In such a situation, it
29 would be appropriate for the Commission to apply
30 a no-harm to consumers standard. For this docket,
31 Commission applies a no-harm to consumers
32 standard.

33
34 Because Avista is currently providing adequate service
35 at just and reasonable rates, Joint Applicants believe that

1 the "no-harm" to consumers standard should apply, even
2 though it also satisfies the other standards.

3 As explained above, Avista's Montana customers can
4 expect to see benefits in the long-term from efficiencies
5 gained through best practices, technology and innovation.

6 **Q. Please explain why the Proposed Transaction is**
7 **in the public interest.**

8 A. As explained earlier, Avista's choice to merge
9 with Hydro One will allow Avista and its customers to benefit
10 from being a part of a larger organization (the benefits of
11 scale), while at the same time preserving local control of
12 Avista and the retention of Avista's culture and its way of
13 doing business. Following completion of the merger, Avista
14 will continue to have a local Board of Directors consisting
15 primarily of either board members chosen by Avista, and/or
16 members who reside in the Pacific Northwest. The Avista
17 board will have the authority to maintain Avista's
18 headquarters in Spokane, Washington, to maintain its other
19 office locations throughout its service areas, to continue
20 to operate under the same Avista name, to retain its existing
21 employees and management team (although CEO selection is
22 subject to Hydro One approval), and otherwise to ensure that
23 Avista's culture and its way of doing business will continue
24 for the long-term. Following the closing of the transaction,

1 Avista's customers and the communities it serves will see
2 little or no change in the operations of Avista, as compared
3 to Avista's operations prior to the transaction.

4 Avista and Hydro One believe this preservation of
5 Avista's name, its headquarters, its culture and its way of
6 doing business, among other things, is important to Avista's
7 customers, in that customers can continue to expect and
8 experience reliable service and a high level of customer
9 satisfaction. Customers will have opportunities for benefits
10 in the long-term from efficiencies gained through the
11 sharing of best practices, technology and innovation.

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

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

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

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

12 A. Yes. As part of the Joint Applicants' request for
13 approval of the Proposed Transaction, Hydro One and Avista
14 are offering other commitments in addition to the Delegation
15 of Authority in the Merger Agreement. The commitments
16 included in the Joint Application total 55 commitments
17 offered by Hydro One and Avista related to approval of the
18 Proposed Transaction. The 55 commitments are grouped
19 together into the categories identified below. The master
20 list of all 55 commitments is attached as Exhibit 3, Schedule
21 4 to Mr. Thies' testimony.

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23
24

1 Regulatory Commission. All of these filings with state
2 commissions and FERC requesting approval are expected to be
3 made on or around the same date.

4 A filing for approval from the Federal Communications
5 Commission will be made related to Avista's radio licenses.
6 In addition, clearance is required by the Committee on
7 Foreign Investment in the United States, and compliance with
8 applicable requirements under the U.S. Hart-Scott-Rodino
9 Antitrust Improvements Act of 1976, as amended, and the
10 satisfaction of customary closing conditions. Mr. Thies
11 will provide additional details related to these required
12 approvals.

13 Joint Applicants are anticipating receiving all
14 approvals in a time frame that would allow the Proposed
15 Transaction to close in the second half 2018.

16

17 **XIV. CONCLUSION**

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

20 A. Avista's choice to merge with Hydro One will allow
21 Avista and its customers to benefit from being a part of a
22 larger organization (the benefits of scale), while at the
23 same time preserving local control of Avista and the
24 preservation of its culture and its way of doing business.

1 Agreements to preserve Avista, essentially as it is today,
2 for the long-term are memorialized in the Merger Agreement.

3 The Proposed Transaction provides benefits to Avista's
4 customers, employees, shareholders, and the communities
5 Avista serves. Avista and Hydro One have proposed numerous
6 commitments as part of the Joint Application, including ring
7 fencing commitments and other protections for various
8 stakeholders.

9 Avista and Hydro One request that the Commission
10 schedule a review of the Proposed Transaction in a time frame
11 that will allow approval by the Commission on or before
12 August 14, 2018.

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

14 **A. Yes.**