

ON BEHALF OF AVISTA CORPORATION

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ON BEHALF OF HYDRO ONE LIMITED

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

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

FOR HYDRO ONE LIMITED

1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is Mayo Schmidt, and my business address is
4 483 Bay Street, South Tower, 8th Floor Reception, Toronto,
5 Ontario M5G 2P5.

6 Q. By whom are you employed and in what capacity?

7 A. I am the President and Chief Executive Officer
8 (CEO), as well as a Director, of both Hydro One Limited
9 ("Hydro One") and Hydro One Inc. Hydro One is a major North
10 American electric transmission and distribution utility,
11 serving more than 1.3 million residential and business
12 customers in Ontario, Canada.

13 Q. Please summarize your education and business
14 experience.

15 A. I received a B.B.A. from Washburn University, and
16 an honorary Doctorate of Commerce from Washburn University.
17 I also have followed advanced study courses at U.C.L.A., the
18 University of Nebraska, and Harvard University. My résumé
19 outlining my background prior to joining Hydro One is Exhibit
20 No. 2, Schedule 1.

21 Q. What position will you hold with Avista Corporation
22 ("Avista") after the transaction is completed?

23 A. I will be a member of the post-merger Avista Board
24 of Directors. I will continue to be President and CEO of

1 Hydro One.

2 **Summary of Testimony**

3 **Q. What is the purpose of your direct testimony in this**
4 **proceeding?**

5 A. The purpose of my testimony is:

- 6 • to describe Hydro One and its affiliates,
- 7 • to describe the transaction,
- 8 • to explain the reasons for Hydro One's proposed
9 purchase of Avista,
- 10 • to describe Avista's operations once the
11 transaction is completed, and
- 12 • to demonstrate that the transaction will benefit
13 Avista's customers, employees and communities.

14 **Q. Please summarize your testimony.**

15 A. My testimony demonstrates that Hydro One is well
16 suited to serve as the parent company of Avista. I also
17 explain how the transaction, if approved by state and federal
18 regulators, will result in Avista's regulated electric
19 business becoming a new, ring-fenced, business platform under
20 Hydro One (the "Proposed Transaction").

21 My testimony explains the reasons for Hydro One's
22 proposed purchase of Avista: (1) growth, (2) diversification
23 both in terms of jurisdictions and service areas, (3)
24 increased scale and benefits that come from being a larger
25 player in the utility industry, and (4) cost savings over the
26 longer term.

1 My testimony provides evidence of the benefits to
2 Avista's customers, communities, and employees if the
3 Proposed Transaction is approved. In my testimony and that
4 of other Hydro One witnesses, we are offering dozens of
5 commitments to the benefit of the customers and communities
6 served by Avista.

7 Specifically, the benefits of the Proposed Transaction
8 include the following Hydro One and Avista commitments, among
9 others, which I detail later in my testimony:

- 10 • The Proposed Transaction will preserve the
11 authority of the Avista Corporation board to
12 continue to make operational decisions in the
13 ordinary course of business. These decisions
14 also include funding for innovation and economic
15 development in the communities served by Avista;
- 16 • A substantial contribution will be made to
17 Avista's charitable foundation and programs; and
- 18 • Over time, both Avista's and Hydro One's
19 customers will benefit from their utilities'
20 increased purchasing power, sharing of best
21 practices and economies of scale.

22 In addition to the foregoing commitments, customers can
23 expect benefits that will result from the financial and
24 business stability associated with North American ownership
25 of Avista by Ontario's largest regulated transmission and
26 distribution company.

27 **Q. Who else will be providing testimony on behalf of**
28 **Hydro One?**

29 A. Hydro One will also offer testimony from the

1 following witnesses:

2 • Chris Lopez, Senior Vice President of Finance of
3 Hydro One, will describe the Proposed
4 Transaction; discuss Hydro One's corporate
5 structure and where Avista will reside within
6 that structure; discuss Hydro One's capital
7 structure; describe Hydro One's financing for,
8 and the mechanics of, the Proposed Transaction;
9 describe Avista's post-transaction access to
10 capital; enumerate certain financial,
11 structural, and ring-fencing commitments that
12 Hydro One and Avista are proposing as part of
13 their request for approval of the Proposed
14 Transaction.

15 • Ferio Pugliese, Executive Vice President,
16 Customer Care and Corporate Affairs at Hydro One
17 Networks Inc., will describe Hydro One Networks'
18 customer service philosophy and supporting
19 programs; describe Hydro One Networks' customer
20 service record and improved practices that have
21 been deployed; describe Hydro One Networks'
22 experience and priorities related to providing
23 electric service to the rural and remote regions
24 of Ontario, including First Nations Communities;
25 and discuss opportunities for Hydro One and
26 Avista to collaborate on enhancing and improving
27 service to the customers of Hydro One and Avista.

28 A table of contents of my testimony is as follows:

29

<u>Description</u>	<u>Page</u>
I. INTRODUCTION.....	1
II. HYDRO ONE AND ITS BUSINESS ACTIVITIES.....	5
III. THE PROPOSED TRANSACTION.....	24
IV. HYDRO ONE'S REASONS FOR ACQUIRING AVISTA.....	26
V. AVISTA'S POST-TRANSACTION OPERATIONS.....	29
VI. PROPOSED TRANSACTION BENEFITS.....	40

8

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

10 A. Yes. Attached to my testimony are:

- 11 • Exhibit No. 2, Schedule 1: Mayo Schmidt Résumé,
- 12 and
- 13 • Exhibit No. 2, Schedule 2: Exhibits A and B to
- 14 Merger Agreement ("Delegation of Authority").

15

16 **II. HYDRO ONE AND ITS BUSINESS ACTIVITIES**

17 **Q. Who is Hydro One and what areas does it serve?**

18 A. Hydro One is an investor-owned electric
19 transmission and distribution utility headquartered in
20 Toronto, Ontario, Canada.¹ Through its subsidiaries, Hydro
21 One provides electric distribution service to more than 1.3
22 million retail end-use customers, as well as electric
23 transmission service to many local distribution companies and

¹ Please see Appendix 9 for identification of the officers, Executive Leadership Team and SVP of Finance of Hydro One.

1 large industrial customers. We have approximately 5,400 full-
2 time employees and 3,300 casual and temporary employees (not
3 including external contractors). Hydro One has over C\$6.5
4 billion in annual revenues and approximately C\$14 billion in
5 market capitalization.

6 **Q. Please explain the business activities of Hydro**
7 **One.**

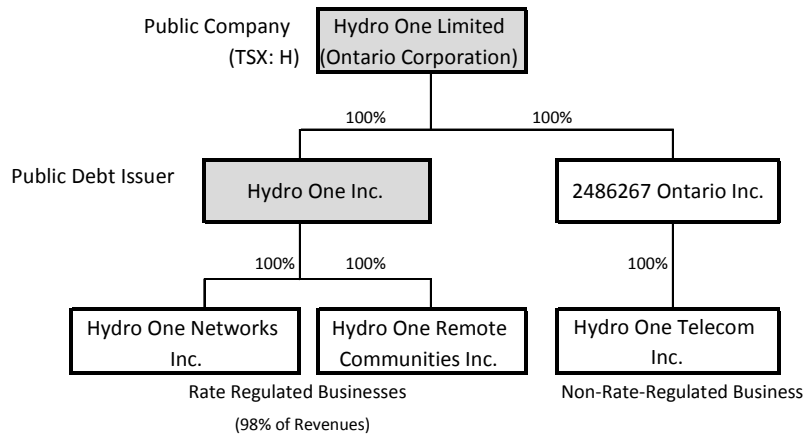
8 A. Hydro One was established in 1906 as the Ontario-
9 owned Hydro-Electric Power Commission of Ontario (later
10 renamed Ontario Hydro). Until 2015, Hydro One was owned by
11 the Province of Ontario. Today, Hydro One is a public company
12 traded on the Toronto Stock Exchange under the ticker symbol
13 "H." Hydro One is the sole owner of Hydro One Inc., which,
14 among other things, is the sole shareholder of two rate-
15 regulated businesses: Hydro One Networks Inc. and Hydro One
16 Remote Communities Inc. These rate-regulated businesses
17 produce approximately 98% of Hydro One Limited's revenue.
18 Hydro One also is the sole indirect owner of Hydro One Telecom
19 Inc., which is not regulated by the Ontario Energy Board and
20 is registered with the Canadian Radio-television and
21 Telecommunications Commission as a non-dominant, facilities-
22 based telecommunications carrier. The following corporate
23 organizational chart depicts these relationships:

24

1 **Illustration No. 1:**

2 **Current Corporate Structure**

3 The diagram below depicts the current relationship of Hydro One Limited and its primary
4 operating subsidiaries that are referenced in the Joint Application.



12 **Q. Please discuss the restructuring of Ontario Hydro**
13 **that led to the creation of Hydro One Inc.**

14 A. In 1999, Ontario Hydro was restructured into five
15 separate entities, including Hydro One Inc. as the successor
16 to its transmission and distribution business, and Ontario
17 Power Generation Inc., as the successor to its generation
18 business. Hydro One Inc., Hydro One's wholly-owned
19 subsidiary, was incorporated on December 1, 1998 under the
20 *Business Corporations Act* (Ontario) as a separate corporation
21 providing transmission and distribution services, with the
22 Province of Ontario as its sole shareholder. Hydro One was
23 incorporated by the Province of Ontario on August 31, 2015,
24 under the *Business Corporations Act* (Ontario). On October

1 30, 2015, Hydro One's articles of incorporation were amended
2 to authorize the creation of an unlimited number of Series 1
3 preferred shares and an unlimited number of Series 2 preferred
4 shares, with the Series 1 preferred shares to be issued to
5 the Province. On October 31, 2015, all of the issued and
6 outstanding shares of Hydro One Inc. were acquired by Hydro
7 One from the Province in exchange for the issuance to the
8 Province of common shares and Series 1 preferred shares of
9 Hydro One. On November 4, 2015, the articles of Hydro One
10 were amended to authorize the consolidation of its outstanding
11 common shares such that 595,000,000 common shares of Hydro
12 One were issued and outstanding. The preferred shares continue
13 to be outstanding. On November 5, 2015, Hydro One completed
14 its initial public offering on the Toronto Stock Exchange by
15 way of secondary offering of common shares by the Province of
16 Ontario, with the goal that, over time, approximately 60% of
17 Hydro One would be held by private investors.

18 **Q. What is the current ownership interest of the**
19 **Province in Hydro One?**

20 A. As of July 31, 2017, the Province owned 49.9% of
21 Hydro One's shares with the remainder of shares held by
22 private investors. Based on facts known today and assuming
23 the Proposed Transaction is completed, the Province's level
24 of ownership of Hydro One will decline to below 45%. In

1 addition, the Ontario *Electricity Act, 1998* restricts the
2 Province from selling voting securities (including common
3 shares of Hydro One) if it would own less than 40% of the
4 outstanding number of voting securities of that class or
5 series after the sale. If as a result of the issuance of
6 additional voting securities of any class or series by Hydro
7 One, the Province would own less than 40% of the outstanding
8 number of voting securities of that class or series, then the
9 Province shall, subject to certain requirements, take steps
10 to acquire as many voting securities of that class or series
11 of voting securities as are necessary to increase the
12 Province's ownership to not less than 40% of the outstanding
13 number of voting securities of that class or series.

14 In order to assist the Province in meeting its ownership
15 obligations under the *Electricity Act, 1998*, under the
16 governance agreement with the Province, Hydro One has granted
17 the Province a pre-emptive right to subscribe for and purchase
18 up to 45% of any proposed issuance by Hydro One of voting
19 securities or securities that are convertible or exchangeable
20 into voting securities (other than certain specified excluded
21 issuances). Any offered securities not subscribed for and
22 purchased by the Province pursuant to its pre-emptive right
23 may be issued to any other person pursuant to the proposed
24 offering.

1 Over the past two years, the Province of Ontario has
2 divested a majority stake in Hydro One. In November 2015,
3 Hydro One debuted on the Toronto Stock Exchange with a 15%
4 initial public offering (IPO by way of secondary offering of
5 approximately 15% of the issued and outstanding common shares,
6 followed by subsequent secondary offerings of the issued and
7 outstanding shares in April 2016 (approximately 15%) and May
8 2017 (approximately 20%)). Hydro One is now governed by an
9 independent board, other than myself as CEO, and a governance
10 agreement that ensures autonomous commercial operations, with
11 the Province of Ontario as an investor and not a manager.

12 **Q. Does the Province of Ontario's continued ownership**
13 **of Hydro One stock mean that Hydro One's business and**
14 **operations are controlled by the provincial government?**

15 A. No. The Province of Ontario is a shareholder and
16 pursuant to its governance agreement with Hydro One it does
17 not hold or exercise any managerial oversight over Hydro One.
18 Of Hydro One's 15 directors, all are independent of the
19 Province within the meaning of Canadian securities laws, and,
20 with the exception of the President and CEO, all of Hydro
21 One's directors are independent of Hydro One. The governance
22 agreement and Hydro One's independent board ensure that Hydro
23 One's business and operations are completely independent from
24 the government of the Province of Ontario.

1 **Hydro One's Transmission Business:**

2 Q. Please expand on the nature of Hydro One's regulated
3 transmission business.

4 A. Hydro One's transmission business consists of
5 owning, operating and maintaining its transmission system,
6 which accounts for approximately 98% of Ontario's
7 transmission capacity. Hydro One's transmission business is
8 a rate-regulated business that receives revenues from
9 charging transmission rates approved by the OEB. Hydro One's
10 transmission business accounted for approximately 51% of
11 Hydro One's total assets on December 31, 2016, and
12 approximately 51% of its total revenues, net of purchased
13 power, in 2016. The following map depicts the transmission
14 network:

1 Illustration No. 2:

2 Electricity Transmission System Map

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13



14 Hydro One Networks, as depicted in Illustration No. 2 above,
15 is involved in the planning, construction, operation, and
16 maintenance of our transmission and distribution network. Our
17 transmission system carries electricity from generating
18 stations to local distribution companies and large industrial
19 customers through our high-voltage network of transformer
20 stations, transmission towers and wires. Through its wholly-
21 owned subsidiary, Hydro One Inc., Hydro One owns and operates
22 98% of the transmission system in Ontario with over 30,000 km
23 of high-voltage transmission lines (approximately 19,000
24 miles) and an approximately 123,000 circuit km (approximately

1 77,000 miles) of low-voltage distribution network. The
2 Company's transmission system is interconnected to systems in
3 Manitoba, Michigan, Minnesota, New York and Quebec and is part
4 of the North American electricity grid's Eastern
5 Interconnection.

6 All of Hydro One's transmission business is carried out
7 by its wholly-owned subsidiary Hydro One Inc., through its
8 wholly-owned subsidiary Hydro One Networks Inc. and through
9 other wholly-owned subsidiaries of Hydro One Inc. Hydro One's
10 distribution system delivers electricity at lower voltages to
11 homes, farms and businesses through our network of poles and
12 power lines, mostly in rural areas.

13 Hydro One's core competency rests with its construction
14 and operation of its significant transmission and
15 distribution system. In particular, Hydro One has deep
16 experience with building transmission and distribution,
17 particularly in rural and remote areas. We have a helicopter
18 fleet with expertise in constructing and maintaining our
19 transmission system. We also have significant development
20 experience, having designed and built substantially all of
21 Ontario's transmission system and a large portion of its
22 distribution system. This includes the Bruce to Milton
23 transmission project, the largest transmission infrastructure
24 project in Ontario in over 20 years. It involved the

1 construction of approximately 700 transmission towers and 180
2 km (approximately 110 miles) of double circuit lines. More
3 recently, we were selected to develop the Northwest Bulk
4 transmission line, another large scale transmission project
5 that if approved by the Ontario Energy Board, would reinforce
6 the connection between Thunder Bay and Dryden (a distance of
7 approximately 1300 km or 800 miles).

8 **Q. You mentioned that Hydro One's transmission system**
9 **is interconnected to systems in Manitoba, Michigan,**
10 **Minnesota, New York and Quebec and is part of the North**
11 **American electricity grid's Eastern Interconnection. Can you**
12 **describe in further detail Hydro One's interconnections with**
13 **utilities in the United States?**

14 A. Hydro One has a number of interconnections with the
15 states of Michigan and New York that provide for a significant
16 transfer of power between Ontario and the U.S. With Michigan,
17 there are 4 tie lines, three at 230kV and one at 345kV.
18 Collectively these interties provide a transfer capability of
19 approximately 1,700 MW. With New York, there are 6 tie lines,
20 four at 230kV and two at 345kV. Collectively these interties
21 provide a transfer capability of approximately 2,000 MW. The
22 ability to exchange significant amounts of electricity with
23 other jurisdictions facilitates a more competitive
24 marketplace in both Ontario and the U.S.

1 These interties also connect Ontario to a larger North
2 American system known as the Eastern Interconnection. The
3 Eastern Interconnection is a contiguous electricity
4 transmission system that extends from Manitoba to Florida and
5 from east of the Rocky Mountains to the North American east
6 coast. Being part of the Eastern Interconnection provides
7 benefits to Ontario, such as greater security and stability
8 for Ontario's power system and emergency support when there
9 are generation constraints or shortages in Ontario. In a
10 reciprocal manner, Ontario can provide support to other
11 jurisdictions in the Eastern Interconnection.

12 **Q. Please provide some insight into Hydro One's**
13 **philosophy regarding operations of transmission and**
14 **distribution facilities.**

15 A. Hydro One Inc. is a pure-play electric transmission
16 and distribution utility. As a result, we are highly focused
17 on ensuring that we maintain and expand our transmission and
18 distribution systems to ensure our customers receive the best
19 possible service. Between 2017 and 2021, we are planning
20 projects that are intended to renew and modernize the grid,
21 including upgrading and replacing infrastructure nearing the
22 end of its lifespan, with a corresponding projected capital
23 investment of approximately \$9.7 billion.

1 **Q. Please relate Hydro One's recent experience with**
2 **maintaining and upgrading its transmission system.**

3 A. Two recent medium-scale capital projects are
4 representative of the investments Hydro One makes in its
5 transmission system:

6 Clarington Transmission Station: This \$267 million
7 project consists of two 750MVA, 500/230 kV transformers
8 and associated termination facilities. The Clarington
9 Transmission Station will connect Hydro One's bulk
10 transmission network to Eastern Ontario upon
11 retirement of the Pickering Nuclear Generation
12 Station. The station's anticipated in-service date is
13 2018.

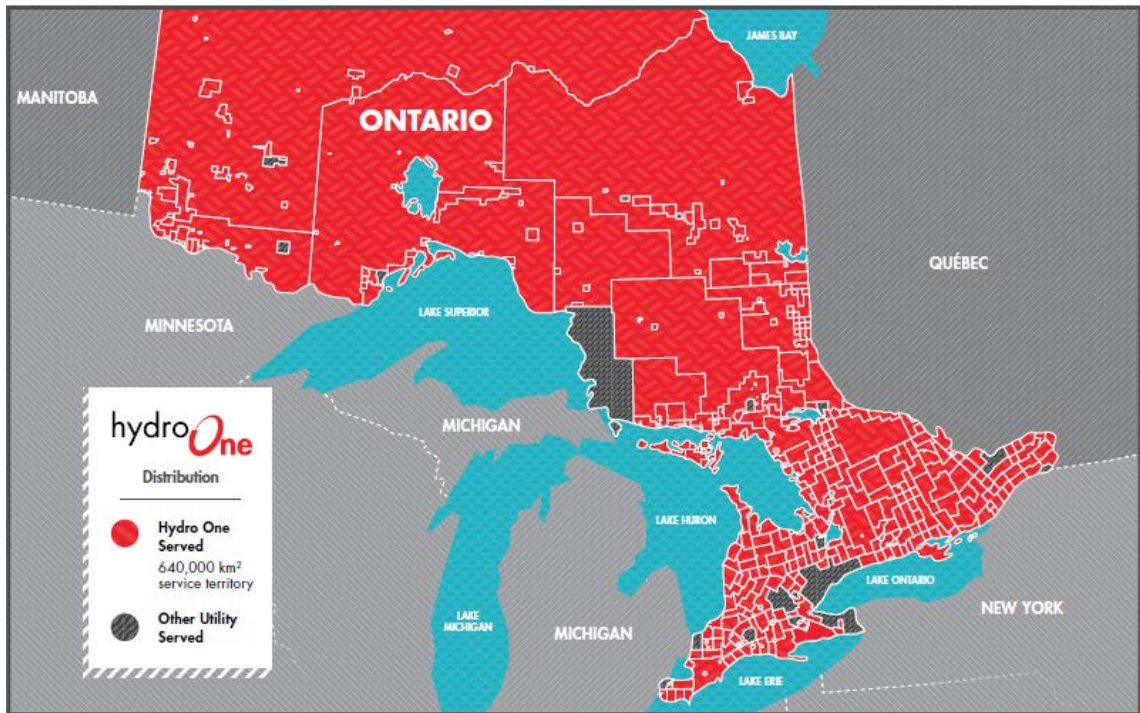
14 Richview Transmission Station: This \$103 million
15 project replaces end-of-life equipment at the Richview
16 Transformer Station to ensure secure and reliable power
17 supply to the City of Toronto and surrounding
18 communities. The anticipated in-service date is 2019.

19 **Hydro One's Distribution Business:**

20 Hydro One's distribution business consists of owning,
21 operating and maintaining its distribution system. Hydro
22 One's distribution system is the largest in Ontario, and
23 principally serves rural communities. Hydro One's
24 distribution business is a rate-regulated business that
25 receives revenues by charging distribution rates that are
26 approved by the OEB. Hydro One's distribution business
27 accounted for approximately 37% of its total assets on
28 December 31, 2016, and approximately 47% of its total
29 revenues, net of purchased power, in 2016. The following
30 map depicts the distribution footprint of Hydro One:

1 Illustration No. 3:

2 Electricity Distribution System Map



14 Hydro One has more than 1.3 million end-use customers,
15 and has deployed smart meters to nearly all of its customers.
16 Hydro One has more than 10 years of experience working with
17 automated metering infrastructure ("AMI," also known as smart
18 meters). As part of its industry leadership in the deployment
19 of smart meters, Hydro One received the Utilities Telecom
20 Council Apex Award for demonstrating excellence and
21 innovation in developing telecommunications solutions for
22 Hydro One's rural utility Smart Grid Project.

23 **Q. Given Hydro One's dispersed service area throughout**
24 **Ontario, what is its experience in storm recovery efforts?**

1 A. Hydro One has developed an award-winning team
2 responsible for speedy storm recovery. Indeed, Hydro One
3 prides itself in having a longstanding history of responding
4 to emergencies. We are an active member in the Edison
5 Electric Institute Mutual Aid Agreement and are often called
6 upon to assist with storm restoration efforts in the U.S. In
7 the past, Hydro One has sent crews to Massachusetts, Michigan,
8 Florida, Ohio, Vermont, Washington, D.C., and the Carolinas.

9 In July 2012, Hydro One dispatched 200 employees to
10 Washington, Baltimore and Virginia after a devastating wind
11 storm knocked out power to more than three million homes and
12 businesses. A few months later, in November 2012, 225 Hydro
13 One employees travelled to Long Island, N.Y., to assist in
14 the Hurricane Sandy restoration efforts. Hydro One was
15 awarded EEI's prestigious Emergency Assistance Award for
16 supporting the June 2012 Mid-Atlantic and Midwest derecho and
17 Hurricane Sandy recovery efforts.

18 **Q. Does Hydro One own or operate any generation assets?**

19 A. As explained further below, Hydro One Networks Inc.
20 and Hydro One Remote Communities Inc. are two regulated
21 subsidiaries. The largest, Hydro One Networks, does not own
22 or operate any generation assets; it is solely a transmission
23 and distribution utility. Hydro One Remote Communities Inc.

1 owns a de minimis portfolio of generation assets to serve
2 remote communities in Ontario.²

3 **Q. Please describe Hydro One Remote Communities Inc.**
4 **and Hydro One Telecom Inc.**

5 A. Hydro One Remote Communities Inc. is another
6 regulated subsidiary of Hydro One. Through Hydro One Remote
7 Communities Inc., Hydro One operates and maintains the
8 generation and distribution assets used to supply electricity
9 to approximately 21 communities across northern Ontario that
10 are not connected to the province's electricity grid, 15 of
11 which are First Nations reserves.

12 Hydro One Telecom Inc. is an indirect subsidiary of Hydro
13 One that markets dark and lit fiber optic capacity to
14 telecommunications carriers and commercial customers. This
15 business, which is not regulated by the Ontario Energy Board,
16 generated more than \$85 million in revenue in 2016. Hydro
17 One Telecom leverages Hydro One's network fiber assets used
18 to monitor and manage power grid circuitry. Hydro One
19 Telecom's customers include data centers, cloud service
20 providers, enterprises, internet service providers (ISPs),
21 other telcos and public sector entities.

² Hydro One Remote Communities has a maximum generation capacity of 31.6 MW.

1 **Q. What previous acquisitions has Hydro One Limited**
2 **undertaken in the energy industry?**

3 A. As the largest distributor in Ontario, Hydro One
4 has been an active consolidator of local distribution
5 companies ("LDCs"). By the early 2000s, Hydro One acquired
6 88 individual LDCs in Ontario, which were subsequently
7 integrated into Hydro One's distribution business.³ More
8 recently, we strengthened our capabilities to acquire and
9 integrate LDCs, thereby positioning Hydro One for future
10 earnings growth having completed the acquisitions of
11 Woodstock Hydro Services Inc. (October 2015), Haldimand
12 County Hydro (June 2015), and Norfolk Power (August 2014).
13 In 2016, we acquired Great Lakes Power Transmission for
14 approximately \$370 million, increasing Hydro One's
15 transmission market share in Ontario to 98%.

16 **Q. Please discuss Hydro One's experience with energy**
17 **efficiency programs and Demand Side Management (DSM)**
18 **programs.**

19 A. Hydro One currently provides Conservation and
20 Demand Management (CDM) programs, covering all of its customer
21 segments; from residential to agriculture and small business
22 to large industrial. Employing online, self-serve tools and

³ With the exception of Hydro One Brampton Networks Inc., which was operated as a stand-alone entity.

1 in field tablet enrollment processes, Hydro One has endeavored
2 to make participation in its CDM programs effortless and
3 seamless. Endeavoring to promote local business development
4 in the many communities that Hydro One serves, one such
5 program employs over 150 local electrical contracting
6 companies working in our communities. One CDM program is the
7 Small Business Lighting Program. This direct install program
8 has retrofitted over 39,000 businesses since its inception in
9 2009, and generates over \$24 million in annual bill savings
10 for participating Hydro One small business customers.
11 Overall, conservation and demand management programs have
12 saved approximately 395 Giga-Watt hours.

13 **Q. What has been the experience of Hydro One regarding**
14 **environmental stewardship?**

15 A. Hydro One is one of only four utilities in Canada
16 to achieve the Sustainable Energy Company designation from
17 the Canadian Electrical Association. Hydro One transmits and
18 distributes some of the cleanest electrical power in North
19 America. We are committed to managing our facilities and
20 operations through a risk-based approach that avoids and/or
21 minimizes our impact on the environment and supports ecosystem
22 protection and conservation of biological diversity. In
23 addition, we have taken steps to mitigate greenhouse gas
24 emissions from our facilities and operations and adapt to the

1 adverse effects of climate change on electricity
2 infrastructure.

3 Given the scale of our operations, and in particular the
4 size of our transmission system, we are keenly aware of our
5 responsibility to help build a low carbon economy. We do this
6 by supporting the provincial and federal governments as they
7 address climate change, by preserving local habitats and
8 protecting biodiversity, and by continuously looking for ways
9 to reduce our own carbon footprint.

10 Our operations are highly regulated from an
11 environmental perspective. There are financial and
12 reputational risks associated with the safe transportation,
13 storage and disposal of waste and polychlorinated biphenyl
14 (PCBs). Similarly, preserving and protecting local species at
15 risk, managing potential land contaminations, responding to
16 spills and managing greenhouse gas emissions are all critical
17 aspects of our environmental responsibility mandate.

18 To assess and mitigate these risks, Hydro One has an
19 integrated Health, Safety, and Environmental Management
20 System (HSEMS) that is aligned with the ISO 14001
21 Environmental Management Systems framework. Each line of
22 business at Hydro One is expected to identify high
23 environmental risks in its area of operation and assign teams
24 to reduce risks.

1 As the owner of thousands of kilometers of transmission
2 grid corridor lands in Ontario, Hydro One is particularly
3 focused on managing these corridor lands to ensure habitat
4 preservation and protection of species at risk. Hydro One uses
5 a multifaceted approach to biodiversity management, combining
6 regulatory requirements with government priorities wherever
7 possible. Our Biodiversity Advisory Committee (BAC) has
8 representatives from relevant lines of business and is
9 mandated to develop, review and recommend strategies to
10 improve performance while ensuring we respond to provincial
11 acts such as the Endangered Species Act, Migratory Bird
12 Convention Act, Fish and Wildlife Conservation Act, and the
13 Invasive Species Act, among others. Hydro One's new Clarington
14 Transformer Station is an example of Hydro One's approach to
15 biodiversity preservation and protection. After undertaking
16 a Class EA (environmental assessment), Hydro One committed to
17 creating habitats on excess property at the site to offset
18 the project's impacts.

19 **Q. What has been Hydro One's experience with its**
20 **utility workforce?**

21 A. Hydro One believes in maintaining constructive
22 relationships with its unions. We have a strong partnership
23 with our unions on health and safety and continued improvement
24 in this area. We have structured committees for exchanging

1 dialogue and resolving issues, which include the union and
2 company executive. We have innovative dispute resolution
3 forums that ensure the timely resolution of disputes when they
4 arise and minimize time and expense for the company and the
5 union.

6

7

III. THE PROPOSED TRANSACTION

8 **Q. Please describe Hydro One's proposed acquisition of**
9 **Avista.**

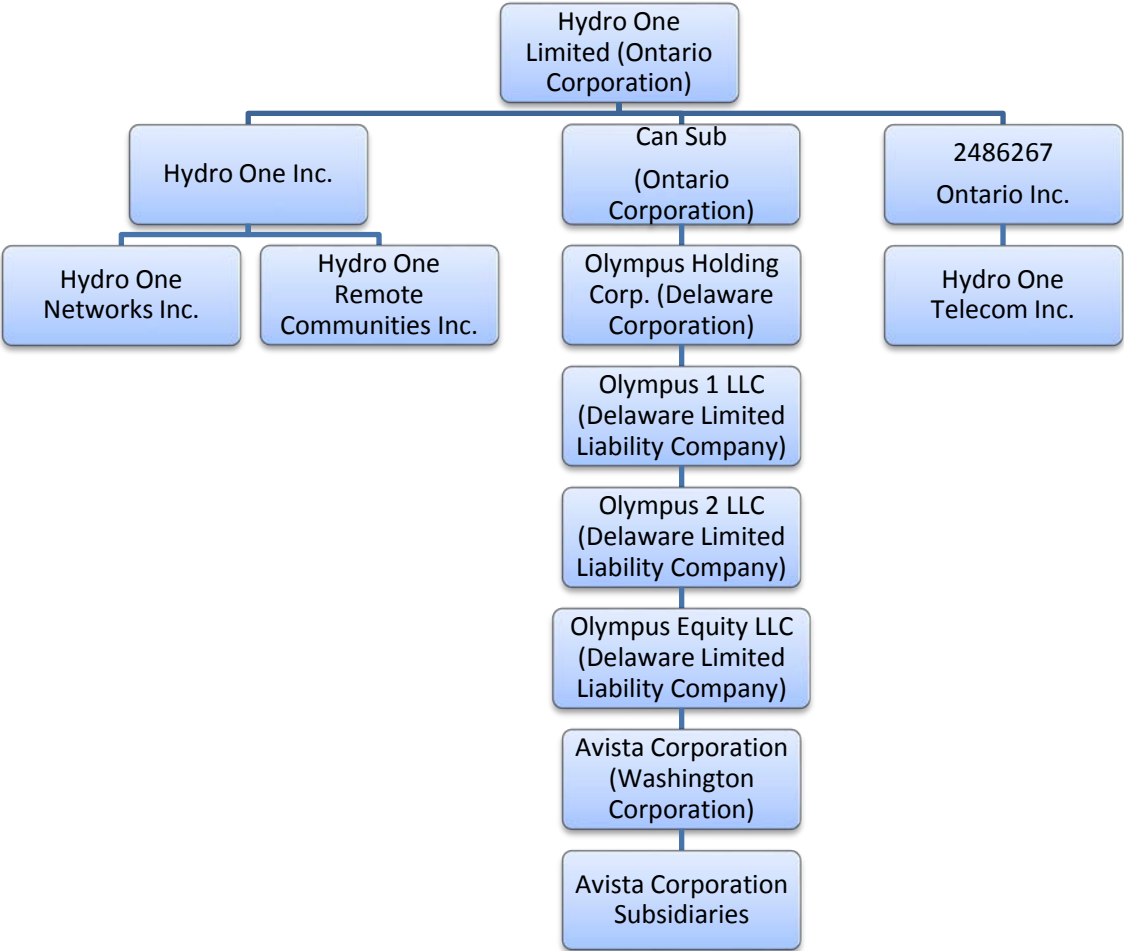
10 A. The boards of directors for Hydro One and Avista
11 unanimously approved an all-cash transaction through which
12 Avista shareholders will receive US\$53 per common share,
13 representing a 24% premium to Avista's last sale price of
14 \$42.74 per share on July 18, 2017. Avista shareholders will
15 together receive cash consideration totaling approximately
16 \$3.4 billion.

17 Together, Hydro One and Avista will service more than
18 two million retail end-use customers and we will operate
19 across multiple North American jurisdictions, including
20 Ontario, Washington, Oregon, Idaho, Montana and Alaska.

21 **Q. Please describe Hydro One's corporate organization**
22 **structure after the proposed merger with Avista.**

23 A. Upon completion of the Proposed Transaction, Avista
24 will be an indirect, wholly-owned subsidiary of Hydro One as
25 shown in the organizational chart in Illustration No. 4 below:

1 Illustration No. 4:



16 Once acquired by Hydro One, I expect Avista to be operated
17 much as it is today, and it will continue to be headquartered
18 in Spokane, Washington.

19 **Q. Does Hydro One view Avista as a short-term or long-**
20 **term investment?**

21 A. Hydro One plans to be a long-term partner. This is
22 the first time that Hydro One has embarked on the acquisition
23 of a U.S. utility. As a utility that serves more than 1.3
24 million customers, Hydro One is focused on long-term

1 opportunities that are beneficial to customers, employees,
2 shareholders, and the communities we serve.

3

4 **IV. HYDRO ONE'S REASONS FOR ACQUIRING AVISTA**

5 **Q. Please describe the reasons for Hydro One's**
6 **proposed acquisition of Avista.**

7 A. For more than 100 years and until just two years
8 ago, Hydro One, and its predecessor Ontario Hydro, was owned
9 solely by the Province of Ontario. In 2015, Hydro One became
10 a commercially operated investor owned utility. Over the
11 years, Hydro One had acquired a number of LDCs in Ontario to
12 increase its distribution footprint. Since 1998, Hydro One
13 has successfully acquired and integrated approximately 90
14 separate LDCs. Hydro One continues to pursue growth and the
15 benefits that will accrue to its customers, communities and
16 shareholders from that growth.

17 Hydro One is a pure-play transmission and distribution
18 utility located solely within Ontario. It seeks
19 diversification both in terms of jurisdictions and service
20 areas. The Proposed Transaction with Avista achieves both
21 goals by expanding Hydro One into the U.S. Pacific Northwest
22 and expanding its operations to natural gas distribution and
23 electric generation. The Proposed Transaction with Avista
24 will deliver the increased scale and benefits that come from
25 being a larger player in the utility industry.

1 The utility industry is changing dramatically, with the
2 deployment of distributed generation and storage resources,
3 and the ever increasing reliance on renewable generation.
4 Avista and Hydro One acting separately will be challenged to
5 participate in these innovations on a scale similar to the
6 larger utilities due to the size of their balance sheets and
7 customer bases. Combined, however, Avista and Hydro One will
8 become more competitive by creating scale and cost
9 efficiencies over time. Hydro One and Avista intend to
10 continue investing in innovation. Together, with nearly two
11 million customers, they can spread some of these costs over
12 a larger base.

13 Finally, Hydro One and Avista believe that the Proposed
14 Transaction will deliver cost savings over the longer term.
15 While Hydro One and Avista cannot quantify those savings at
16 this time, the companies should achieve savings over time
17 through scale and collaboration in supply chain activity, IT
18 development and implementation, innovation, and potentially
19 other areas.

20 Both Hydro One and Avista have similar cultures and
21 values, including a strong commitment to their respective
22 communities, which will enable a seamless integration. Both
23 companies make customer service, high customer satisfaction,
24 reliability, safety, respect for the environment, and

1 reasonable retail rates a high priority. Because of their
2 shared culture and values, both companies have high
3 expectations that Avista's and Hydro One's objectives for the
4 Proposed Transaction will be achieved.

5 **Q. Please describe the similarities between Avista's**
6 **and Hydro One's existing utility operations.**

7 A. The opportunities for a successful transaction and
8 transition are enhanced by the significant similarities
9 between Hydro One and Avista. The utilities' similarities
10 include: service focused on rural areas with just a few urban
11 centers; revenues derived nearly exclusively from regulated
12 utility businesses; and a focus on customer satisfaction and
13 employee safety. Similar to Avista, Hydro One: (i) has
14 expertise providing service to remote communities, (ii)
15 relies extensively on hydropower generation, (iii) has a
16 service territory that includes extensive forests and an
17 active forest products industry, and (iv) provides service to
18 rural areas where there are more poles than customers.

19 We expect to gain operating efficiencies by extending
20 the use of technology, best practices and business processes
21 over a broader customer base and broader set of
22 infrastructure. We expect efficiencies in areas such as
23 procurement, IT and operations. In general, our shareholders
24 will also benefit from geographic, economic and asset

1 regulatory diversity that this transaction will provide. The
2 markets that we are entering have expanding economies and
3 positive and growing customer demographics, and they are in
4 geographic territories that are remarkably similar to those
5 that we serve today in Ontario.

6 As a result of the uniquely similar yet also
7 complementary profiles of the two companies, once the Proposed
8 Transaction is complete, the profiles of the regulated
9 utilities will remain intact, with the vast majority of
10 revenues generated by rate-regulated operations and further
11 enhanced by the virtue of asset and geographic
12 diversification.

13

14 **V. AVISTA'S POST-TRANSACTION OPERATIONS**

15 **Q. How will Avista operate after completion of the**
16 **transaction?**

17 A. Avista will operate very much as it does today.
18 Avista will become a separate indirect subsidiary under Hydro
19 One; it will not be merged with other subsidiaries. Avista
20 will have its own management and its own board of directors.
21 In short, Avista will have the same look and feel to customers
22 after the merger as it has today.

23 **Q. Please describe Hydro One's and Avista's agreement**
24 **regarding decisions reserved to Avista's board.**

1 A. One of the issues most important to Avista CEO Scott
2 Morris as we discussed the prospect of a merger was ensuring
3 that Avista customers will benefit in the years to come from
4 the unique features of this transaction: Avista will maintain
5 its existing corporate headquarters in Spokane, Washington;
6 Avista will continue to operate as a standalone utility in
7 Washington, Oregon, Idaho, Montana and Alaska; Avista will
8 maintain its other office locations throughout its service
9 areas; and Avista will seek to retain its existing employees
10 and management team. All of these elements together with
11 other provisions embedded within the Merger Agreement were
12 specifically designed at Mr. Morris's request to ensure that
13 Avista's customers continue to receive the service they have
14 come to expect from a company that has been a leader in the
15 Pacific Northwest for more than 100 years. Essentially, Hydro
16 One gave Mr. Morris and Avista the "drafting pen" to assure
17 that Avista had the assurances it needed in order to enter
18 into this Proposed Transaction.

19 This effort resulted in the unique Delegation of
20 Authority (Exhibits A and B to the Merger Agreement, Appendix
21 5 to the Joint Application, and Exhibit No. 2, Schedule 2 to
22 my testimony), which reserves to Avista's post-transaction
23 board ongoing management authority over Avista. The
24 Delegation of Authority confirms the post-transaction Avista

1 board's authority to make specified decisions without
2 obligation to obtain any separate authorization or approval
3 from the Hydro One board, subject to limited exceptions for
4 extraordinary items, as described in the Delegation of
5 Authority.

6 Decision-making authority with respect to the following
7 issues will remain with the Avista post-transaction board:

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

- 1 • Making a \$2.0 million annual contribution to the
2 Avista Foundation (following an initial
3 contribution to the Foundation of \$7.0 million at
4 the time the merger closes);
- 5 • Maintaining at least the level of economic
6 development that existed prior to the merger,
7 including the expenditure of funds to support
8 regional economic development and related strategic
9 opportunities consistent with past practices;
- 10 • Maintaining existing levels of capital allocations
11 for capital investment in strategic and economic
12 development, including property acquisitions in the
13 university district, support of local entrepreneurs
14 and seed-stage investments;
- 15 • Continued development and funding of Avista's
16 existing and future innovation activities; and
- 17 • Maintaining dues paid by Avista to various industry
18 trade groups and membership organizations.

19 **Q. Will Avista have its own individual business plan?**

20 A. Yes. As part of the Delegation of Authority
21 described above, the Hydro One board acknowledges that the
22 post-transaction Avista board and management team, will plan
23 for the operation of its business. Hydro One approval would
24 be required, however, for an action expected to result in a
25 material change to the nature of the business of Avista or
26 Avista's subsidiaries.

27 **Q. Will Avista have control and responsibility for**
28 **making decisions that achieve objectives such as customer**
29 **satisfaction, reliable service, employee safety,**
30 **environmental stewardship and regulatory/legislative**
31 **credibility?**

1 A. Yes.

2 Q. In addition to the fact that you will be joining
3 the Avista Board of Directors, how will Avista's Board of
4 Directors change after the merger?

5 A. Avista will have a nine-member Board of Directors,
6 five of whom will be designated by Hydro One and four by
7 Avista. Avista CEO Scott Morris will be chair of the board;
8 one other Hydro One executive and I will join the Avista
9 board. Hydro One will identify three additional directors
10 who reside in the Pacific Northwest and who are not officers,
11 employees or directors (other than as a director of Avista or
12 Olympus Equity LLC) of Hydro One or its affiliates.

13 Q. Are there any plans for a reduction in force at
14 Avista as a result of the transaction?

15 A. No.

16 Q. Do you anticipate changing the existing labor
17 contracts as a result of the Proposed Transaction?

18 A. No. Avista will honor existing labor contracts,
19 and the Delegation of Authority acknowledges the Avista
20 board's authority over labor issues.

21 Q. Has Hydro One received recognitions for its
22 commitment to customers, communities and employees?

23 A. Yes. Hydro One has a long history of deploying new
24 technology and resources to ensure that our customers are

1 receiving the highest quality service. Our efforts have been
2 recognized on numerous occasions, examples of which follow:

- 3 • January 2007: We became the first utility outside
4 of the United States to receive the Edison Institute
5 Emergency Recovery Award for outstanding efforts in
6 restoring power to more than 500,000 customers
7 following four successive severe storms.

- 8 • 2008: Hydro One undertook the largest smart meter
9 deployment initiative in North America and was
10 selected as a finalist for a prestigious Platts
11 Global Energy Award in the category of Sustainable
12 Energy Initiative of the Year, for work on the
13 meter/network initiative and our commitment to
14 creating a world in which energy use and resources
15 are sustainable.

- 16 • September 2011: Utilimetrics awarded Hydro One with
17 the Utilimetrics Excellence in Project Management
18 Award for superior achievement in innovation for
19 the Smart Grid Program. This award recognized our
20 central role in securing wireless spectrum for use
21 by the utility sector in Canada.

- 22 • January 2015: Hydro One received a Sustainable
23 Energy Company designation from the Canadian
24 Electricity Association - one of only four
25 companies in Canada to earn the prestigious award.

- 26 • December 2016: Hydro One was selected as one of
27 Greater Toronto's Top Employers for 2017 by
28 Mediacorp Canada Inc. This designation recognizes
29 Hydro One as an industry leader in offering
30 employees an exceptional place to work.

- 31 • In 2016, Hydro One received the 2016 Esource
32 Utility Ad Awards, 2016 Summit Creative Awards, and
33 Corporate Knights Canada's top utility on measures
34 of corporate social responsibility.

35 **Q. Would it be reasonable for the Commission to expect**
36 **continued strong performance by Avista in the area of customer**
37 **service as a consequence of the Proposed Transaction?**

1 A. Yes. There will be a concentrated effort and
2 commitment by both Hydro One and Avista to ensure that
3 customer service will benefit as we share best practices.

4 **Q. Will Avista remain in charge of assuring safe and**
5 **reliable service?**

6 A. Yes. Under the Delegation of Authority, Avista's
7 existing executive management team will manage Avista's
8 business and will develop and execute Avista's business plan
9 under the oversight of the Avista board. The Avista
10 leadership team and board will have authority to maintain
11 Avista's and its subsidiaries' safety and reliability
12 standards and policies and service quality measures in a
13 manner that is consistent with those currently maintained at
14 the time of the merger by Avista and its subsidiaries.

15 **Q. Based on Hydro One's experience, how can the**
16 **Proposed Transaction be expected to affect Avista's resource**
17 **planning process?**

18 A. We anticipate that the Proposed Transaction will
19 not affect Avista's resource planning process in any of its
20 service territories.

21 **Q. How do you expect the Proposed Transaction to affect**
22 **Avista's commitment to renewable generation resources?**

1 A. We anticipate that the Proposed Transaction will
2 not affect Avista's commitment to renewable generation
3 resources.

4 **Q. What is Hydro One's experience with wind and**
5 **renewable resources?**

6 A. As both the operator of over 98% of the transmission
7 system in Ontario and as the largest distributor in the
8 province, Hydro One has been at the forefront of integrating
9 Ontario's significant renewable generation additions over the
10 past decade. Since the beginning of the Province's renewable
11 generation Feed-in-Tariff program, Hydro One has connected
12 over 12,000 renewable energy projects totaling over 1,200 MW
13 of installed capacity to the distribution system and connected
14 over 100 projects to the transmission system equaling over
15 12,000 MW of installed capacity. Further, as much of this
16 renewable generation was connected in a short period of time,
17 Hydro One was forced to rise to the challenge of bringing a
18 variety of renewable projects including wind, solar, hydro
19 and biomass onto the system. This developed a unique and
20 diverse experience within the Company and new learning in
21 system planning, system performance and operation, and
22 customer service.

23 **Q. What will Hydro One's ownership of Avista mean for**
24 **the communities that Avista serves?**

1 A. The Proposed Transaction provides a big boost to
2 these communities. Avista will make a \$2.0 million annual
3 contribution to the Avista Foundation (following an initial
4 contribution to the Foundation of \$7.0 million at the time
5 the merger closes). Under the Delegation of Authority
6 described above, Avista's board has the discretion to maintain
7 a \$4.0 million annual budget for charitable contributions
8 (funded by both Avista and the Avista Foundation) as compared
9 to an approximate \$2.5 million level prior to the merger.

10 **Q. Does Hydro One support Avista continuing its**
11 **economic development and innovation efforts in the**
12 **communities it serves?**

13 A. Yes. Hydro One has a long history of supporting
14 economic development in Ontario, and specific examples are
15 provided below. The Delegation of Authority ensures the post-
16 merger Avista board has the authority to maintain Avista's
17 and its subsidiaries' existing levels of economic
18 development, including the ability of Avista to spend
19 operations and maintenance funds⁴ to support regional economic
20 development and related strategic opportunities in a manner
21 consistent with the past practices of Avista and its
22 subsidiaries. The Delegation of Authority also ensures the

⁴ Operations and maintenance funds dedicated to economic development and non-utility strategic opportunities will be recorded "below-the-line" to a nonoperating account.

1 post-merger Avista board has the authority to maintain
2 Avista's and its subsidiaries' existing levels of capital
3 allocations for capital investment in strategic and economic
4 development items, including property acquisitions in
5 Spokane's university district, support of local entrepreneurs
6 and seed-stage investments. We understand, however, that any
7 charitable and economic development expenditures are not to
8 be recovered from customers under current practice.

9 **Q. Please expand on Hydro One's commitment to its**
10 **communities.**

11 A. Hydro One has a long history of dedicating corporate
12 resources and talent to support the communities in which it
13 operates:

- 14 • August 2006: The Kleinburg Training Centre opened
15 its doors to teach Ontario's future electricity
16 workers. The centre not only provides vital
17 training to Hydro One apprentices, it's a Ministry
18 of Training, Colleges, and Universities certified
19 facility.
- 20 • November 2007: Hydro One entered into a partnership
21 with four Ontario community colleges: Algonquin,
22 Mohawk, Georgian and Northern, to educate and
23 attract future employees necessary to respond to
24 the upcoming staff retirements in our company and
25 across our industry.
- 26 • November 2010: Hydro One earned the Canadian
27 Electricity Association's (CEA) 2010 Sustainable
28 Electricity Social Responsibility Award in
29 recognition of our leadership in engaging our
30 stakeholders.
- 31 • 2012: Hydro One employees and pensioners raised
32 over \$1,000,000 for the Charity Campaign,

- 1 benefiting more than 800 charities in local
2 communities across the province.
- 3 • January 2013: Hydro One received the prestigious
4 Edison Electric Institute's 2012 Emergency
5 Assistance Award for supporting the recovery
6 efforts in the Mid-Atlantic and Midwest storms from
7 Hurricane Sandy.
- 8 • March 2013: Hydro One partnered with Ryerson
9 University, University of Ontario Institute of
10 Technology, the University of Waterloo and Western
11 University to increase enrollment and career
12 opportunities for female students pursuing Science,
13 Technology, Engineering, and Mathematics.
- 14 • 2016: Hydro One donated \$125,000 to Sunnybrook
15 Health Science Centre Foundation for Ross Tilley
16 Burn Centre Tissue Research, supporting research to
17 better treat electrically injured patients.
- 18 • 2016: Hydro One partnered with Frontier College to
19 fund its Lieutenant Governor's Aboriginal Summer
20 Reaching Camps, contributing \$120,000 towards camps
21 dedicated to building literacy skills in Aboriginal
22 youth.
- 23 • 2016: Each year, Hydro One provides an in-kind
24 donation towards the International Plowing Match in
25 the form of a temporary mini electrical grid for
26 the five-day event, a value worth approximately
27 \$350,000.
- 28 • 2016: Hydro One supported the TransCanada Trail's
29 Chapter 150 Campaign with a \$90,000 gift to help
30 complete an important 11.8-kilometre link between
31 Barrie and Springwater in Ontario. The TransCanada
32 Trail is also known as The Great Trail.
- 33 • 2016: Hydro One sponsored the Amici Camping Charity
34 by providing \$25,000 to the 50th Anniversary Heroes
35 Gala, a celebration of sending children to camp for
36 50 years.
- 37 • 2017: Hydro One is providing a \$100,000 gift over
38 four years to the Say "No" to "Can't Go" Capital
39 Campaign Project for Camp Oochigeas, a summer camp
40 for children suffering from cancer. Funds will be

1 allocated to double the current square footage of
2 the camp, enabling facilitators to meet current and
3 future demands while providing a fun, safe and
4 accessible year-round experience to its campers.

5

6 **VI. PROPOSED TRANSACTION BENEFITS**

7 **Q. What impact would the Proposed Transaction have on**
8 **the degree of regulatory oversight this Commission has over**
9 **Avista?**

10 A. It would have no impact. The Commission will
11 continue to exercise the same degree of regulatory oversight
12 over Avista as it does today.

13 **Q. Will the Proposed Transaction provide net benefits**
14 **to Montana customers?**

15 A. Yes. Over time, due to the similarities between
16 Avista and Hydro One, the Proposed Transaction will provide
17 opportunities for increased innovation, research and
18 development, and efficiencies by extending the use of
19 technology, best practices, and business processes over a
20 broader customer base and a broader set of infrastructure
21 between the two companies.

22 These benefits of scale will not occur in the near term
23 following the closing of the merger, but are expected to occur
24 over the longer term. After all approvals are received and
25 the companies merge, both companies will work together to
26 identify, evaluate and execute on opportunities to reduce

1 costs for both companies. The benefits from these cost
2 savings will be flowed through to customers in future general
3 rate cases. Areas Hydro One and Avista expect to prioritize
4 in evaluating opportunities for cost savings include:

- 5 • Investing in innovation that could help both
6 Hydro One and Avista to better meet their
7 customers' growing expectations for choice of
8 energy supply and tools to manage energy
9 consumption and costs. Leveraging the
10 innovation, research and development investments
11 of both companies could accelerate their ability
12 to bring the benefits of new ideas and
13 technologies to their customers.
- 14 • Exercising their purchasing power at greater
15 scale for equipment and materials.
- 16 • Providing mutual assistance during and after
17 storm and emergency events.
- 18 • Employment of common technology platforms for
19 outage management, distribution management and
20 other operations.

21 **Q. Why do you believe the similarities between Avista**
22 **and Hydro One provide evidence that the Proposed Transaction**
23 **will provide net benefits to Montana customers?**

24 A. The similarities between Hydro One's and Avista's
25 service territories, culture, and values will support the
26 realization of the customer benefits identified above.

27 **Q. Is the Proposed Transaction in the public interest?**

28 A. Yes. Overtime, benefits will accrue to Avista's
29 customers through its combination with a larger utility that
30 will provide benefits of scale and savings in the years to

1 come. In addition, the Proposed Transaction secures increased
2 charitable contributions and sustains economic development
3 investments in the communities in which Avista operates.

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

5 A. Yes, it does.