

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG-_____

DIRECT TESTIMONY OF MAYO M. SCHMIDT
REPRESENTING HYDRO ONE

Overview of Hydro One and Description of the Proposed Transaction

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

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

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

10 **Q. Please summarize your education and business experience.**

11 A. I received a B.B.A. from Washburn University, and an honorary Doctorate of
12 Commerce from Washburn University. I also have followed advanced study courses at
13 U.C.L.A., the University of Nebraska, and Harvard University. My résumé outlining my
14 background prior to joining Hydro One is Exhibit No. 201.

15 **Q. What position will you hold with Avista Corporation (“Avista”) after the**
16 **transaction is completed?**

17 A. I will be a member of the post-merger Avista Board of Directors. I will continue
18 to be President and CEO of Hydro One.

19 **Summary of Testimony**

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

21 A. The purpose of my testimony is:

- 22 • to describe Hydro One and its affiliates,
23 • to describe the transaction,

- 1 • to explain the reasons for Hydro One’s proposed purchase of Avista,
2 • to describe Avista’s operations once the transaction is completed, and
3 • to demonstrate that the transaction will benefit Avista’s customers,
4 employees and communities.

5 **Q. Please summarize your testimony.**

6 A. My testimony demonstrates that Hydro One is well suited to serve as the parent
7 company of Avista. I also explain how the transaction, if approved by state and federal
8 regulators, will result in Avista’s regulated electric business becoming a new, ring-fenced,
9 business platform under Hydro One (the “Proposed Transaction”).

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

14 My testimony provides evidence of the benefits to Avista’s customers, communities,
15 and employees if the Proposed Transaction is approved. In my testimony and that of other
16 Hydro One witnesses, we are offering dozens of commitments to the benefit of the customers
17 and communities served by Avista.

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

- 20 • Avista will provide Rate Credits totaling \$31.5 million to its electric and
21 natural gas customers in Washington, Idaho, and Oregon for 10 years
22 beginning at the time the merger closes;
- 23 • The Proposed Transaction will preserve the authority of the Avista
24 Corporation board to continue to make operational decisions in the ordinary
25 course of business. These decisions also include funding for innovation and
26 economic development in the communities served by Avista;

- 1 • A substantial contribution will be made to Avista’s charitable foundation and
2 programs; and
- 3 • Over time, both Avista’s and Hydro One’s customers will benefit from their
4 utilities’ increased purchasing power, sharing of best practices and
5 economies of scale.

6 In addition to the foregoing commitments, customers can expect benefits that will result
7 from the financial and business stability associated with North American ownership of Avista
8 by Ontario’s largest regulated transmission and distribution company.

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

10 A. Hydro One will also offer testimony from the following witnesses:

- 11 • Chris Lopez, Senior Vice President of Finance of Hydro One, will describe
12 the Proposed Transaction; discuss Hydro One’s corporate structure and
13 where Avista will reside within that structure; discuss Hydro One’s capital
14 structure; describe Hydro One’s financing for, and the mechanics of, the
15 Proposed Transaction; describe Avista’s post-transaction access to capital;
16 enumerate certain financial, structural, and ring-fencing commitments that
17 Hydro One and Avista are proposing as part of their request for approval of
18 the Proposed Transaction; and describe the Rate Credits included as part of
19 the Proposed Transaction.
- 20 • Ferio Pugliese, Executive Vice President, Customer Care and Corporate
21 Affairs at Hydro One Networks Inc., will describe Hydro One Networks’
22 customer service philosophy and supporting programs; describe Hydro One
23 Networks’ customer service record and improved practices that have been
24 deployed; describe Hydro One Networks’ experience and priorities related
25 to providing electric service to the rural and remote regions of Ontario,
26 including First Nations Communities; and discuss opportunities for Hydro
27 One and Avista to collaborate on enhancing and improving service to the
28 customers of Hydro One and Avista.

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

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

10 A. Yes. Attached to my testimony are:

- 11 • Exhibit No. 201: Mayo Schmidt Résumé, and
- 12 • Exhibit No. 202: Exhibits A and B to Merger Agreement (“Delegation of
13 Authority”).

14

15 **I. HYDRO ONE AND ITS BUSINESS ACTIVITIES**

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

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

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

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

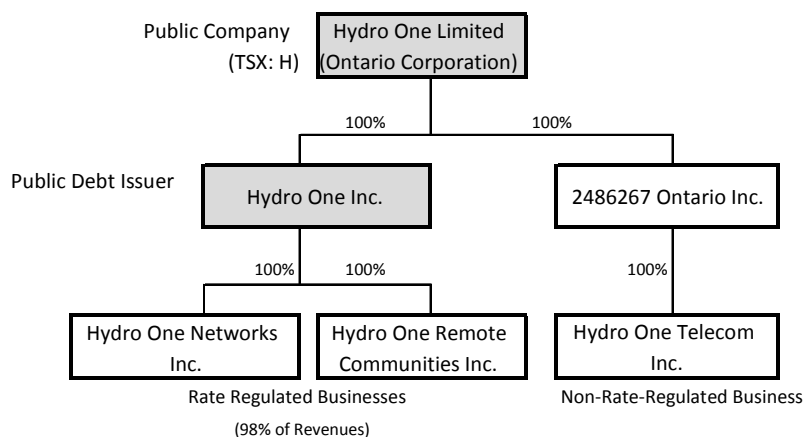
5 **Q. Please explain the business activities of Hydro One.**

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

Illustration No. 1:

Current Corporate Structure

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



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

A. In 1999, Ontario Hydro was restructured into five separate entities, including Hydro One Inc. as the successor to its transmission and distribution business, and Ontario Power Generation Inc., as the successor to its generation business. Hydro One Inc., Hydro One’s wholly-owned subsidiary, was incorporated on December 1, 1998 under the *Business Corporations Act* (Ontario) as a separate corporation providing transmission and distribution services, with the Province of Ontario as its sole shareholder. Hydro One was incorporated by the Province of Ontario on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 30, 2015, Hydro One’s articles of incorporation were amended to authorize the creation of an unlimited number of Series 1 preferred shares and an unlimited number of Series 2 preferred shares, with the Series 1 preferred shares to be issued to the Province. On October 31, 2015, all of the issued and outstanding shares of Hydro One Inc. were acquired by Hydro

1 One from the Province in exchange for the issuance to the Province of common shares and
2 Series 1 preferred shares of Hydro One. On November 4, 2015, the articles of Hydro One were
3 amended to authorize the consolidation of its outstanding common shares such that 595,000,000
4 common shares of Hydro One were issued and outstanding. The preferred shares continue to
5 be outstanding. On November 5, 2015, Hydro One completed its initial public offering on the
6 Toronto Stock Exchange by way of secondary offering of common shares by the Province of
7 Ontario, with the goal that, over time, approximately 60% of Hydro One would be held by
8 private investors.

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

10 A. As of July 31, 2017, the Province owned 49.9% of Hydro One's shares with the
11 remainder of shares held by private investors. Based on facts known today and assuming the
12 Proposed Transaction is completed, the Province's level of ownership of Hydro One will
13 decline to below 45%. In addition, the Ontario *Electricity Act, 1998* restricts the Province from
14 selling voting securities (including common shares of Hydro One) if it would own less than
15 40% of the outstanding number of voting securities of that class or series after the sale. If as a
16 result of the issuance of additional voting securities of any class or series by Hydro One, the
17 Province would own less than 40% of the outstanding number of voting securities of that class
18 or series, then the Province shall, subject to certain requirements, take steps to acquire as many
19 voting securities of that class or series of voting securities as are necessary to increase the
20 Province's ownership to not less than 40% of the outstanding number of voting securities of
21 that class or series.

22 In order to assist the Province in meeting its ownership obligations under the *Electricity*
23 *Act, 1998*, under the governance agreement with the Province, Hydro One has granted the

1 Province a pre-emptive right to subscribe for and purchase up to 45% of any proposed issuance
2 by Hydro One of voting securities or securities that are convertible or exchangeable into voting
3 securities (other than certain specified excluded issuances). Any offered securities not
4 subscribed for and purchased by the Province pursuant to its pre-emptive right may be issued
5 to any other person pursuant to the proposed offering.

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

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

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

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

1 **Illustration No. 2:**
2 **Electricity Transmission System Map**



13
14 Hydro One Networks, as depicted in Illustration No. 2 above, is involved in the planning,
15 construction, operation, and maintenance of our transmission and distribution network. Our
16 transmission system carries electricity from generating stations to local distribution companies
17 and large industrial customers through our high-voltage network of transformer stations,
18 transmission towers and wires. Through its wholly-owned subsidiary, Hydro One Inc., Hydro
19 One owns and operates 98% of the transmission system in Ontario with over 30,000 km of
20 high-voltage transmission lines (approximately 19,000 miles) and an approximately 123,000
21 circuit km (approximately 77,000 miles) of low-voltage distribution network. The Company's
22 transmission system is interconnected to systems in Manitoba, Michigan, Minnesota, New York
23 and Quebec and is part of the North American electricity grid's Eastern Interconnection.

Overview of Hydro One and Description of Transaction

1 All of Hydro One's transmission business is carried out by its wholly-owned subsidiary
2 Hydro One Inc., through its wholly-owned subsidiary Hydro One Networks Inc. and through
3 other wholly-owned subsidiaries of Hydro One Inc. Hydro One's distribution system delivers
4 electricity at lower voltages to homes, farms and businesses through our network of poles and
5 power lines, mostly in rural areas.

6 Hydro One's core competency rests with its construction and operation of its significant
7 transmission and distribution system. In particular, Hydro One has deep experience with
8 building transmission and distribution, particularly in rural and remote areas. We have a
9 helicopter fleet with expertise in constructing and maintaining our transmission system. We
10 also have significant development experience, having designed and built substantially all of
11 Ontario's transmission system and a large portion of its distribution system. This includes the
12 Bruce to Milton transmission project, the largest transmission infrastructure project in Ontario
13 in over 20 years. It involved the construction of approximately 700 transmission towers and
14 180 km (approximately 110 miles) of double circuit lines. More recently, we were selected to
15 develop the Northwest Bulk transmission line, another large scale transmission project that if
16 approved by the Ontario Energy Board, would reinforce the connection between Thunder Bay
17 and Dryden (a distance of approximately 1300 km or 800 miles).

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

22 **A.** Hydro One has a number of interconnections with the states of Michigan and
23 New York that provide for a significant transfer of power between Ontario and the U.S. With

1 Michigan, there are 4 tie lines, three at 230kV and one at 345kV. Collectively these interties
2 provide a transfer capability of approximately 1,700 MW. With New York, there are 6 tie lines,
3 four at 230kV and two at 345kV. Collectively these interties provide a transfer capability of
4 approximately 2,000 MW. The ability to exchange significant amounts of electricity with other
5 jurisdictions facilitates a more competitive marketplace in both Ontario and the U.S.

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

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

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

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

23 A. Two recent medium-scale capital projects are representative of the investments

1 Hydro One makes in its transmission system:

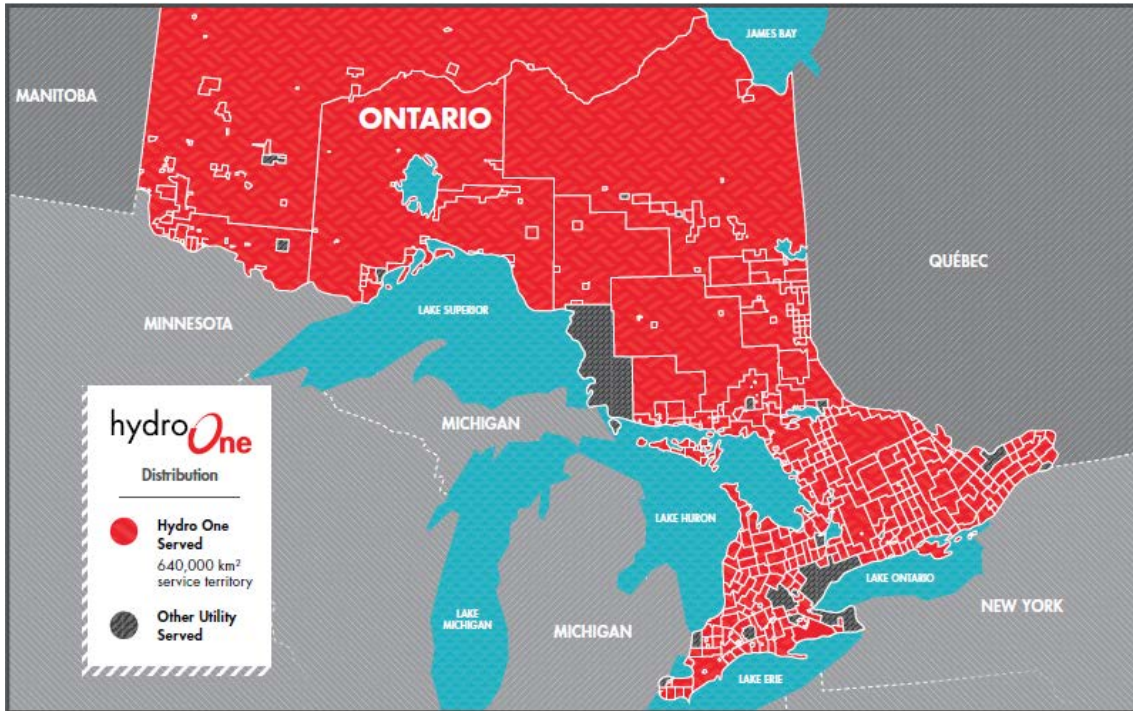
2 Clarington Transmission Station: This \$267 million project consists of two
3 750MVA, 500/230 kV transformers and associated termination facilities. The
4 Clarington Transmission Station will connect Hydro One's bulk transmission
5 network to Eastern Ontario upon retirement of the Pickering Nuclear Generation
6 Station. The station's anticipated in-service date is 2018.

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

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

12 Hydro One's distribution business consists of owning, operating and maintaining its
13 distribution system. Hydro One's distribution system is the largest in Ontario, and principally
14 serves rural communities. Hydro One's distribution business is a rate-regulated business that
15 receives revenues by charging distribution rates that are approved by the OEB. Hydro One's
16 distribution business accounted for approximately 37% of its total assets on December 31, 2016,
17 and approximately 47% of its total revenues, net of purchased power, in 2016. The following
18 map depicts the distribution footprint of Hydro One:

1 **Illustration No. 3:**
2 **Electricity Distribution System Map**



13
14 Hydro One has more than 1.3 million end-use customers, and has deployed smart meters
15 to nearly all of its customers. Hydro One has more than 10 years of experience working with
16 automated metering infrastructure (“AMI,” also known as smart meters). As part of its industry
17 leadership in the deployment of smart meters, Hydro One received the Utilities Telecom
18 Council Apex Award for demonstrating excellence and innovation in developing
19 telecommunications solutions for Hydro One’s rural utility Smart Grid Project.

20 **Q. Given Hydro One’s dispersed service area throughout Ontario, what is its**
21 **experience in storm recovery efforts?**

22 **A.** Hydro One has developed an award-winning team responsible for speedy storm
23 recovery. Indeed, Hydro One prides itself in having a longstanding history of responding to

1 emergencies. We are an active member in the Edison Electric Institute Mutual Aid Agreement
2 and are often called upon to assist with storm restoration efforts in the U.S. In the past, Hydro
3 One has sent crews to Massachusetts, Michigan, Florida, Ohio, Vermont, Washington, D.C.,
4 and the Carolinas.

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

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

12 A. As explained further below, Hydro One Networks Inc. and Hydro One Remote
13 Communities Inc. are two regulated subsidiaries. The largest, Hydro One Networks, does not
14 own or operate any generation assets; it is solely a transmission and distribution utility. Hydro
15 One Remote Communities Inc. owns a de minimis portfolio of generation assets to serve remote
16 communities in Ontario.²

17 **Q. Please describe Hydro One Remote Communities Inc. and Hydro One**
18 **Telecom Inc.**

19 A. Hydro One Remote Communities Inc. is another regulated subsidiary of Hydro
20 One. Through Hydro One Remote Communities Inc., Hydro One operates and maintains the
21 generation and distribution assets used to supply electricity to approximately 21 communities

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

1 across northern Ontario that are not connected to the province's electricity grid, 15 of which
2 are First Nations reserves.

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

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

12 A. As the largest distributor in Ontario, Hydro One has been an active consolidator
13 of local distribution companies ("LDCs"). By the early 2000s, Hydro One acquired 88
14 individual LDCs in Ontario, which were subsequently integrated into Hydro One's distribution
15 business.³ More recently, we strengthened our capabilities to acquire and integrate LDCs,
16 thereby positioning Hydro One for future earnings growth having completed the acquisitions
17 of Woodstock Hydro Services Inc. (October 2015), Haldimand County Hydro (June 2015), and
18 Norfolk Power (August 2014). In 2016, we acquired Great Lakes Power Transmission for
19 approximately \$370 million, increasing Hydro One's transmission market share in Ontario to
20 98%.

21 **Q. Please discuss Hydro One's experience with energy efficiency programs and**

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

1 **Demand Side Management (DSM) programs.**

2 A. Hydro One currently provides Conservation and Demand Management (CDM)
3 programs, covering all of its customer segments; from residential to agriculture and small
4 business to large industrial. Employing online, self-serve tools and in field tablet enrollment
5 processes, Hydro One has endeavored to make participation in its CDM programs effortless
6 and seamless. Endeavoring to promote local business development in the many communities
7 that Hydro One serves, one such program employs over 150 local electrical contracting
8 companies working in our communities. One CDM program is the Small Business Lighting
9 Program. This direct install program has retrofitted over 39,000 businesses since its inception
10 in 2009, and generates over \$24 million in annual bill savings for participating Hydro One small
11 business customers. Overall, conservation and demand management programs have saved
12 approximately 395 Giga-Watt hours.

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

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

23 Given the scale of our operations, and in particular the size of our transmission system,

1 we are keenly aware of our responsibility to help build a low carbon economy. We do this by
2 supporting the provincial and federal governments as they address climate change, by
3 preserving local habitats and protecting biodiversity, and by continuously looking for ways to
4 reduce our own carbon footprint.

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

10 To assess and mitigate these risks, Hydro One has an integrated Health, Safety, and
11 Environmental Management System (HSEMS) that is aligned with the ISO 14001
12 Environmental Management Systems framework. Each line of business at Hydro One is
13 expected to identify high environmental risks in its area of operation and assign teams to reduce
14 risks.

15 As the owner of thousands of kilometers of transmission grid corridor lands in Ontario,
16 Hydro One is particularly focused on managing these corridor lands to ensure habitat
17 preservation and protection of species at risk. Hydro One uses a multifaceted approach to
18 biodiversity management, combining regulatory requirements with government priorities
19 wherever possible. Our Biodiversity Advisory Committee (BAC) has representatives from
20 relevant lines of business and is mandated to develop, review and recommend strategies to
21 improve performance while ensuring we respond to provincial acts such as the Endangered
22 Species Act, Migratory Bird Convention Act, Fish and Wildlife Conservation Act, and the
23 Invasive Species Act, among others. Hydro One's new Clarington Transformer Station is an

1 example of Hydro One's approach to biodiversity preservation and protection. After
2 undertaking a Class EA (environmental assessment), Hydro One committed to creating habitats
3 on excess property at the site to offset the project's impacts.

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

5 A. Hydro One believes in maintaining constructive relationships with its
6 unions. We have a strong partnership with our unions on health and safety and continued
7 improvement in this area. We have structured committees for exchanging dialogue and
8 resolving issues, which include the union and company executive. We have innovative dispute
9 resolution forums that ensure the timely resolution of disputes when they arise and minimize
10 time and expense for the company and the union.

11
12 **II. THE PROPOSED TRANSACTION**

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

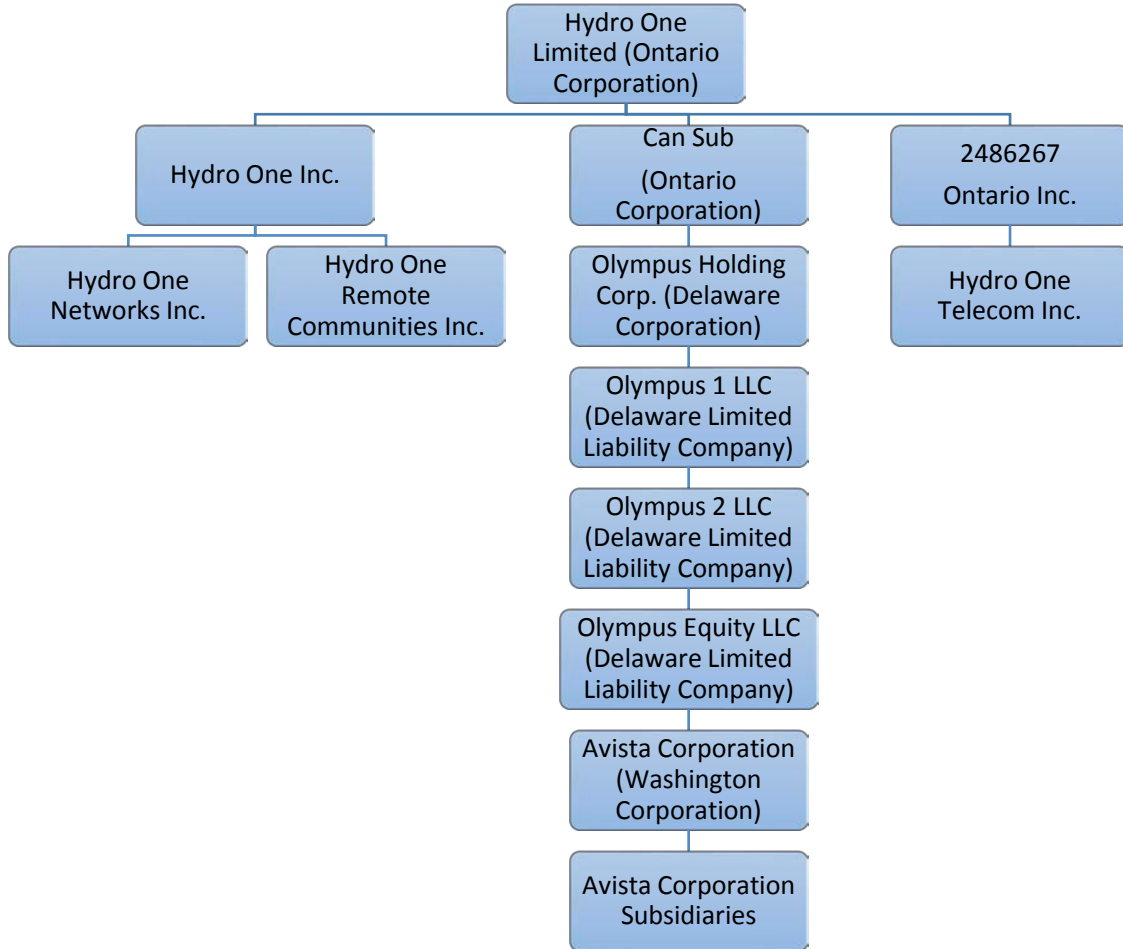
14 A. The boards of directors for Hydro One and Avista unanimously approved an all-
15 cash transaction through which Avista shareholders will receive US\$53 per common share,
16 representing a 24% premium to Avista's last sale price of \$42.74 per share on July 18, 2017.
17 Avista shareholders will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

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

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

1 A. Upon completion of the Proposed Transaction, Avista will be an indirect,
2 wholly-owned subsidiary of Hydro One as shown in the organizational chart in Illustration No.
3 4 below:

4 **Illustration No. 4:**



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

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

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

1 customers, Hydro One is focused on long-term opportunities that are beneficial to customers,
2 employees, shareholders, and the communities we serve.

3

4 **III. HYDRO ONE’S REASONS FOR ACQUIRING AVISTA**

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

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

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

19 The utility industry is changing dramatically, with the deployment of distributed
20 generation and storage resources, and the ever increasing reliance on renewable generation.
21 Avista and Hydro One acting separately will be challenged to participate in these innovations
22 on a scale similar to the larger utilities due to the size of their balance sheets and customer
23 bases. Combined, however, Avista and Hydro One will become more competitive by creating

1 scale and cost efficiencies over time. Hydro One and Avista intend to continue investing in
2 innovation. Together, with nearly two million customers, they can spread some of these costs
3 over a larger base.

4 Finally, Hydro One and Avista believe that the Proposed Transaction will deliver cost
5 savings over the longer term. While Hydro One and Avista cannot quantify those savings at
6 this time, the companies should achieve savings over time through scale and collaboration in
7 supply chain activity, IT development and implementation, innovation, and potentially other
8 areas.

9 Both Hydro One and Avista have similar cultures and values, including a strong
10 commitment to their respective communities, which will enable a seamless integration. Both
11 companies make customer service, high customer satisfaction, reliability, safety, respect for the
12 environment, and reasonable retail rates a high priority. Because of their shared culture and
13 values, both companies have high expectations that Avista's and Hydro One's objectives for
14 the Proposed Transaction will be achieved.

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

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

1 there are more poles than customers.

2 We expect to gain operating efficiencies by extending the use of technology, best
3 practices and business processes over a broader customer base and broader set of infrastructure.
4 We expect efficiencies in areas such as procurement, IT and operations. In general, our
5 shareholders will also benefit from geographic, economic and asset regulatory diversity that
6 this transaction will provide. The markets that we are entering have expanding economies and
7 positive and growing customer demographics, and they are in geographic territories that are
8 remarkably similar to those that we serve today in Ontario.

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

13

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

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

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

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

22 A. One of the issues most important to Avista CEO Scott Morris as we discussed
23 the prospect of a merger was ensuring that Avista customers will benefit in the years to come

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

11 This effort resulted in the unique Delegation of Authority (Exhibits A and B to the
12 Merger Agreement, Appendix 5 to the Application, and Exhibit No. 202 to my testimony),
13 which reserves to Avista's post-transaction board ongoing management authority over Avista.
14 The Delegation of Authority confirms the post-transaction Avista board's authority to make
15 specified decisions without obligation to obtain any separate authorization or approval from the
16 Hydro One board, subject to limited exceptions for extraordinary items, as described in the
17 Delegation of Authority.

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

- 20 • Keeping Avista's headquarters in Spokane;
- 21 • Keeping Avista's brand the same;
- 22 • Keeping Avista's office locations in each of its service areas, with no less of a
23 significant presence in each location than that in place prior to the merger;

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

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

27 A. Yes. As part of the Delegation of Authority described above, the Hydro One
28 board acknowledges that the post-transaction Avista board and management team, will plan for
29 the operation of its business. Hydro One approval would be required, however, for an action
30 expected to result in a material change to the nature of the business of Avista or Avista’s

1 subsidiaries.

2 **Q. Will Avista have control and responsibility for making decisions that**
3 **achieve objectives such as customer satisfaction, reliable service, employee safety,**
4 **environmental stewardship and regulatory/legislative credibility?**

5 A. Yes.

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

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

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

16 A. No.

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

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

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

23 A. Yes. Hydro One has a long history of deploying new technology and resources

1 to ensure that our customers are 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 of the United States to receive
4 the Edison Institute Emergency Recovery Award for outstanding efforts in
5 restoring power to more than 500,000 customers following four successive
6 severe storms.
- 7 • 2008: Hydro One undertook the largest smart meter deployment initiative in
8 North America and was selected as a finalist for a prestigious Platts Global
9 Energy Award in the category of Sustainable Energy Initiative of the Year, for
10 work on the meter/network initiative and our commitment to creating a world in
11 which energy use and resources are sustainable.
- 12 • September 2011: Utilimetrics awarded Hydro One with the Utilimetrics
13 Excellence in Project Management Award for superior achievement in
14 innovation for the Smart Grid Program. This award recognized our central role
15 in securing wireless spectrum for use by the utility sector in Canada.
- 16 • January 2015: Hydro One received a Sustainable Energy Company designation
17 from the Canadian Electricity Association – one of only four companies in
18 Canada to earn the prestigious award.
- 19 • December 2016: Hydro One was selected as one of Greater Toronto’s Top
20 Employers for 2017 by Mediacorp Canada Inc. This designation recognizes
21 Hydro One as an industry leader in offering employees an exceptional place to
22 work.
- 23 • In 2016, Hydro One received the 2016 Esource Utility Ad Awards, 2016
24 Summit Creative Awards, and Corporate Knights Canada’s top utility on
25 measures of corporate social responsibility.

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

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

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

32 A. Yes. Under the Delegation of Authority, Avista’s existing executive

1 management team will manage Avista's business and will develop and execute Avista's
2 business plan under the oversight of the Avista board. The Avista leadership team and board
3 will have authority to maintain Avista's and its subsidiaries' safety and reliability standards and
4 policies and service quality measures in a manner that is consistent with those currently
5 maintained at the time of the merger by Avista and its subsidiaries.

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

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

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

12 A. We anticipate that the Proposed Transaction will not affect Avista's
13 commitment to renewable generation resources.

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

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

1 a unique and diverse experience within the Company and new learning in system planning,
2 system performance and operation, and customer service.

3 **Q. What will Hydro One’s ownership of Avista mean for the communities that**
4 **Avista serves?**

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

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

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

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 university district, support of local entrepreneurs and seed-stage investments. We understand,
2 however, that any charitable and economic development expenditures are not to be recovered
3 from customers under current practice.

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

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

- 7 • August 2006: The Kleinburg Training Centre opened its doors to teach Ontario's
8 future electricity workers. The centre not only provides vital training to Hydro
9 One apprentices, it's a Ministry of Training, Colleges, and Universities certified
10 facility.
- 11 • November 2007: Hydro One entered into a partnership with four Ontario
12 community colleges: Algonquin, Mohawk, Georgian and Northern, to educate
13 and attract future employees necessary to respond to the upcoming staff
14 retirements in our company and across our industry.
- 15 • November 2010: Hydro One earned the Canadian Electricity Association's
16 (CEA) 2010 Sustainable Electricity Social Responsibility Award in recognition
17 of our leadership in engaging our stakeholders.
- 18 • 2012: Hydro One employees and pensioners raised over \$1,000,000 for the
19 Charity Campaign, benefiting more than 800 charities in local communities
20 across the province.
- 21 • January 2013: Hydro One received the prestigious Edison Electric Institute's
22 2012 Emergency Assistance Award for supporting the recovery efforts in the
23 Mid-Atlantic and Midwest storms from Hurricane Sandy.
- 24 • March 2013: Hydro One partnered with Ryerson University, University of
25 Ontario Institute of Technology, the University of Waterloo and Western
26 University to increase enrollment and career opportunities for female students
27 pursuing Science, Technology, Engineering, and Mathematics.
- 28 • 2016: Hydro One donated \$125,000 to Sunnybrook Health Science Centre
29 Foundation for Ross Tilley Burn Centre Tissue Research, supporting research to
30 better treat electrically injured patients.
- 31 • 2016: Hydro One partnered with Frontier College to fund its Lieutenant
32 Governor's Aboriginal Summer Reaching Camps, contributing \$120,000
33 towards camps dedicated to building literacy skills in Aboriginal youth.

- 1 • 2016: Each year, Hydro One provides an in-kind donation towards the
2 International Plowing Match in the form of a temporary mini electrical grid for
3 the five-day event, a value worth approximately \$350,000.
- 4 • 2016: Hydro One supported the TransCanada Trail’s Chapter 150 Campaign
5 with a \$90,000 gift to help complete an important 11.8-kilometre link between
6 Barrie and Springwater in Ontario. The TransCanada Trail is also known as The
7 Great Trail.
- 8 • 2016: Hydro One sponsored the Amici Camping Charity by providing \$25,000
9 to the 50th Anniversary Heroes Gala, a celebration of sending children to camp
10 for 50 years.
- 11 • 2017: Hydro One is providing a \$100,000 gift over four years to the Say “No”
12 to “Can’t Go” Capital Campaign Project for Camp Oochigeas, a summer camp
13 for children suffering from cancer. Funds will be allocated to double the current
14 square footage of the camp, enabling facilitators to meet current and future
15 demands while providing a fun, safe and accessible year-round experience to its
16 campers.

17
18 **V. PROPOSED TRANSACTION BENEFITS**

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

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

23 **Q. Will the Proposed Transaction provide net benefits to Oregon customers?**

24 A. Yes. Customers will see immediate financial benefits in the form of proposed
25 retail Rate Credits beginning at the close of the Proposed Transaction. Avista and Hydro One
26 are proposing to flow through to Avista’s retail customers in Oregon, Washington, and Idaho a
27 Rate Credit of \$31.5 million over a 10-year period, beginning at the time the merger closes.
28 The Rate Credit consists of two components, and reflects an increased level of savings in years
29 6-10 as illustrated in the table below.

Two-Step Rate Credit Proposal

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

2 The mechanics of the Rate Credit are provided in the testimony of Avista witnesses Scott Morris
3 and Patrick Ehrbar and Hydro One witness Christopher Lopez.

4 Over time, due to the similarities between Avista and Hydro One, the Proposed
5 Transaction will provide opportunities for increased innovation, research and development, and
6 efficiencies by extending the use of technology, best practices, and business processes over a
7 broader customer base and a broader set of infrastructure between the two companies.

8 These benefits of scale will not occur in the near term following the closing of the
9 merger, but are expected to occur over the longer term. That is also why the Rate Credit is
10 larger in years 6-10, as we begin to realize greater savings. After all approvals are received and
11 the companies merge, both companies will work together to identify, evaluate and execute on
12 opportunities to reduce costs for both companies. The benefits from these cost savings will be
13 flowed through to customers in future general rate cases. Areas Hydro One and Avista expect
14 to prioritize in evaluating opportunities for cost savings include:

- 15 • Investing in innovation that could help both Hydro One and Avista to better
16 meet their customers’ growing expectations for choice of energy supply and
17 tools to manage energy consumption and costs. Leveraging the innovation,
18 research and development investments of both companies could accelerate
19 their ability to bring the benefits of new ideas and technologies to their
20 customers.
- 21 • Exercising their purchasing power at greater scale for equipment and
22 materials.

- 1 • Providing mutual assistance during and after storm and emergency events.
2 • Employment of common technology platforms for outage management,
3 distribution management and other operations.

4 It will take time to identify and capture all of these potential benefits. The level of annual net
5 cost savings (and/or net benefits) will be tracked and reported on an annual basis, and compared
6 against the offsetable level of savings.

7 **Q. Why do you believe the similarities between Avista and Hydro One provide**
8 **evidence that the Proposed Transaction will provide net benefits to Oregon customers?**

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

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

12 A. Yes. As described in my testimony, the Proposed Transaction provides
13 immediate net benefits to Avista's customers in the form of Rate Credits. In the long-term,
14 additional benefits will accrue to Avista's customers through its combination with a larger
15 utility that will provide benefits of scale and savings in the years to come. In addition, the
16 Proposed Transaction secures increased charitable contributions and sustains economic
17 development investments in the communities in which Avista operates.

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

19 A. Yes, it does.