

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. U-17_____

DIRECT TESTIMONY OF
SCOTT L. MORRIS
REPRESENTING AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Will you please state your name, business address, and position with**
3 **Avista Corporation?**

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

7 **Q. Please describe your education and business experience.**

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

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

18 I am a member of the Edison Electric Institute board of directors, a member of the
19 American Gas Association board of directors, a member of the Washington Roundtable, and
20 I also serve on the board of trustees of Greater Spokane Incorporated. I am on the board of
21 directors of the Federal Reserve Bank of San Francisco, Seattle Branch, and the Gonzaga
22 University board of trustees. I currently serve as Chair for both organizations.

23

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

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

11 I will summarize how the Proposed Transaction provides benefits to what I have often
12 referred to as the four legs of the stool: customers, employees, shareholders, and the
13 communities Avista serves, and provide an overview of the numerous commitments Avista
14 and Hydro One have proposed as part of our request for approval of the Proposed Transaction.
15 I will also briefly summarize Avista and Hydro One’s proposal to provide immediate financial
16 benefits to Avista’s customers at the closing of the Proposed Transaction.

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

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

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17

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

19 A. Yes. Exh. SLM-2 includes a bar chart that is indicative of investor owned
 20 utilities in North America, ranked in size from largest to smallest, showing Avista as one of
 21 the smallest investor-owned utilities in North America. Exh. SLM-3 includes a diagram
 22 showing Avista's current corporate structure. Exh. SLM-4 includes a map of Avista's electric
 23 and natural gas service area in the Pacific Northwest.

24

1 A. On July 19, 2017, Avista, and Hydro One, Olympus Holding Corp. (“US
2 Parent”), and Olympus Corp. (“Merger Sub”) entered into a Merger Agreement. . Following
3 all approvals, at the effective date, Avista will become a wholly-owned indirect subsidiary of
4 Hydro One. Through this filing, Joint Applicants request an order of the Washington Utilities
5 and Transportation Commission (the “Commission”) authorizing the Proposed Transaction.
6

7 **III. JOINT APPLICANTS’ WITNESSES SPONSORING TESTIMONY**

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

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

12 **For Avista:**

13 **Mark Thies**, Senior Vice President, Chief Financial Officer and Treasurer of Avista,
14 will describe Avista from a financial perspective and will testify about the financial
15 details of the Proposed Transaction. Mr. Thies will also describe the corporate and
16 financial structure and commitments that will be in place after completion of the
17 Proposed Transaction, and how the Proposed Transaction provides protection for
18 customers by “Ring Fencing” Avista and its customers from Hydro One and its
19 affiliates.
20

21 **Kevin Christie**, Vice President of Customer Solutions, will provide testimony
22 describing how the Proposed Transaction will be beneficial to Avista’s customers. He
23 will also explain Hydro One’s commitment to increase funding for Avista’s
24 philanthropic initiatives and maintain the support of economic development
25 initiatives, as well as a \$2 million annual contribution to the Avista Foundation.
26

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

1 **For Hydro One:**
2

3 **Mayo Schmidt**, President and Chief Executive Office of Hydro One, will describe
4 Hydro One and its business platforms, with a specific focus on its utility business. He
5 will describe the Proposed Transaction, explain the reasons for Hydro One's proposed
6 purchase of Avista, and describe the corporate structure of Hydro One and Avista after
7 closing. Mr. Schmidt will also explain why the Proposed Transaction is consistent
8 with the public interest and provides a net benefit to Avista's customers, and will
9 explain that Avista's operations, once the Proposed Transaction closes, will essentially
10 be no different than Avista's current operations.
11

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

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

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

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

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

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

1 Avista will have one shareholder, Olympus Equity LLC, which is an indirect, wholly-owned
2 subsidiary of Hydro One.

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

16 Following the closing of the Proposed Transaction, the customers, employees and
17 communities Avista serves will see little or no change in Avista's operations. Avista will
18 maintain its existing corporate headquarters in Spokane, Washington, and will continue to
19 operate as a standalone utility in Washington, Oregon, Idaho, Montana and Alaska. It will
20 maintain its other office locations throughout its service areas, continue to operate under the
21 same Avista name, and seek to retain its existing employees and management team. All of
22 these elements together with other provisions embedded within the Merger Agreement are
23 designed to ensure that Avista's culture and its way of doing business will continue for the

1 long-term. In addition, Avista will continue to have a local Board of Directors consisting
2 primarily of either board members chosen by Avista, and/or members who reside in the Pacific
3 Northwest.

4 Avista and Hydro One believe this preservation of Avista's name, its headquarters, its
5 culture and its way of doing business, among other things, is important to Avista's customers,
6 in that customers can continue to expect and experience reliable service and a high level of
7 customer satisfaction. In addition, customers will see immediate financial benefits in the form
8 of proposed retail rate credits beginning at the close of the Proposed Transaction.
9 Furthermore, over time the merger will provide increased opportunities for innovation,
10 research and development, and efficiencies by extending the use of technology, best practices,
11 and business processes over a broader customer base and a broader set of infrastructure
12 between the two companies. Through this unique arrangement with Hydro One, Avista's
13 customers can receive the benefits of scale that come with joining a larger organization while
14 also avoiding the risk of a potential subsequent acquisition by another party that may not share
15 Avista's culture and values. These immediate and longer-term benefits to Avista's customers
16 are benefits that will otherwise not occur absent the merger.

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

23

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

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

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

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

18 Hydro One has more than 1.3 million electric distribution customers, and Avista has
19 approximately 378,000 electric customers and approximately 342,000 natural gas customers.
20 This combination will provide opportunities for efficiencies in the long-term through the

¹ As measured by equity value.

1 sharing of best practices, technology and innovation. The merger will provide benefits to
2 Avista's customers that otherwise would not occur.

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

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

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

20 The agreements between Hydro One and Avista for operation of the business post-
21 closing were memorialized in Exhibits A and B to the Merger Agreement, hereafter referred
22 to as the "Delegation of Authority" (see Appendix 5 in the Joint Application). Under the
23 Delegation of Authority, Avista's Board of Directors retains its authority to review, authorize

1 and approve certain specified matters related to Avista, without any obligation to obtain
2 separate authorization or approval from the Hydro One Board. Among the matters decided
3 by the Avista board pursuant to the Merger Agreement are the following:

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

- 1 • Maintaining dues paid by Avista to various industry trade groups and membership
2 organizations.

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

15 The Joint Applicants’ agreements included in the Merger Agreement and the makeup
16 of the Avista Board of Directors are designed to ensure that Avista’s culture and its way of
17 doing business will continue for the long-term, inuring to the benefit of customers. The
18 Proposed Transaction is not designed to target the elimination of jobs, or cost cutting that may
19 lead to a deterioration of customer service, customer satisfaction, safety, reliability, or a
20 deterioration of charitable giving, economic development or innovation in the communities
21 Avista serves².

² On July 19, 2017, S&P affirmed its ratings, including the ‘BBB’ issuer credit rating, on Avista and revised the outlook to positive from stable. The positive outlook reflects S&P’s view of the potential for higher ratings on Avista if the merger is completed as proposed based on its view that Avista will be an important member of the

1 electric transmission service to many local distribution companies and large industrial
2 customers.

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

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

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

19

20

VIII. OVERVIEW OF AVISTA

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

22 A. Avista, headquartered in Spokane, Washington, operates a vertically-
23 integrated electric system in Washington, Idaho, and western Montana. Avista’s owned

1 generating resource portfolio includes a mix of hydroelectric generation projects, base-load
2 coal and base-load natural gas-fired thermal generation facilities, wood-waste-fired
3 generation, and natural gas-fired peaking generation. Avista-owned generation facilities have
4 a total capacity of 1,925 MW, which includes 56% hydroelectric and 44% thermal resources.
5 Avista has approximately 18,300 miles of primary and secondary electric distribution lines,
6 and an electric transmission system of 685 miles of 230 kV lines and 1,534 miles of 115 kV
7 lines.

8 Avista provides natural gas distribution service in eastern Washington, northern Idaho,
9 and in southwestern and northeastern Oregon. Avista owns and maintains a total of 7,650
10 miles of natural gas distribution lines, and is served off of the Williams Northwest and Gas
11 Transmission Northwest (GTN) pipelines. The Company is also one of the three original
12 developers of the underground storage facility at Jackson Prairie, which is located near
13 Chehalis, Washington.

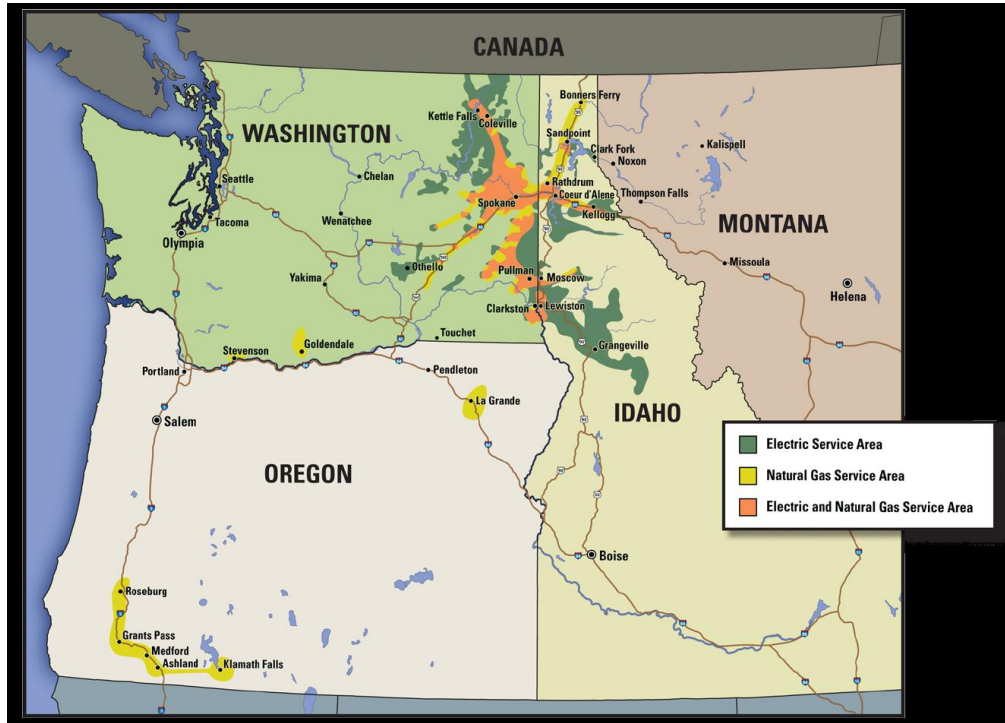
14 Of Avista's 378,000 electric and 342,000 natural gas customers (as of June 30, 2017),
15 248,000 and 160,000, respectively, are Washington customers. Avista serves approximately
16 30 retail electric customers in western Montana, many of whom are our employees who
17 operate our Noxon Rapids generating facility. In 2014, Avista acquired AEL&P, which serves
18 electric power to approximately 17,000 customers in the City and Borough of Juneau, Alaska.
19 A diagram of Avista's current corporate structure is provided in Exh. SLM-3.

20 A map showing the Company's electric and natural gas service area in the Pacific
21 Northwest is provided below in Illustration No. 1 below, as well as in Exh. SLM-4.

22

23

Illustration No. 1:



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

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

Table No. 1

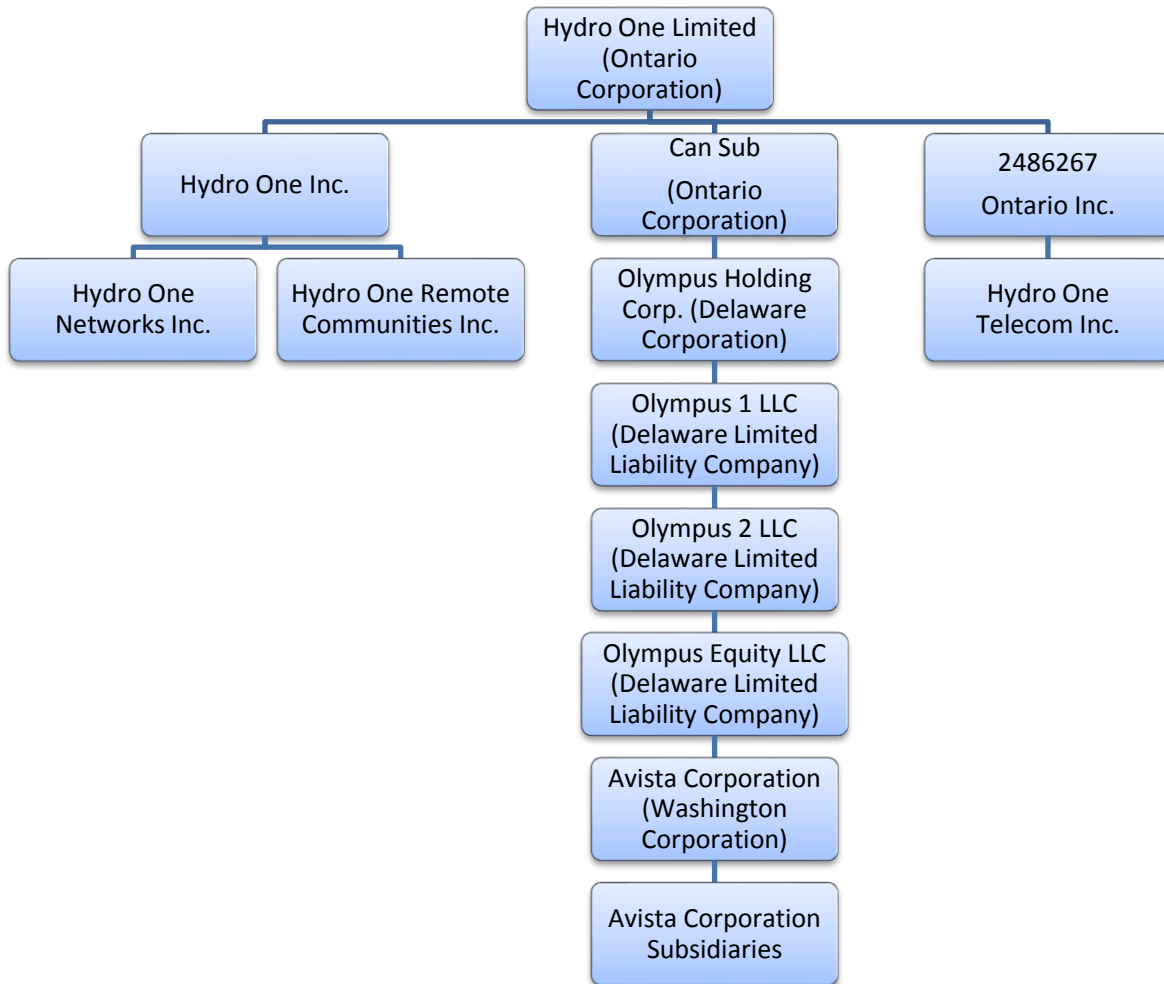
	S&P	Moody’s
Corporate Credit Rating	BBB	Baa1
Senior Secured Debt	A-	A2
Outlook	Positive	Stable

IX. POST-CLOSING CORPORATE STRUCTURE

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

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

Illustration No. 2:



Avista will continue to issue debt financing, as needed. Hydro One will provide equity to support Avista’s capital structure that is designed to allow Avista access to debt financing

1 under reasonable terms and on a sustainable basis. Mr. Thies and Mr. Lopez provide
2 additional details related to the post-closing corporate structure, as well as the continuing
3 financial strength of Avista following the closing of the transaction.

4
5 **X. POST-CLOSING GOVERNANCE, MANAGEMENT**
6 **AND OPERATIONS OF AVISTA**
7

8 **Q. Please describe the governance, management and the operations of Avista**
9 **following the close of the Proposed Transaction.**

10 A. As explained earlier, following completion of the merger, Avista's customers
11 and the communities Avista serves will see little or no change in the operations of Avista, as
12 compared to Avista's operations prior to the Proposed Transaction. Customers will, however,
13 see immediate financial benefits in the form of proposed retail rate credits (the "Rate Credits")
14 beginning at the closing of the transaction, as well as opportunities for additional longer-term
15 benefits from efficiencies gained through the sharing of best practices, technology and
16 innovation. Avista's customers can receive the benefits of scale while also avoiding the risk
17 of a potential subsequent acquisition by another party that may not share Avista's culture and
18 values.

19 The communities Avista serves will see increased charitable contributions and a
20 continuation of the strong support Avista provides in economic development and innovation.
21 Avista and Hydro One employees will see increased opportunities as the two companies
22 pursue efficiencies and innovation through the sharing of technology, best practices and
23 business processes.

1 The Merger Agreement provides for the retention of Avista’s existing employees and
2 management team. Following completion of the merger, Avista will be governed by a nine
3 member Board of Directors, as explained earlier, with myself as the Chairman of the Board.

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

8
9 **XI. BENEFITS TO CUSTOMERS FROM THE TRANSACTION**
10

11 **Q. Are the Joint Applicants proposing immediate benefits to customers**
12 **following the closing of the transaction?**

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

21 Avista and Hydro One are proposing to flow through to Avista’s retail customers in
22 Washington, Idaho and Oregon a Rate Credit of \$31.5 million over a 10-year period,

1 beginning at the time the merger closes.³ The Rate Credit consists of two components, and
 2 reflects an increased level of savings in years 6-10 as illustrated in Table No. 2 below.

3 **Table No. 2**

4 **Two-Step Rate Credit Proposal**

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

9
 10 The total Rate Credit to customers for the first five years following the closing would
 11 be \$2.65 million per year, and the credit would increase to \$3.65 million per year for the last
 12 five years of the 10-year period. During the 10-year period, the financial benefits of the Rate
 13 Credit will flow through to customers either through a separate tariff schedule or through a
 14 reduction to the underlying cost of service as these benefits are reflected in the test period
 15 numbers used for ratemaking as described more fully below. At the time of the closing, the

³ The AEL&P operations in the City and Borough of Juneau, Alaska, operate substantially independent of Avista Utilities, and the costs from which the merger-related cost savings are derived, are currently not being charged to AEL&P. Therefore, there are no financial cost savings to flow through to AEL&P customers. For Avista's retail operations in Montana, Avista has approximately 30 retail customers and total retail revenue of approximately \$74,000. Due to the very limited retail operations by Avista in Montana, for administrative efficiency the past practice by the Montana Public Service Commission has been to review the final rates recently filed and approved in the State of Idaho, and approve those for Avista's Montana customers, when a request is made by Avista. The date of the last approved retail rates in Montana for Avista was April 27, 2011. Since that time electric retail rates have increased in the State of Idaho, but Avista has not proposed similar increases for its Montana customers. Because Avista's current retail rates for its Montana customers are already below its cost of service, and for the sake of administrative efficiency, Avista and Hydro One are not proposing to flow through the small financial benefit to Avista's Montana customers related to the Proposed Transaction. (If a proportionate benefit to Montana customer were to be calculated based on the level of retail revenue, the total annual Rate Credit for all customers combined would be approximately \$190.)

1 \$2.65 million benefit will be provided to customers through a separate Rate Credit, as long as
2 the reduction in costs is not already reflected in base retail rates for Avista's customers.

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

10 The \$31.5 million represents the "floor" of benefits that will be flowed through to
11 Avista's customers, either through the Rate Credit or through benefits otherwise included in
12 base retail rates over time. To the extent the identifiable benefits exceed the annual offsetable
13 Rate Credit amounts, these additional benefits will be flowed through to customers in base
14 retail rates in general rate cases as they occur. The increase in total benefits to customers for
15 years 6-10 provide time for Avista and Hydro One to identify and capture an increased level
16 of benefits, directly related to the Proposed Transaction, that can be flowed through to
17 customers. As explained earlier, we believe additional efficiencies (benefits) will be realized
18 over time from the sharing of best practices, technology and innovation between the two
19 companies. It will take time, however, to identify and capture these benefits. The level of
20 annual net cost savings (and/or net benefits) will be tracked and reported on an annual basis,
21 and compared against the offsetable level of savings.

1 Avista and Hydro One are not aware of any net increase in costs to Avista’s customers
2 related to the Proposed Transaction.⁴ Therefore, the annual Rate Credits proposed by the
3 companies represent an immediate “net benefit” to customers. Mr. Ehrbar explains in his
4 testimony the manner in which the Rate Credit is proposed to be flowed through to Avista’s
5 electric and natural gas customers.

6

7 **XII. SATISFACTION OF THE PUBLIC INTEREST AND**
8 **JOINT APPLICANTS’ COMMITMENTS**
9

10 **Q. What are the standards for approval of the transaction by the**
11 **Commission?**

12 A. RCW. 80.12.020 provides that Commission approval must be predicated on a
13 finding that the transaction would provide a “net benefit” to customers:

14 **Order required to sell, merge, etc.—Exemption.**

15 (1) No public service company shall sell, lease, assign or otherwise dispose
16 of the whole or any part of its franchises, properties or facilities whatsoever,
17 which are necessary or useful in the performance of its duties to the public,
18 and no public service company shall, by any means whatsoever, directly or
19 indirectly, merge or consolidate any of its franchises, properties or facilities
20 with any other public service company, without having secured from the
21 commission an order authorizing it to do so. The commission shall not
22 approve any transaction under this section that would result in a person,
23 directly or indirectly, acquiring a controlling interest in a gas or electrical
24 company without a finding that the transaction would provide a net benefit to
25 the customers of the company.
26

27 In addition, WAC 480-143-170 also provides as follows, regarding the “public
28 interest”:

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

1 **Application in the Public Interest** – If, upon the examination of any
2 application and accompanying exhibits, or upon a hearing concerning the
3 same, the commission finds the proposed transaction is not consistent with the
4 public interest, it shall deny the application.
5
6

7 As explained above, Avista and Hydro One have proposed immediate financial “net
8 benefits” for Avista’s customers, as well as presenting the opportunity for longer-term benefits
9 for customers from efficiencies gained through best practices, technology and innovation.

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

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

24 Avista and Hydro One believe this preservation of Avista’s name, its headquarters, its
25 culture and its way of doing business, among other things, is important to Avista’s customers,
26 in that customers can continue to expect and experience reliable service and a high level of

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

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

11 Commitments between the two companies embedded in the Merger Agreement,
12 including the Delegation of Authority, and the make-up of the post-closing Avista Board of
13 Directors are all designed to ensure that Avista's culture and its way of doing business can
14 continue for the indefinite future, for the benefit of customers. Under the Delegation of
15 Authority, Avista's Board will retain the authority to review, authorize and approve certain
16 specific matters related to Avista, without any obligation to obtain separate authorization or
17 approval from the Hydro One Board. These commitments are set forth in Exhibits A and B
18 of the Merger Agreement, which is attached to Mr. Thies' testimony as Exh. MTT-5.

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

21 A. Yes. As part of the Joint Applicants' request for approval of the Proposed
22 Transaction, Hydro One and Avista are offering other commitments in addition to the
23 Delegation of Authority in the Merger Agreement. The commitments included in the Joint

1 Application total 55 commitments offered by Hydro One and Avista related to approval of the
2 Proposed Transaction. The 55 commitments are grouped together into the categories
3 identified below. The master list of all 55 commitments is attached as Exh. MTT-6 to Mr.
4 Thies' testimony.

- 5 A. Reservation of Certain Authority to the Avista Board of Directors
 - 6 1. Governance
 - 7 2. Business Operations
 - 8 3. Local Presence/Community Involvement
 - 9
- 10 B. Rate Commitments
- 11
- 12 C. Regulatory Commitments
- 13
- 14 D. Financial Integrity Commitments
- 15
- 16 E. Ring-fencing Commitments
- 17
- 18 F. Environmental, Renewable Energy, and Energy Efficiency Commitments
- 19
- 20 G. Community and Low-Income Assistance Commitments

21

22 **XIII. REQUIRED APPROVALS**

23 **Q. What approvals must be received prior to the Proposed Transaction**
24 **closing?**

25 A. The Proposed Transaction was unanimously approved by the Boards of
26 Directors of both companies. The merger must be approved by Avista's shareholders, which
27 involves a majority vote (50% of shareholders voting, plus 1). A proxy statement will be filed
28 by Avista with the SEC in September 2017, in preparation for a vote of Avista's shareholders.
29 Approvals are required by this Commission, the Idaho Public Utilities Commission, the Public
30 Utility Commission of Oregon, the Public Service Commission of the State of Montana, the

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

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

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

12

13

XIV. CONCLUSION

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

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

21 The Proposed Transaction provides benefits to Avista's customers, employees,
22 shareholders, and the communities Avista serves; including immediate financial benefits to
23 Avista's customers. Avista and Hydro One have proposed numerous commitments as part of

1 the Joint Application, including ring fencing commitments and other protections for various
2 stakeholders.

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

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

7 A. Yes.