

**ON BEHALF OF AVISTA CORPORATION**

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**ON BEHALF OF HYDRO ONE LIMITED**

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IDAHO PUBLIC UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE JOINT )  
APPLICATION OF HYDRO ONE LIMITED ) CASE NO. AVU-E-17-09  
(ACTING THROUGH ITS INDIRECT ) CASE NO. AVU-G-17-05  
SUBSIDIARY, OLYMPUS EQUITY LLC) )  
AND )  
AVISTA CORPORATION ) DIRECT TESTIMONY  
FOR AN ORDER AUTHORIZING PROPOSED ) OF  
TRANSACTION ) SCOTT L. MORRIS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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8

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

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

19



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

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

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

18

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

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

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

4           **For Avista:**

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

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

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

37  
38           **For Hydro One:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24

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

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

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

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

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<sup>1</sup>As measured by equity value.

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

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

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

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

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

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

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

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

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

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

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

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

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<sup>2</sup>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 Hydro One group, highly unlikely to be sold and integral to overall group strategy and operations. In addition, on July 19, 2017, Moody's affirmed the ratings of Avista's (i) issuer rating (Baal); (ii) multiple seniority medium-term note program ((P)A2); (iii) senior secured medium-term notes (A2); (iv) senior secured first mortgage bonds (A2); (v) senior secured medium-term note program ((P)A2); and (vi) senior unsecured medium-term note program ((P)Baal) and kept the outlook at stable. Moody's indicated that the stable rating outlook on Avista reflects its view that the merger will not materially affect the credit quality of Avista.

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

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

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

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

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

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

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

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

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

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

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

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

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#### VIII. OVERVIEW OF AVISTA

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8

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

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

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

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

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

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

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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
<b>Corporate Credit Rating</b>	BBB	Baa1
<b>Senior Secured Debt</b>	A-	A2
<b>Outlook</b>	Positive	Stable

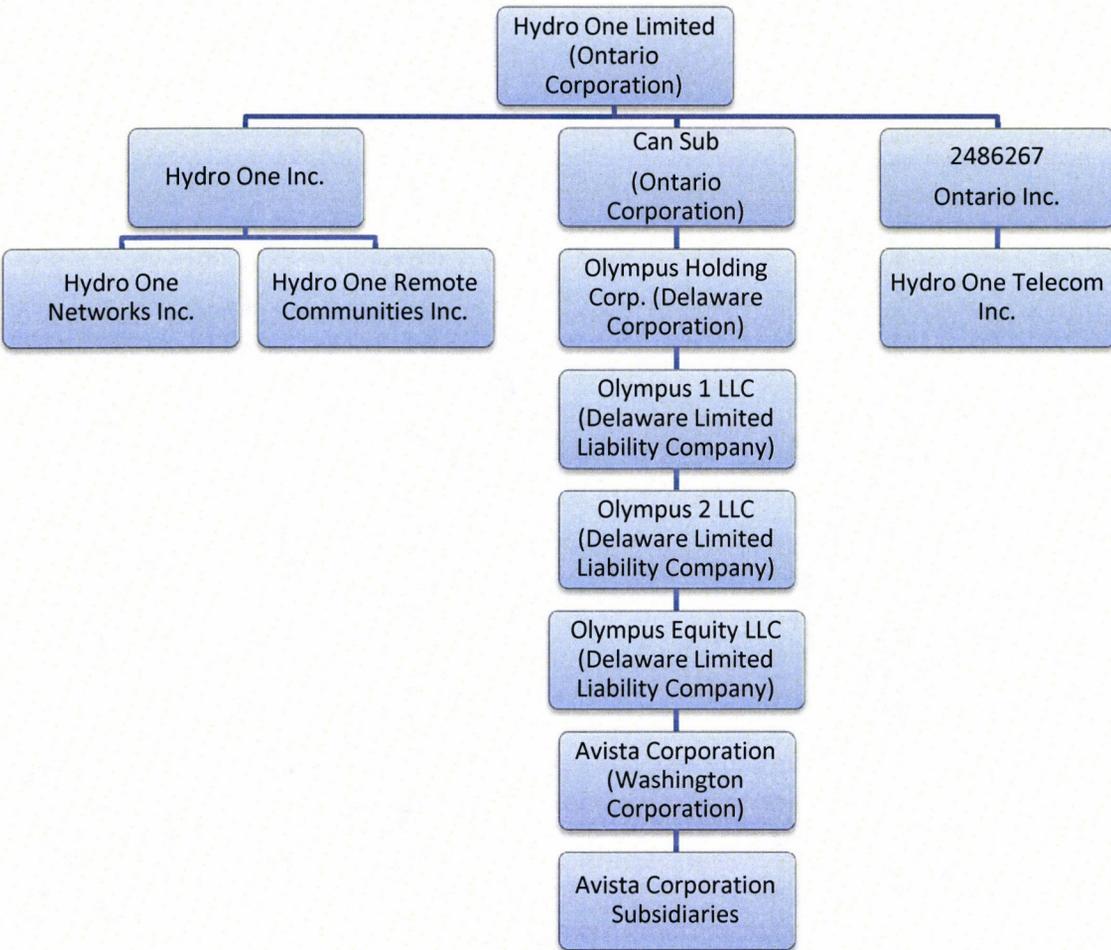
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**IX. POST-CLOSING CORPORATE STRUCTURE**

**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:**



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

9

10 **X. POST-CLOSING GOVERNANCE, MANAGEMENT**  
11 **AND OPERATIONS OF AVISTA**  
12

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

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

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

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

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

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

22  
23  
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1                    XI. BENEFITS TO CUSTOMERS FROM THE TRANSACTION  
2

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

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

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

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<sup>3</sup>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

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

3  
4 **Table No. 2**

5 **Two-Step Rate Credit Proposal**

6

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

10

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

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

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

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

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

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

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

21

22

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



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

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

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

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

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

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

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

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

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

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

10

11 **XIII. REQUIRED APPROVALS**

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

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

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

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

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

11

12

#### XIV. CONCLUSION

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

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

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

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

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

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

10 A. Yes.