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IDAHO PUBLIC UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

)	
IN THE MATTER OF THE JOINT)	CASE NO. AVU-E-17-09
APPLICATION OF HYDRO ONE)	AVU-G-17-05
LIMITED AND AVISTA CORPORATION)	AVISTA’S AND HYDRO ONE’S
FOR APPROVAL OF MERGER)	MOTION FOR LEAVE TO FILE
AGREEMENT)	REPLY COMMENTS TO THE
)	AVISTA CUSTOMER GROUP

1 COME NOW, Avista Corporation (“Avista”) and Hydro One Limited (“Hydro One”),
2 jointly referred to as the “Applicants”, and move for leave to file the attached “Avista and Hydro
3 One Joint Reply to Comments of Avista Customer Group” (the “Reply Comments”) to those
4 “Comments filed by the Avista Customer Group” (“ACG”) on June 27, 2018 (the “ACG
5 Comments”).

6 I.

7 By Order No. 34061, the Idaho Public Utilities Commission (the “Commission”)
8 provided an opportunity on June 20, 2018 for comments from the Parties in support of the
9 Stipulation.¹ June 27, 2018 was the next date set aside for “public comments and Reply

¹ Supportive comments were filed by Avista/Hydro One, Commission Staff, the Community Action Partnership Association of Idaho (“CAPAI”), the Idaho Conservation League (“ICL”), the industrial customers (“Clearwater” and “Idaho Forest Group”), and a union advocacy group of the Washington and Northern Idaho District Council of Laborers (“WNIDCL”) (each, a “Party” and collectively, the “Parties”).

1 Comments.” At the time, it was not envisioned that another entity, the newly-formed and self-
2 styled “Avista Customer Group,” would seek late intervenor status, with full rights of
3 participation in the scheduled July 23, 2018 Technical Hearing, or that they would file written
4 comments (presumably as a participating “Party,” rather than simply as a member of the public-
5 at-large).

6 Accordingly, the schedule otherwise provides no opportunity for the Applicants to
7 respond to ACG’s comments in opposition. By this Motion, the Applicants seek leave to file the
8 attached Reply Comments (Attachment A), addressing the ACG Comments.²

9 **II.**

10 Even though there are real questions of standing and prejudicial delay in the late-filed
11 Petition, the Applicants do not object to the proposed intervention, so long as the issues are not
12 unduly broadened beyond what was set forth in the ACG Comments. That was the ACG’s best
13 opportunity to define, in writing, its interests. (See Answer of Avista and Hydro One to Petition
14 to Intervene of Avista Customer Group, filed together with this Motion.) The ACG Comments
15 defined the ACG’s interests as the impacts of “potential cost or rate increases resulting from the
16 proposed merger[.]” Page 1.

17 Both Avista and Hydro One strongly believe in the importance of public input. We
18 welcome and encourage all customers of Avista in Idaho to participate and to be heard,
19 regardless of the positions taken. We recognize the importance of creating a full and complete
20 record upon which the Commission can make its decision. We are more than happy to address
21 any questions and concerns, as customers express their views. To further that record, the

² In the Applicants’ Joint Comments filed on June 20, 2018, they addressed many of the public comments otherwise provided during public hearings in Moscow, Sandpoint, and Coeur d’Alene.

1 Applicants have filed this "Motion For Leave to Respond to Comments of Avista Customer
2 Group," together with the Reply Comments.

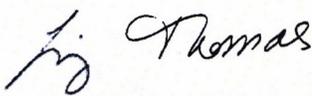
3 **III.**

4 Good cause exists for the Commission to grant this Motion. The attached Reply
5 Comments squarely address the ACG Comments filed on June 27, 2018. The creation of a better
6 record will be served by entertaining these comments, further answering the expressed concerns
7 of the ACG. It will serve to "join" the issues for purposes of the July 23, 2018 hearing and to
8 allow for a more efficient and thorough discussion of the issues at time of hearing. No Party will
9 be prejudiced by the filing of Applicants' Reply Comments as of this date, because it is well
10 before the scheduled July 23, 2018 Technical Hearing date.

11 Moreover, by entertaining robust written comments at this time, on both sides of the
12 issues, the Commission will more easily be able to issue a timely order on the Applicants'
13 merger, supplanting the need for any further briefing on the issues. (Applicants had requested a
14 final order by August 14, 2018.)

15 Respectfully submitted this 5th day of July, 2018.

HYDRO ONE LIMITED

By: 
Elizabeth Thomas, Partner, K&L Gates LLP
Kari Vander Stoep, Partner, K&L Gates LLP
Admitted *pro hac vice*
On Behalf of Hydro One Limited and
Olympus Equity LLC

AVISTA CORPORATION

By: 
David J. Meyer, ISB No. 8317
Attorney for Avista Corporation

ATTACHMENT A

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IN THE MATTER OF THE JOINT)	CASE NO. AVU-E-17-09
APPLICATION OF HYDRO ONE)	AVU-G-17-05
LIMITED AND AVISTA CORPORATION)	
FOR APPROVAL OF MERGER)	AVISTA AND HYDRO ONE JOINT
AGREEMENT)	REPLY TO COMMENTS OF AVISTA
_____)	CUSTOMER GROUP

I. INTRODUCTION

1

2 On June 27, 2018, the Avista Customer Group, (hereinafter “ACG”) filed “Comments of

3 the Avista Customer Group” (the “ACG Comments”) with the Idaho Public Utilities

4 Commission (“IPUC” or the “Commission”) regarding the Joint Application of Hydro One

5 Limited (“Hydro One”) and Avista Corporation (“Avista”) (collectively, the “Applicants”) for

6 Approval of Merger Agreement (the “Application”). The Applicants submit this reply to the

7 ACG’s Comments. The sole interest identified by ACG is the impact of “potential cost or rate

8 increases resulting from the proposed merger[.]”¹ ACG makes two related arguments: (1)

9 Somehow rates of Avista’s customers will be higher as a result of this transaction, based on

¹ ACG Comments at p. 1.

ATTACHMENT A

1 higher costs; and (2) Issues concerning Hydro One's acquisition of Orillia Power in Ontario have
2 some bearing on this transaction. Neither is true.

3
4 **RATES AND COSTS WILL NOT BE HIGHER AS A RESULT OF THE**
5 **TRANSACTION**
6

7 Applicants seek Commission approval for their merger (the "Proposed Transaction").
8 The ACG Comments focus on Idaho Code §61-328 (3)(b),² which requires a finding that "the
9 transaction will not cause the cost of or rates for supplying electrical service to increase" for the
10 Commission to grant approval.

11 ACG asserts that the Applicants have not demonstrated that the "cost of and rates for
12 supplying service will not be increased by reason of such transaction."³ (Emphasis added.) In
13 fact, the opposite is true. As it relates to "rates," the Parties to the Stipulation and Settlement⁴
14 filed with the Commission on April 13, 2018 (the "Settlement Stipulation") in this proceeding
15 have agreed that customers' rates will not increase, but rather will actually decrease, if the
16 Commission approves the merger transaction. Included in the Settlement Stipulation's list of
17 agreed-upon commitments is Commitment No. 19, "Rate Credits":

18 Avista and Hydro One are proposing to flow through to Avista's retail customers in Idaho
19 a Rate Credit of approximately \$15.8 million over a 5-year period, beginning at the time
20 the merger closes. The Total Rate Credit to customers for the five years following the
21 closing will be approximately \$3.2 million per year. A portion of the annual total Rate
22 Credit will be offsetable, in the amount of \$527,510. During the 5-year period the
23 financial benefits will be flowed through to customers either through the separate Rate
24 Credit described above or through a reduction to the underlying cost of service as these
25 benefits are reflected in the test period numbers used for ratemaking. At the time of the
26 close, the \$3.2 million benefit will be provided to customers through a separate Rate

² See ACG Comments at p. 2.

³ Ibid.

⁴ See Answer of Avista and Hydro One to Petition to Intervene of Avista Customer Group at p. 3 for a full list of the Parties.

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1 Credit, as long as the reduction in costs (of up to \$527,510 annually) has not already been
2 reflected in base retail rates for Avista's customers. [Footnotes omitted.]
3

4 Thus the Parties to the Settlement Stipulation are proposing that Avista's customers see a
5 reduction in rates if the Commission approves the merger transaction – not an increase.

6 Idaho Code §61-328 (3)(b) also requires that “costs” not increase as a result of the
7 transaction. A number of commitments in the Settlement Stipulation assure that costs will not
8 increase by virtue of this transaction. First, Commitment No. 17 ensures that costs associated
9 with the Proposed Transaction are excluded from rates:

10 **17. Treatment of Transaction Costs:**

- 11 a. Costs associated with the Proposed Transaction will be separately tracked as non-
12 utility costs with no charges, either allocated or direct, to be recovered from
13 Avista customers. After the consummation of the Proposed Transaction, any
14 remaining transaction costs or other costs of Olympus Holding Corp. or Hydro
15 One will not appear on Avista's utility books, i.e., such costs will be recorded as
16 non-utility. Avista shall furnish the Commission with journal entries and
17 supporting detail showing the nature and amount of all costs of the Proposed
18 Transaction (including but not limited to management time, BOD time, in-house
19 and outside counsel time, any consultants engaged, etc.) since the Proposed
20 Transaction was first contemplated, as well as the accounts charged, within 120
21 days of a Commission order in this docket.
- 22 b. Avista will exclude, and Hydro One agrees Avista will exclude, from Avista
23 general rate cases, or any other method of cost recovery, all costs related to the
24 Proposed Transaction including but not limited to: (i) all legal work from in-house
25 counsel and outside counsel; (ii) any financial advisory fees associated with the
26 Proposed Transaction; (iii) the acquisition premium; (iv) costs related to M&A
27 consulting and advice; (v) preparation of and materials for presentations relating
28 to the Proposed Transaction; (vi) any senior executive compensation or any
29 Avista board of director time tied to a change of control of Avista; and (vii) any
30 other costs directly related to the Proposed Transaction.
- 31 c. Technology expenditures and investments related to software and hardware
32 compatibility issues between Avista and Hydro One and its affiliates shall not be
33 recovered from Idaho ratepayers except to the extent such costs are offset by
34 savings over time. [Emphasis added.]

ATTACHMENT A

1 The Parties have agreed that no costs associated with the transaction can be included in
2 Idaho customers' rates.⁵ And there are safeguards to assure that does not happen (e.g., periodic
3 reporting and the opportunity to review all journal entries). As we discussed in our Joint
4 Comments in Support of the Settlement Stipulation filed on June 20, 2018 ("Applicants' Joint
5 Comments"), all costs associated with evaluating and implementing the Proposed Transaction
6 are being separately tracked and recorded below-the-line to a non-operating account using a
7 "Direct Assignment Protocol" (the "Protocol"), which is Exhibit No. 7, Schedule 3 to Mr.
8 Ehrbar's direct testimony and is attached to these comments for convenience. The Protocol
9 addresses the accounting for costs both prior to the closing of the transaction, as well as the
10 accounting for costs following the closing. To the extent Avista employees dedicate time and
11 incur costs related to the operations of Hydro One, those costs will be directly assigned and
12 billed to Hydro One, and will not be borne by Avista's customers. Likewise, should Hydro One
13 employees dedicate time and incur costs associated with Avista's operations, such costs would
14 be directly assigned and billed to Avista. If a Hydro One employee's time and costs are related
15 to Avista's regulated utility operations, the costs would be subject to review and to approval by
16 the Commission prior to being recovered in retail rates. It will be the responsibility of Avista to
17 demonstrate that any costs from Hydro One to Avista are prudent and necessary in a general rate
18 case. Until such time, any such costs would not be included in customers' rates. And, it is to be
19 remembered that there will be no net increase in costs resulting from the Proposed Transaction.

20 Moreover, the Settlement Stipulation ensures that Avista's cost of capital will not
21 increase as a result of the merger. Commitment No. 25 provides in part:

⁵ In addition, travel costs are subject to a new cap, ensuring that costs borne by ratepayers will essentially be flat regardless of any increase in actual costs. Commitment No. 18.

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1 Avista will not advocate for, and Hydro One agrees Avista will not advocate for, a higher
2 cost of debt or equity capital as compared to what Avista's cost of debt or equity capital
3 would have been absent Hydro One's ownership.
4

5 Avista's customers are further protected from any potential merger-related cost increases
6 through a hold-harmless provision. Commitment No. 47 provides in part:

7 Hydro One, its affiliates, and subsidiaries including Avista will hold Avista customers
8 harmless from any business and financial risk exposures associated with Olympus
9 Holding Corp., Hydro One, and Hydro One's other affiliates. ...
10

11 Hydro One, its affiliates, and subsidiaries including Avista commit that Avista's regulated
12 utility customers will be held harmless from the liabilities of any unregulated activity of
13 Avista or Hydro One and its affiliates. In any proceeding before the Commission
14 involving rates of Avista, the fair rate of return for Avista will be determined without
15 regard to any adverse consequences that are demonstrated to be attributable to
16 unregulated activities. Measures providing for separate financial and accounting
17 treatment will be established for each unregulated activity.
18

19 The ACG's Comments assume that the Commission, Staff and all Parties in a general rate
20 case will not do their job and will eliminate any costs that are not necessary to provide service to
21 Avista's customers. Indeed, to the contrary, it is fair to assume that the Commission will
22 perform its duties in accordance with the law, assisted by experts charged with assuring that rates
23 only recover costs necessary to serve Avista's customers.

24 ACG asserts that Avista's and Hydro One's cost allocation provisions are not sufficiently
25 robust and cites the ScottishPower acquisition of PacifiCorp as an example of adequately robust
26 provisions.⁶ ACG misses the mark because in this proceeding, unlike in the ScottishPower
27 proceeding, Hydro One will not be allocating costs down to Avista, but rather will only directly
28 assign costs as set forth in the Protocol. If Hydro One had proposed to allocate corporate
29 overhead costs down to Avista, then it might make sense to require a cost allocation

⁶ ACG Comments at pp. 3 and 7.

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1 methodology prior to the Commission's decision. But because no costs will be allocated, no
2 methodology is needed.

3 In the future, if and when opportunities arise for the consolidation of certain Avista and
4 Hydro One utility functions, where the utilities have an opportunity to benefit from specialized
5 expertise or to achieve efficiencies, it may be appropriate to develop additional or different direct
6 assignment or allocation protocols, as has been committed to in Commitment No. 24. Key
7 provisions of Commitment No. 24 include:

8 Commitment 24
9

10 Cost Allocations Related to Corporate Structure and Affiliate Interests: Avista agrees to
11 provide, and Hydro One agrees Avista will provide, cost allocation methodologies used
12 to allocate to Avista any costs related to Hydro One or its other affiliates and subsidiaries,
13 and commits that there will be no cross-subsidization by Avista customers of unregulated
14 activities.
15

16 Avista will bear the burden of proof in any general rate case that any corporate and
17 affiliate cost allocation methodology is reasonable for ratemaking purposes. Neither
18 Avista nor Hydro One or its affiliates and subsidiaries will contest the Commission's
19 authority to disallow, for retail ratemaking purposes in a general rate case, unreasonable,
20 or misallocated costs from or to Avista or Hydro One or its other affiliates and
21 subsidiaries. [Emphasis added.]
22

23 This commitment makes clear that there will be no cost recovery without an agreed-upon cost
24 allocation methodology in place.

25 Finally, Avista has committed to preparing a Master Services Agreement ("MSA"),
26 itemizing and explaining corporate cost allocation methods used to set rates.⁷ The MSA will be
27 fully described and supported in testimony and workpapers in Avista's first general rate case
28 submitted after the Application is approved by the Commission. Without that in place, there
29 cannot be cost recovery. Thereafter, the MSA will be filed along with any general rate case

⁷ The commitment to prepare an MSA is set forth at p. 24 of Applicants' Joint Comments.

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1 subsequently filed with the Commission. This filing will capture, highlight and explain all
2 changes since the MSA was last provided to the Commission. The entirety of the MSA and its
3 components are subject to review and to approval by the Commission in subsequent proceedings
4 before the Commission to confirm that cost-drivers, accounting methods, assumptions, and
5 practices result in fair, just and reasonable utility rates – and that no costs of Hydro One are
6 inappropriately passed through to Avista’s customers.

7 Moreover, the Commission, Staff, and other parties have the ability to review thoroughly
8 Avista’s financial records. This is addressed in Commitment No. 23, which provides in part:

9 Access to and Maintenance of Books and Records: Hydro One, Olympus Holding Corp.
10 and its subsidiaries, including Avista, will provide reasonable access to Avista’s books
11 and records; access to financial information and filings; access rights with respect to the
12 documents supporting any costs that may be allocable to Avista; and access to Avista’s
13 board minutes, audit reports, and information provided to credit rating agencies
14 pertaining to Avista.

15
16 Hydro One, Olympus Holding Corp. and its subsidiaries, including Avista, will maintain
17 the necessary books and records so as to provide documents relating to all corporate,
18 affiliate, or subsidiary transactions with Avista, or that result in costs that may be
19 allocable to Avista [Emphasis added.]

20 Further, the Applicants have agreed to provide an Annual Report on Commitments, which is
21 detailed in Commitment No. 32:

22 Annual Report on Commitments: By May 1, 2019 and each May 1 thereafter through
23 May 1, 2029, Avista will file, and Hydro One agrees Avista will file, a report with the
24 Commission regarding the status of compliance with each of the commitments as of
25 December 31 of the preceding year. The report will, at a minimum, provide a
26 description of the performance of each of the commitments, will be filed in Case No.
27 AVU-E-17-09/AVU-G-17-05 and served to all Parties to the docket. If any
28 commitment is not being met, relative to the specific terms of the commitment, the
29 report must provide proposed corrective measures and target dates for completion of
30 such measures. Avista will make publicly available at the Commission non-
31 confidential portions of the report.
32

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1 Through this Commitment, the Applicants will report on a number of issues, which include
2 informational updates on all of the financial and cost commitments, as well as any updates on its
3 Protocol and/or the development of a cost allocation protocol.

4 Finally, it is important to remember it is neither Avista, nor Hydro One, that sets rates for
5 Idaho customers; rather, the Commission sets Idaho retail rates. Those rates are developed based
6 on a thorough and substantial evidentiary record of expert written and oral testimony, exhibits,
7 and workpapers that include detailed accounting and cost allocation records – all of which relate
8 only to the cost to provide service to Avista’s Idaho jurisdictional customers. Costs related to
9 Avista providing service in other jurisdictions served by Avista, which include Oregon,
10 Washington, Montana and Alaska, are not included in Idaho retail ratemaking. Likewise, Avista
11 and Hydro One would never seek, nor would the Commission ever allow, the inclusion of Hydro
12 One’s utility costs in Idaho rates, nor would the Commission meld or somehow average Hydro
13 One’s retail rates with Avista’s jurisdictional rates. To do so would depart from the very essence
14 of cost-based ratemaking and would violate the law.⁸ The Applicants agree.

15 **II. HYDRO ONE’S ACQUISITION OF ORILLIA POWER**

16 ACG’s discussion of Hydro One's proposed acquisition of Orillia Power Distribution
17 Corporation (the “Orillia LDC”) is irrelevant because Hydro One’s proposed acquisition of the
18 Orillia LDC is vastly different from its proposed merger with Avista. Hydro One’s acquisition
19 of Orillia LDC would involve the full integration of another Ontario utility into Hydro One --

⁸ Matt Evans, Public Information Officer for the Commission, echoed this sentiment, as was quoted on June 28, 2018 in the Coeur d’Alene Press. There he stated that: “...(o)nly the IPUC can set rates in Idaho, and they’re based solely on the cost of providing good service based on local costs. What happens in Canada or anywhere else can never have any bearing on that.” See http://www.cdapress.com/steve_cameron_a_brand_new_day/20180628/opinion_pull_the_plug_on_avista_merger_hysteria.

ATTACHMENT A

1 Orillia customers would become Hydro One customers. The operations of the Orillia LDC
2 would, post-close, be fully integrated and absorbed into Hydro One's utility, Hydro One
3 Networks Inc., and as such, into Hydro One's rate base. Hydro One's transaction with Avista is
4 quite different because Avista will continue to operate as a standalone utility post-close. Avista
5 will be governed by its own board, operated by its own management, and subject to the
6 continuing jurisdiction of its current regulators after the merger. Avista will continue to have its
7 own customers, rate base, rates and service in a wholly separate geographic location.

8 In its application for approval to acquire the Orillia LDC, Hydro One submitted all
9 information required by the Ontario Energy Board's ("OEB") *Handbook to Electricity*
10 *Distributor and Transmitter Consolidations* (the "Handbook") including information requested
11 in previous OEB merger and acquisition decisions, and sufficiently and reasonably responded to
12 related procedural orders. ACG's statements that Hydro One "refused to supply cost information
13 to the" OEB and that Hydro One failed to establish that there would be no harm to Orillia LDC
14 ratepayers arising from the proposed transaction are inaccurate. ACG states that the, "OEB
15 ordered Hydro One to file further material, in the form of evidence or submissions on its
16 expectations of the overall cost structures following the deferred rebasing period and of the
17 impact on Orillia Power customers. No new evidence was filed." In fact, Hydro One complied
18 with the order by filing submissions on the expectations of the overall cost structures following
19 the deferred rebasing period. See Hydro One Networks Inc.'s Submission dated February 15,
20 2018 in response to Procedural Order 7.⁹ However, the OEB rejected Hydro One's application
21 to acquire the Orillia LDC on the basis of a test not contemplated in the Handbook and not

⁹ Available at <http://www.rds.oeb.ca/HPECMWebDrawer/Record/599951/File/document>.

ATTACHMENT A

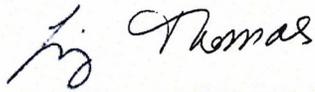
1 applied in prior decisions. Hydro One has filed a motion to review and to vary the OEB's
2 decision on the Orillia application, as has the City of Orillia. In any event, the decision and
3 Hydro One's motion have nothing to do with the Avista merger or with the rates that will be
4 charged to Avista's Idaho customers post-close.

5 **III. CONCLUSION**

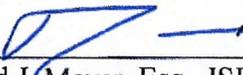
6 ACG's argument that there is some risk that costs or rates for Avista's customers could
7 increase fails for two reasons. First, through the Settlement Stipulation entered into by industrial
8 and residential customer representatives, as well as Commission Staff, community organizations,
9 Avista and Hydro One, the Parties have provided for a rate decrease as well as a set of
10 interlocking conditions to ensure that the merger will not result in cost increases. Certain costs,
11 such as transaction costs, are wholly excluded from rates. All costs are subject to scrutiny by the
12 Commission, its Staff and parties to rate cases on an ongoing basis. Second, Hydro One's
13 proposed transaction with the Orillia LDC has no bearing on this proceeding because Orillia
14 would be fully integrated in to Hydro One while Avista will continue as a standalone utility; and
15 because ACG has misunderstood the facts of the Orillia proceeding.

16 DATED this 5th day of July, 2018.
17

HYDRO ONE LIMITED

By: 
Elizabeth Thomas, Partner, K&L Gates LLP
Kari Vander Stoep, Partner, K&L Gates LLP
Admitted *pro hac vice*
On Behalf of Hydro One Limited and
Olympus Equity LLC

AVISTA CORPORATION

By: 
David J. Meyer, Esq., ISB No. 8317
Attorney for Avista Corporation



Date: September 7, 2017

To: All Employees

From: Kelly Norwood *[Signature]*

Subject: Protocol for Direct Assignment of Costs Associated with Hydro One's Acquisition of Avista Corp.

Accounting for Costs Related to Hydro One Prior to Closing

Prior to the date of closing of the Hydro One's acquisition of Avista Corp, presently anticipated to be in the second half of 2018, all costs associated with due diligence and other activities will continue to be recorded below the line to a non-utility account (FERC Account No. 426500). The following table summarizes the accounting for such expenses:

FERC Acct	Service	Jurisdiction	FERC Acct Description	Project Number	Project Description	Debit
426500	ZZ	ZZ	Miscellaneous Income Deduction	77705316	Hydro One Avista Acquisition	XXXX

Direct Assignment of Costs to Hydro One Post-Closing

Following the date of closing, to the extent Avista employees dedicate time and incur costs supporting the operation of Hydro One, those costs would be separately tracked and directly assigned to Hydro One.^{1/2}

In the future, if opportunities arise for the consolidation of certain Avista and Hydro One utility functions, where the utilities have an opportunity to benefit from specialized expertise or to achieve efficiencies, the following situations may arise whereby Administrative Services may be provided between and among the Company and its Utilities, a) the Companies may directly assign or allocate any corporate or administrative costs, common costs, or costs incurred for the benefit of the Utility or Utilities, to a Utility or the Utilities, b) the Companies may procure any

¹ Time and costs incurred include, but are not limited to activities for the following: a) services by the Board of Directors, and executive, management, professional, technical and clerical employees; b) financial and accounting services, corporate governance and compliance services, legal services, audit services, information and technology services, treasury services, investor relations services, governmental and regulatory services, human resources services, communications services, payroll processing services, employee benefits participation, procurement and fleet management, tax and related services, contract negotiation and administration services, insurance and risk management services, environmental services and engineering and technical services; c) the use of office facilities, including but not limited to office space, furniture, equipment, machinery, supplies, computers and computer software, communications equipment, insurance policies and other personal property; d) the use of automobiles, airplanes, other vehicles and equipment;

² Likewise, if Hydro One employees were to provide support for Avista's utility operations, such costs would be directly assigned to Avista. The Company expects such assignment of costs, both to Hydro One and from Hydro One, to be relatively small since Avista will continue to operate as a standalone utility.

Exhibit No. 7

Case Nos. AVU-E-17-___ & AVU-G-17-___

P.Ehrbar, Avista

Schedule 3, Page 1 of 2

corporate or administrative services from a Utility or the Utilities for the Company's benefit, or c) the Companies may procure any corporate or administrative services from each other or agree to directly assign or allocate common costs to each other.³

With regard to the accounting process for assigning and billing corporate or administrative costs, these employee costs would be charged to suspense accounts (Deferred Debit Account No. 186), loaded for benefits, and would then be established as a receivable (FERC Account No. 146) when billed to Hydro One. If other resources are expended during the course of this work, such as travel or consulting services, these costs are also charged to suspense accounts and billed to Hydro One. All corporate services provided, and costs incurred, would be direct billed to Hydro One at cost and no margin or profit shall be included and no assets allocated, provided that any amount billed to Hydro One shall be adjusted to the extent necessary to comply with any U.S. federal or Canadian transfer pricing or similar tax law. Avista will use the same methodology for direct assignment of costs to the proposed Hydro One subsidiary operations, as we currently do for existing subsidiary operations.

A summary of the accounting for post-closing costs directly assigned to Hydro One is provided below.

Hydro One Transactions

To record transaction when employee charges time or incurs costs related to Hydro One:

FERC			Project		Debit	Credit	
Acct	Service	Jurisdiction	FERC Acct Description	Number	Project Description		
186XXX	ZZ	ZZ	Miscellaneous Deferred Debits	777XXXX	Sub Billing - Hydro One	XXXX	

To record transaction to establish a receivable from Hydro One:

FERC			Project		Debit	Credit	
Acct	Service	Jurisdiction	FERC Acct Description	Number	Project Description		
146XXX	ZZ	ZZ	Accouts Receivable Assoc Company - Hydro One	777XXXX	Sub Billing - Hydro One	XXXX	
186XXX	ZZ	ZZ	Miscellaneous Deferred Debits	777XXXX	Sub Billing - Hydro One		XXXX

To record transaction of a payment made to Avista Corp from Hydro One:

FERC			Project		Debit	Credit	
Acct	Service	Jurisdiction	FERC Acct Description	Number	Project Description		
131XXX	ZZ	ZZ	Cash	-	-	XXXX	
146XXX	ZZ	ZZ	Accouts Receivable Assoc Company - Hydro One	777XXXX	Sub Billing - Hydro One		XXXX

For questions regarding direct assignment of costs associated with Hydro One or any other subsidiary costs, please contact Jeanne Pluth, Manager of Regulatory Accounting 495-2204, or Jennifer Smith, Senior State and Federal Regulatory Analyst at 495-2098.

³ The Company would file proposals with the Commission as required.