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ON BEHALF OF AVISTA CORPORATION

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ON BEHALF OF HYDRO ONE LIMITED

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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) REBUTTAL TESTIMONY
FOR AN ORDER AUTHORIZING PROPOSED) OF
TRANSACTION) PAUL M. DOBSON

FOR HYDRO ONE LIMITED

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I. INTRODUCTION

Q. Please state your name, business address and present positions with Hydro One Limited.

A. My name is Paul M. Dobson, and my business address is 483 Bay Street, South Tower, 8th Floor, Toronto, Ontario M5G 2P5. I am the acting President and Chief Executive Officer ("CEO") for Hydro One Limited ("Hydro One").¹

Q. Have you filed direct, rebuttal, and supplemental testimony in this proceeding?

A. Yes. I filed supplemental testimony on September 24, 2018.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. No.
A table of contents for my testimony is as follows:

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¹ Prior to September 6, 2018, I was also the Chief Financial Officer ("CFO") of Hydro One. On September 6, 2018, Christopher Lopez was appointed as Acting CFO of Hydro One. I will continue my role as Hydro One's Acting President and CEO. See AVU-E-17-09, AVU-G-17-05, Supplemental Report on Hydro One Management Changes (Sep. 7, 2018).

1 Summary of Testimony

2 Q. Please summarize your testimony.

3 A. Hydro One agrees with the Idaho Public Utilities
4 Commission Staff ("Staff") testimony that: (a) the
5 transaction is in the public interest, (b) the cost of and
6 rates for supplying service will not be increased by reason
7 of the transaction, and (c) Hydro One has the bona fide intent
8 and financial ability to operate and maintain Avista in public
9 service in Idaho, all as required by Idaho Code §61-328.

10

11 II. COMPLIANCE WITH IDAHO CODE §61-328

12 Q. In direct testimony filed on November 6th, Staff
13 witness Terri Carlock is asked the following question on page
14 4, lines 9-10: "Do you believe the requirements of Idaho Code
15 §61-328 will be met?" Are you familiar with that testimony?

16 A. Yes, I am.

17 Q. In response to that question, Ms. Carlock states,
18 on page 4, lines 11-25:

19 Yes, I believe Idaho Code §62-328(3) requirements
20 will be met. The transaction is consistent with the
21 public interest because the Stipulated Commitments
22 protect Idaho customers, provide financial rate
23 credits, provide funding for other customer
24 benefits and enhance programs. The Stipulated
25 Commitments also assure that the cost of and rates
26 for supplying service will not be increased by
27 reason of such transaction. Rating agency reports
28 and publicly available financial statements
29 document that Hydro One has the bona fide financial

1 ability to operate and maintain said property in
2 the public service. The testimony of Hydro One and
3 the Stipulated Commitments reinforce that Hydro One
4 has the bona fide intent to operate and maintain
5 said property in the public service.

6 Do you agree with Ms. Carlock that this transaction meets
7 the approval requirements of Idaho Code §61-328?

8 A. Yes, I agree that the transaction meets the
9 requirements for approval under Idaho Code §61-328.

10 Q. With respect to Idaho Code §61-328(3)(a), Ms.
11 Carlock states the following, on page 7, line 20, through
12 page 8, line 3, of her November 6th testimony:

13 . . . For the transaction to be in the public
14 interest, overall there must be no harm. Throughout
15 this case, it has been the intent of Staff to see
16 customers receive a net overall financial benefit.
17 Commitments including ring-fencing provisions have
18 been agreed to in the Settlement by most Idaho
19 parties that I believe will provide financial
20 benefits that likely will not occur absent the
21 merger while protecting customers from negative
22 operational, structural or financial harm.

23 Do you agree with Ms. Carlock's testimony regarding the
24 public interest prong of Idaho Code §61-328(3)(a)?

25 A. Yes, I wholeheartedly agree that the transaction
26 goes beyond the no harm standard and provides an overall
27 benefit to Avista customers. In addition to the benefits
28 described by Ms. Carlock, the transaction provides the
29 following additional benefits to Avista's Idaho customers,
30 among others: (1) Avista's Idaho customers will receive a

1 rate credit totaling approximately \$15.8 million; (2)
2 approximately \$5.3 million in funding for energy efficiency,
3 weatherization, conservation, and low-income assistance
4 programs; and (3) increased charitable contributions, all of
5 which would not occur absent the proposed transaction.²

6 Q. Ms. Carlock discusses the proposed transaction's
7 compliance with Idaho Code Section 61-328(3)(b) in a couple
8 of places in her November 6th testimony. First, on page 3,
9 line 14, through page 4, line 8, Ms. Carlock states:

10 Any customer rate increase must be approved by the
11 Idaho Commission before Avista can increase rates
12 to Idaho Avista customers. Idaho Code §61-328
13 requires that "the cost of and rates for supplying
14 service will not be increased by reason of such
15 transaction".

16 In the normal course of its responsibilities Staff
17 audits all costs to verify the costs are actually
18 incurred, correctly recorded but more importantly
19 that all costs are reasonably incurred to provide
20 services to Idaho customers. Greater scrutiny is
21 made for any transactions, activities or
22 allocations to Avista from any affiliated entities.
23 In this instance following the merger, an affiliate
24 would include Hydro One, any subsidiary, or jointly
25 owned entities directly assigning or allocating
26 costs to Avista. Staff will verify that no costs
27 are included in customer rates that are not at the
28 lower of the actual cost or market comparison.
29 Although this is a normal part of the Staff audit
30 function it is also part of the ring-fencing
31 provisions and the commitments from Avista and
32 Hydro One.

² These benefits and others are more fully described and discussed in Section II of Scott L. Morris' Rebuttal Testimony filed on November 14, 2018.

1 Are you familiar with this testimony?

2 A. Yes.

3 Q. Ms. Carlock next addresses the costs and rates of
4 service on page 5 of her November 6th testimony. On page 5,
5 lines 1-3, she is asked: "How can you be assured that customer
6 rates will not increase at Avista as a result of the merger
7 transaction?" Ms. Carlock responds, lines 4-21, as follows:

8 The regulatory responsibility of the Commission
9 Staff and ultimately the Commissioners making the
10 final decisions for the Idaho Public Utilities
11 Commission will not change. Staff will continue to
12 rigorously review capital investments, ongoing
13 operating costs, changes in revenues and the
14 overall operations of Avista. When unreasonable
15 costs are identified or operating decisions by
16 management do not support just and reasonable costs
17 to provide safe and reliable utility services to
18 customers at reasonable rates, Staff recommends
19 financial adjustments and changes to programs
20 during proceedings before the Commission. This will
21 not change depending on the ownership of Avista.

22 The requirement and commitments assure customer
23 rates will not increase as a result of the merger
24 transaction. It isn't however an assurance that
25 rates will not increase due to normal operating
26 requirements and cost increases.

27 Are you familiar with that testimony?

28 A. Yes.

29 Q. Do you agree with Ms. Carlock that the transaction
30 meets the requirements of Idaho Code §61-328(3)(b)?

31 A. Yes, I agree that the cost of service and rates
32 will not increase as a result of the Proposed Transaction. In

1 addition to the Idaho Public Utilities Commission's and
2 Staff's roles in ensuring that rates are just and reasonable,
3 Hydro One has provided assurances, in Commitment No. 16, that
4 customer rates will not increase as a result of the Proposed
5 Transaction. Commitment No. 16 reads as follows:

6 **16. Treatment of Net Cost Savings:** Hydro One
7 commits that Avista customer rates will not
8 increase as a result of the Proposed Transaction.
9 Hydro One will hold Avista customers harmless from
10 any such rate increase. Further, any net cost
11 savings that Avista may achieve as a result of the
12 Proposed Transaction will be reflected in
13 subsequent rate proceedings, as such savings
14 materialize. To the extent the savings are
15 reflected in base retail rates they will offset the
16 Rate Credit to customers, up to the offsetable
17 portion of the Rate Credit.

18 In addition, under Commitment No. 66, Avista is
19 prohibited from seeking cost recovery for any of the
20 commitments funded or arranged by Hydro One, and Hydro One
21 may not seek to recover those funds from ratepayers in Canada
22 or the United States. Commitment No. 66 reads as follows:

23 **66. Sources of Funds for Hydro One Commitments:**
24 Throughout this list of merger commitments, any
25 commitment that states Hydro One will arrange
26 funding is not contingent on Hydro One's ability to
27 arrange funding, particularly from outside sources,
28 but is a firm commitment to provide the dollar
29 amount specified over the time period specified and
30 for the purposes specified. To the extent Avista
31 has retained earnings that are available for
32 payment of dividends to Olympus Equity LLC
33 consistent with the ring fencing provisions of this
34 list of merger commitments, such retained earnings
35 may be used. Funds available from other Hydro One
36 affiliates may be used without limitation. Avista

1 will not seek cost recovery for any of the
2 commitments funded or arranged by Hydro One in this
3 list of merger commitments. Hydro One will not
4 seek cost recovery for such funds from ratepayers
5 in Canada or the United States.

6 Q. With respect to Idaho Code §61-328(3)(c), Staff
7 witness Ms. Carlock concludes, on page 4, lines 19-25, that:

8 Rating agency reports and publicly available
9 financial statements document that Hydro One has
10 the bona fide financial ability to operate and
11 maintain said property in the public service. The
12 testimony of Hydro One and the Stipulated
13 Commitments reinforce that Hydro One has the bona
14 fide intent to operate and maintain said property
15 in the public service.

16 Are you familiar with that testimony?

17 A. Yes.

18 Q. Do you agree with Ms. Carlock's conclusions
19 regarding Hydro One's bona fide intent and financial ability
20 to operate and maintain Avista in public service?

21 A. Yes, I certainly agree that Hydro One has both the
22 bona fide intent and the financial ability to operate and
23 maintain Avista in public service in Idaho. Mr. Lopez, Hydro
24 One's acting Chief Financial Officer, addresses Hydro One's
25 bona fide intent and financial ability to operate and maintain
26 Avista in public service in further detail in his rebuttal
27 testimony in Section III of Christopher F. Lopez's Rebuttal
28 Testimony filed on November 14, 2018.

1 **Q. Do you have any reason to believe that the Province**
2 **of Ontario would affect Hydro One's bona fide intent and/or**
3 **financial ability to operate and maintain Avista in public**
4 **service in Idaho?**

5 A. No. As discussed in the rebuttal testimony of Mr.
6 Woods, Chair of the Hydro One Board of Directors,³ the
7 Province is an investor in and not a manager of Hydro One.
8 The Province, as Hydro One's largest shareholder, has some
9 ability to influence Hydro One's governance. Apart from its
10 authority over certain executive compensation matters under
11 the *Hydro One Accountability Act*, however, the Province does
12 not have the authority to manage Hydro One's business affairs,
13 including Hydro One's bona fide intent and financial ability
14 to run Avista after the close of the proposed transaction.

15 **Q. Does this conclude your rebuttal testimony?**

16 A. Yes it does.

³ See AVU-E-17-09/AVU-G-17-05 - Rebuttal Testimony of Thomas D. Woods at §§ II-III (Nov. 14, 2018).