

**ON BEHALF OF AVISTA CORPORATION**

DAVID J. MEYER  
VICE PRESIDENT AND CHIEF COUNSEL FOR  
REGULATORY & GOVERNMENTAL AFFAIRS  
P.O. BOX 3727  
1411 EAST MISSION AVENUE  
SPOKANE, WASHINGTON 99220-3727  
TELEPHONE: (509) 495-4316  
FACSIMILE: (509) 495-8851  
DAVID.MEYER@AVISTACORP.COM

Idaho Public Utilities Commission  
Office of the Secretary  
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OCT 14 2018

Boise, Idaho

**ON BEHALF OF HYDRO ONE LIMITED**

ELIZABETH THOMAS, PARTNER  
KARI VANDER STOEP, PARTNER  
K&L GATES LLP  
925 FOURTH AVENUE, SUITE 2900  
SEATTLE, WA 981014-1158  
TELEPHONE: (206) 623-7580  
FACSIMILE: (206) 370-6190  
LIZ.THOMAS@KLGATES.COM  
KARI.VANDERSTOEP@KLGATES.COM

**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	)	SUPPLEMENTAL
AVISTA CORPORATION	)	REBUTTAL TESTIMONY
FOR AN ORDER AUTHORIZING PROPOSED	)	OF
<u>TRANSACTION</u>	)	PATRICK D. EHRBAR

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, business address and  
3 present position with Avista Corporation ("Avista")?

4 A. My name is Patrick D. Ehrbar and my business  
5 address is 1411 East Mission Avenue, Spokane, Washington. I  
6 serve as the Director of Regulatory Affairs.

7 Q. Have you previously filed testimony in this  
8 proceeding?

9 A. Yes, I filed testimony that accompanied the Joint  
10 Application for approval of the merger (the "Proposed  
11 Transaction"). My testimony explained, among other things,  
12 the proposed accounting protocol for any affiliate  
13 transactions between Avista and Hydro One Limited ("Hydro  
14 One") following the closing of the transaction.

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

17 A. No, I am not.

18 Q. Ms. Carlock on p. 3 of her Direct Testimony  
19 explained several ways customers are protected from the  
20 transactions between Avista and Hydro One, or events  
21 impacting Hydro One, which would cause customer rates to  
22 increase. What were her conclusions?

23 A. Ms. Carlock states correctly that any "customer  
24 rate increase must be approved by the Idaho Public Utilities

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1 Commission (the "Commission") before Avista can increase  
2 rates to Idaho Avista customers."<sup>1</sup> In addition, she states  
3 that Staff will scrutinize "any transactions, activities or  
4 allocations to Avista from any affiliated entities."<sup>2</sup> Even  
5 more emphatically, Ms. Carlock states:<sup>3</sup>

6 Staff will verify that no cost are included in customer  
7 rate that are not at the lower of the actual cost or  
8 market comparison. Although this is a normal part of  
9 the Staff audit function it is also part of the ring-  
10 fencing provisions and the commitments from Avista and  
11 Hydro One. (emphasis added)  
12

13 Finally, Ms. Carlock goes on to state:<sup>4</sup>

14 The regulatory responsibility of the Commission Staff  
15 and ultimately the Commissioners making the final  
16 decisions for the Idaho Public Utilities Commission  
17 will not change. Staff will continue to vigorously  
18 review capital investments, ongoing operational costs,  
19 changes in revenues and the overall operations of  
20 Avista. When unreasonable costs are identified or  
21 operating decisions by management do not support just  
22 and reasonable costs to provide safe and reliable  
23 utility services to customers at reasonable rates,  
24 Staff recommends financial adjustments and changes to  
25 programs during proceedings before the Commission.  
26 This will not change depending on the ownership of  
27 Avista. (emphasis added)  
28

29 **Q. Do you agree with Ms. Carlock's conclusions?**

30 A. Absolutely. As I am sure the Commissioners know,  
31 and I can attest to, Commission Staff does a thorough review  
32 of Avista's costs and operations in general rate case

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<sup>1</sup> Carlock, Di., p. 3, ll. 14-16.

<sup>2</sup> Id. p. 3, ll. 23-25.

<sup>3</sup> Id. p. 4, ll. 3-8.

<sup>4</sup> Id. p. 5, ll. 4-16.

1 proceedings.

2 **Q. Are there built in protections in the Stipulated**  
3 **Commitments that support the Joint Applicants and Ms.**  
4 **Carlock's conclusions?**

5 A. Yes. There are two specific commitments I have  
6 provided below that memorialize the fact that customer rates  
7 will not be affected by this transaction. First, Stipulated  
8 Commitment No. 16 states:

9 **Treatment of Net Cost Savings:** Hydro One commits that  
10 Avista customer rates will not increase as a result of  
11 the Proposed Transaction. Hydro One will hold Avista  
12 customers harmless from any such rate increase.  
13 Further, any net cost savings that Avista may achieve  
14 as a result of the Proposed Transaction will be  
15 reflected in subsequent rate proceedings, as such  
16 savings materialize. To the extent the savings are  
17 reflected in base retail rates they will offset the  
18 Rate Credit to customers, up to the offsetable portion  
19 of the Rate Credit. (emphasis added)  
20

21 Stipulated Commitment No. 17 provides further protections  
22 from the inclusion of costs related to this transaction from  
23 being included in customer rates:

24 **Treatment of Transaction Costs:**  
25 a. Costs associated with the Proposed Transaction  
26 will be separately tracked as non-utility costs with no  
27 charges, either allocated or direct, to be recovered  
28 from Avista customers. After the consummation of the  
29 Proposed Transaction, any remaining transaction costs  
30 or other costs of Olympus Holding Corp. or Hydro One  
31 will not appear on Avista's utility books, i.e. such  
32 costs will be recorded as non-utility. Avista shall  
33 furnish the Commission with journal entries and  
34 supporting detail showing the nature and amount of all  
35 costs of the Proposed Transaction (including but not  
36 limited to management time, BOD time, in-house and

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1 outside counsel time, any consultants engaged, etc.)  
2 since the Proposed Transaction was first contemplated,  
3 as well as the accounts charged, within 120 days of a  
4 Commission order in this docket.

5  
6 b. Avista will exclude, and Hydro One agrees Avista  
7 will exclude, from Avista general rate cases, or any  
8 other method of cost recovery, all costs related to the  
9 Proposed Transaction including but not limited to: (i)  
10 all legal work from in-house counsel and outside  
11 counsel; (ii) any financial advisory fees associated  
12 with the Proposed Transaction; (iii) the acquisition  
13 premium; (iv) costs related to M&A consulting and  
14 advice (v) preparation of and materials for  
15 presentations relating to the Proposed Transaction (vi)  
16 any senior executive compensation or any Avista board  
17 of director time tied to a change of control of Avista;  
18 and (vii) any other costs directly related to the  
19 Proposed Transaction.

20  
21 c. Technology expenditures and investments related to  
22 software and hardware compatibility issues between  
23 Avista and Hydro One and its affiliates shall not be  
24 recovered from Idaho ratepayers except to the extent  
25 such costs are offset by savings over time. (emphasis  
26 added)  
27

28 In the end, Avista and Hydro One have agreed, through the  
29 revised set of Stipulated Commitments, that customers will  
30 be held harmless from the Proposed Transaction. Further,  
31 Staff has provided strong support for the fact that it will,  
32 as is their practice, thoroughly evaluate Avista's books and  
33 records in general rate case proceedings to ensure  
34 compliance.

35 **Q. The Avista Customer Group ("ACG") in its Comments**  
36 **filed on June 27, 2018, stated that the Joint Applicants**  
37 **have not met the statutory criteria under Idaho Code 61-328**

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1 **as it relates to cost increases.<sup>5</sup> Do you share their view?**

2 A. No, I do not. Idaho Code 61-328(3b) states that  
3 "the cost of and rates for supplying service will not be  
4 increased by reason of such transaction." All of the  
5 parties, with the exception of the ACG, support the  
6 Stipulated Commitments, which as discussed earlier  
7 explicitly state that the cost to customers and their rates  
8 will not increase as a result of this transaction.

9 **Q. Did ACG comment on the lack of a filed "cost**  
10 **allocation methodology"?**<sup>6</sup>

11 A. Yes, ACG commented that Avista did not file a cost  
12 allocation methodology for the allocation of costs to  
13 Avista. As I discuss later in my testimony, Hydro One will  
14 not allocate corporate costs to Avista at this time.  
15 Instead, costs will be directly assigned to Avista or Hydro  
16 One. Attached as Exhibit No. 7, Schedule 3, to my direct  
17 testimony is Avista's "Direct Assignment Protocol,"  
18 developed by Avista for the assignment of costs associated  
19 with the Proposed Transaction. As I discussed in my Direct  
20 Testimony filed in September 2017, the Direct Assignment  
21 Protocol addresses the accounting for costs both prior to  
22 the closing of the Proposed Transaction, as well as the  
23 accounting for costs following the closing.

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<sup>5</sup> Comments of Avista Customer Group, p. 2. (June 27, 2018).

<sup>6</sup> Ibid.

1           Q.    Following the closing of the transaction, how will  
2   Avista account for the costs associated with time and  
3   expenses incurred by Avista employees and Hydro One  
4   employees for any services or work between the two  
5   companies?

6           A.    To the extent Avista employees dedicate time and  
7   incur costs related to the operations of Hydro One, those  
8   costs will be directly assigned and billed to Hydro One, and  
9   would not be borne by Avista's customers. Likewise, should  
10   Hydro One employees dedicate time and incur costs associated  
11   with Avista's operations, such costs would be directly  
12   assigned and billed to Avista. If a Hydro One employee's  
13   time and costs are related to Avista's regulated utility  
14   operations, the costs would be subject to review and  
15   approval by the Commission prior to being recovered in  
16   retail rates. Avista expects such assignment of costs, both  
17   to Hydro One and from Hydro One, to be relatively small,  
18   especially in the near-term, since Avista will continue to  
19   operate as a standalone utility.

20           At this point in time, there are no plans to combine  
21   any specific utility operations. In the future, however, if  
22   opportunities arise for the consolidation of certain Avista  
23   and Hydro One utility functions, where the utilities have an  
24   opportunity to benefit from specialized expertise or to

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1 achieve efficiencies, it may be appropriate to develop  
2 additional or different direct assignment or allocation  
3 protocols.

4 **Q. Is Avista currently using the proposed Direct**  
5 **Assignment Protocol with other existing affiliate companies**  
6 **of Avista?**

7 A. Yes. In 2014 Avista acquired Alaska Energy and  
8 Resources Company (AERC), including Alaska Electric Light  
9 and Power (AEL&P) which provides electric service to  
10 customers in the City and Borough of Juneau, Alaska. We are  
11 using the same Protocol for these companies as we will use  
12 for the Avista/Hydro One Proposed Transaction.

13 **Q. Will Hydro One allocate corporate costs to Avista,**  
14 **and if so, would Avista then seek to recover those allocated**  
15 **costs from customers?**

16 A. No, Hydro One will not allocate corporate costs to  
17 Avista at this time. In the alternative, had that not been  
18 the case, ultimately it is still the Commission, and not  
19 Avista/Hydro One, that would decide if such costs are  
20 appropriate to include in customer rates.

21 It is important to also distinguish the "allocation" of  
22 costs and the "direct assignment" of costs. For example,  
23 when I testify to "allocation" of costs, what I mean is that  
24 Hydro One will not be allocating to Avista (and then Avista

1 to its' customers) corporate overhead costs, such as Hydro  
2 One Board of Director costs, Hydro One executive costs,  
3 other Hydro One corporate overheads, etc. Instead, costs may  
4 be "directly assigned" to Avista in certain circumstances.  
5 For example, the combined Hydro One and Avista entity may be  
6 able to procure less expensive insurance policies than the  
7 two companies currently have in effect today as two separate  
8 entities. In that example, Hydro One may procure such less  
9 expensive insurance that would cover both Hydro One and  
10 Avista, and directly assign to Avista our share of those  
11 costs, remembering that those costs would be cheaper than  
12 the status quo. Of course none of those costs would be  
13 included in customer rates until allowed to do so by this  
14 Commission, with Avista having the burden of proof that the  
15 costs are reasonable.

16 **Q. You state that Hydro One will not allocate costs**  
17 **to Avista "at this time". What about in the future?**

18 A. It is unknown whether there would be a desire for  
19 future allocation of Hydro One costs to Avista. However,  
20 customers are protected through Stipulated Commitment No.  
21 24. Among other things Stipulated Commitment No. 24 states:

22 Avista agrees to provide, and Hydro One agrees Avista  
23 will provide, cost allocation methodologies used to  
24 allocate to Avista any costs related to Hydro One or  
25 its other affiliates and subsidiaries, and commits that  
26 there will be no cross-subsidization by Avista  
27 customers of unregulated activities. (emphasis added)

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1  
2 Avista will not charge to customers expenses allocated  
3 or directly assigned by Hydro One except as  
4 specifically authorized for recovery in rates by the  
5 Commission. (emphasis added)  
6  
7 Avista will bear the burden of proof in any general  
8 rate case that any corporate and affiliate cost  
9 allocation methodology is reasonable for ratemaking  
10 purposes. (emphasis added)  
11  
12 Avista will notify the Commission of any change in  
13 corporate structure that affects Avista's corporate and  
14 affiliate cost allocation methodologies. Avista will  
15 propose revisions to such cost allocation methodologies  
16 to accommodate such changes. Avista will not take the  
17 position that compliance with this provision  
18 constitutes approval by the Commission of a particular  
19 methodology for corporate and affiliate cost  
20 allocation. (emphasis added)  
21

22 Again, while there are no plans for cost allocations  
23 from Hydro One to Avista, should allocation methodologies be  
24 necessary, they would be provided to the Commission, and the  
25 burden of proof for cost recovery would be on Avista in a  
26 general rate case proceeding.

27 **Q. Does Commission Staff believe that Idaho Code 61-**  
28 **328 will be met?**

29 A. Yes. Ms. Carlock states that "I believe Idaho  
30 Code §61-328(3) requirements will be met".<sup>7</sup> Further, she  
31 states that the "Stipulated Commitments also assure that the  
32 cost of and rates for supplying service will not be

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<sup>7</sup>Carlock, Di., p. 4, ll. 11-12.

1 increased by reason of such transaction."<sup>8</sup> I agree with her  
2 wholeheartedly.

3 **Q. Does this conclude your Supplemental Rebuttal**  
4 **testimony?**

5 A. Yes it does.

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<sup>8</sup> Id. p. 4, ll. 16-18.