

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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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)	
AVISTA CORPORATION)	REBUTTAL TESTIMONY
FOR AN ORDER AUTHORIZING PROPOSED)	OF
<u>TRANSACTION</u>)	JOHN J. REED

FOR CONCENTRIC ENERGY ADVISORS
ON BEHALF OF HYDRO ONE LIMITED
AND AVISTA CORPORATION

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John J. Reed. I am President and Chief Executive Officer of Concentric Energy Advisors, Inc. ("Concentric") and CE Capital Advisors, Inc. ("CE Capital"), which has its headquarters at 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. On whose behalf are you submitting this testimony?

A. I am testifying on behalf of Hydro One Limited ("Hydro One") and Avista Corporation ("Avista").

Q. Are you sponsoring any exhibits that accompany your Rebuttal Testimony?

A. No.

A table of contents for my testimony is as follows:

DESCRIPTION	PAGE NUMBER
I. INTRODUCTION	1
II. RESPONSE TO STAFF WITNESS CARLOCK	2

Q. What is the purpose of your testimony?

A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of Terri Carlock, the Idaho Public Utilities Commission, Utilities Division Administrator, as it pertains to the ability of the Province of Ontario ("Province") to impact

1 Avista and the sufficiency of the governance, financial
2 integrity and ring-fencing provisions of the Stipulated
3 Commitments.¹

4

5 II. RESPONSE TO STAFF WITNESS CARLOCK

6 Q. What is your overall response to Ms. Carlock's Direct
7 Testimony?

8 A. Ms. Carlock has concluded that the transaction meets
9 Idaho's statutory standard for mergers because it is in the
10 public interest, protects and provides benefits to Avista's
11 Idaho customers, and assures that rates will not go up as a
12 result of the transaction.² I certainly agree with her overall
13 conclusion.

14 However, she also states that risks from the transaction
15 cannot be completely eliminated, that utility ownership where
16 the parent company is partially-owned by a foreign government is
17 very different from being owned by an investor-owned utility³,
18 that she is concerned that there is no apparent limit on the
19 Province's authority over Hydro One, and that the new government

¹ AVU-E-17-09/AVU-G-17-05 Stipulation and Settlement (April 13, 2018) ("Stipulated Settlement"). The Stipulated Settlement includes 73 merger commitments (each, a "Stipulated Commitment," collectively, the "Stipulated Commitments").

² AVU-E-17-09/AVU-G-17-05 - Direct Testimony of Terri Carlock at pg. 4 (Nov. 6, 2018) ("Carlock Direct Testimony").

³ Carlock Direct Testimony at pg. 13.

1 of Ontario has spoken in favor of a 12% reduction in the cost of
2 power to Ontario consumers.⁴ She does note that, even with these
3 concerns, "Commitments including ring-fencing provisions have
4 been agreed to in the Stipulated Settlement by most Idaho parties
5 that I believe will provide financial benefits that likely will
6 not occur absent the merger while protecting customers from
7 negative operational, structural or financial harm."⁵

8 My review of the recent events involving the new government
9 of Ontario and Hydro One, and of the ring-fencing and governance
10 commitments offered as part of the proposed transaction, leads
11 me to conclude that Ms. Carlock's remaining concerns have been
12 effectively and fully addressed by the transaction's proposed
13 commitments.

14 **Q. What evidence is there to support your conclusion that**
15 **these risks have been effectively and fully addressed by the**
16 **transaction's proposed commitments?**

17 A. As I stated in my Supplemental Testimony filed on
18 September 24, 2018, in this proceeding, the proposed ring-
19 fencing and governance commitments in this transaction represent
20 robust, state-of-the-art provisions that will very effectively
21 protect Avista and its customers. The experience gained over
22 the last four months provides very compelling evidence regarding

⁴ Carlock Direct Testimony at pg. 14.

⁵ Carlock Direct Testimony at pg. 8.

1 the effectiveness of these provisions.

2 As the record in this case shows, after the election in
3 Ontario, and the government's actions that led to the resignation
4 of the Hydro One board and retirement of the CEO, Standard and
5 Poor's ("S&P") downgraded Hydro One one notch to A-, based on
6 S&P's negative assessment of "governance" issues for Hydro One.⁶
7 Nonetheless, Avista's credit rating was not downgraded and it
8 has remained on Credit Watch with positive implications. That
9 striking differential in outlook reflects, among other things,
10 the strength and effectiveness of the ring fencing and governance
11 provisions that have been proposed in this transaction. It also
12 reflects the fact that notwithstanding the one notch downgrade
13 for Hydro One, Avista and Hydro One have retained very strong
14 credit profiles.

15 These events, and S&P's reaction to them, have essentially
16 represented a "test drive" of the transaction's commitments.
17 This outcome should provide the Commission with a very high level
18 of confidence that events such as those that have arisen for
19 Hydro One will not lead to negative consequences for Avista, and
20 that the transaction will continue to provide benefits for
21 Avista's customers in Idaho.

⁶ S&P Global RatingsDirect, Hydro One Ltd. and Subsidiary Downgraded to 'A-' on Lower Governance Assessment; Ratings Remain on CreditWatch, September 13, 2018.

1 Q. Please address Ms. Carlock's concerns that "there does
2 not appear to be a limit on the Province of Ontario's authority
3 over Hydro One,"⁷ and that a foreign company owning an American
4 utility is very different from being owned by a foreign company
5 whose controlling shareholder is a foreign government.⁸

6 A. The fact that Hydro One is the parent company of a
7 Canadian utility, and that it has the Province as a minority
8 owner, does not suggest that Hydro One's ownership of Avista
9 would create any special or new class of issues affecting whether
10 this transaction is in the public interest. As an investor-
11 owned public utility, Avista already operates in five different
12 states, and is subject to the political and regulatory actions
13 of five different state governments, and the U.S. federal
14 government, in both its gas distribution and electric service
15 operations. I doubt that anyone would suggest that these six
16 governments all agree on every policy issue facing Avista. Yet,
17 Avista operates quite effectively to meet customer needs and
18 governmental policies in each jurisdiction.

19 In evaluating this transaction, I believe the Commission
20 should distinguish between the influence and authority that the
21 Province could have on Ontario ratepayers versus the influence
22 and authority that the Province could have on Avista and its

⁷ Carlock Direct Testimony at pg. 14

⁸ Carlock Direct Testimony at pg. 13.

1 ratepayers. While it is possible that legislation created by
2 the Province could pressure Hydro One to decrease rates in
3 Ontario, with the Stipulated Commitments in place in Idaho this
4 would not have any effect on Avista or Avista's customers. In
5 fact, because of the Stipulated Commitments put in place that
6 create clear separation between Avista and Hydro One, Avista's
7 customers in Idaho would be protected from political or
8 regulatory actions in Ontario, in a number of significant ways
9 that they are not currently protected from political or
10 regulatory actions arising in Washington, Oregon or Alaska.

11 With regard to the issue of ownership by a parent company
12 that is partially-owned by a foreign government, I can only add
13 that this issue has been raised, and rejected, in transactions
14 involving energy infrastructure assets that go far beyond
15 electric or gas distribution assets, including ownership of
16 nuclear power plants and LNG facilities in the U.S. When one
17 considers that the Nuclear Regulatory Commission saw no problem
18 with Électricité de France (which is fully controlled by the
19 government of France) owning 49.9 percent of five nuclear
20 reactors in the U.S., and planning to build more, or that GDF
21 Suez (now Engie, which also had significant government
22 ownership) was permitted to own an LNG import facility located
23 virtually in the heart of Boston, MA, it becomes difficult to
24 make any plausible case that partial ownership of Hydro One by

1 the government of Ontario represents an unacceptable risk to
2 Hydro One, Avista or Avista's customers.

3 Ultimately, these concerns come down to the question of
4 whether the transaction creates risks for Avista's customers in
5 Idaho. In considering that question, the conclusion of S&P in
6 evaluating the outlook for the financial strength of Avista and
7 Hydro One is quite compelling. S&P's CreditWatch positive
8 listing for Avista reflects the increased potential for higher
9 ratings on Avista when the transaction closes. More notable is
10 S&P's conclusion that, even after fully reflecting the recent
11 actions of the Ontario government, Hydro One faces less business
12 risk (considering the respective regulatory and political
13 environments) than Avista does from its regulators. Coming from
14 a business whose job it is to assess risk, that conclusion should
15 assure the Commission that this transaction does not carry
16 incremental risk for Avista's customers in Idaho.

17 Simply put, the Stipulated Commitments fully protect the
18 public interest in Idaho as well as interests of Avista's Idaho
19 customers even if something extraordinary happens in Ontario.

20 **Q. Does anything in Ms. Carlock's testimony detract from**
21 **or limit her conclusion, or your conclusion, that the Proposed**
22 **Transaction is in the public interest?**

23 A. No. I fully concur with Ms. Carlock's ultimate
24 conclusion that the Proposed Transaction is in the public

1 interest and that Avista's customers are well protected by the
2 Stipulated Commitments.

3 Q. Does this conclude your testimony?

4 A. Yes, it does.