

BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG-\_\_\_

DIRECT TESTIMONY OF SCOTT L. MORRIS  
REPRESENTING AVISTA CORPORATION

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**Policy and Overview of Proposed Transaction**

1 **I. INTRODUCTION**

2 **Q. Will you please state your name, business address, and position with**  
3 **Avista Corporation?**

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

7 **Q. Please describe your education and business experience.**

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

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

18 I am a member of the Edison Electric Institute board of directors, a member of the  
19 American Gas Association board of directors, a member of the Washington Roundtable, and  
20 I also serve on the board of trustees of Greater Spokane Incorporated. I am on the board of  
21 directors of the Federal Reserve Bank of San Francisco, Seattle Branch, and the Gonzaga  
22 University board of trustees. I currently serve as Chair for both organizations.

23

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

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

11           I will summarize how the Proposed Transaction provides benefits to what I have often  
12 referred to as the four legs of the stool: customers, employees, shareholders, and the  
13 communities Avista serves, and provide an overview of the numerous commitments Avista  
14 and Hydro One have proposed as part of our request for approval of the Proposed Transaction.  
15 I will also briefly summarize Avista and Hydro One’s proposal to provide immediate financial  
16 benefits to Avista’s customers at the closing of the Proposed Transaction.

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

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

2	<u>Description</u>	<u>Page</u>
3	I. Introduction	1
4	II. Applicant's Proposal and Request of the Commission	4
5	III. Witnesses Sponsoring Testimony	5
6	IV. Description of the Proposed Transaction	6
7	V. Avista's Reasons for the Proposed Transaction	8
8	VI. Hydro One's Reasons for the Proposed Transaction	13
9	VII. Overview of Hydro One	13
10	VIII. Overview of Avista	14
11	IX. Post-Closing Corporate Structure	17
12	X. Post-Closing Governance, Management and Operations of Avista	18
13	XI. Benefits to Customers from the Transaction	19
14	XII. Satisfaction of the Public Interest and Commitments	22
15	XIII. Required Approvals	25
16	XIV. Conclusion	26

17

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

19 A. Yes. Exhibit 101 includes a bar chart that is indicative of investor-owned  
20 utilities in North America, ranked in size from largest to smallest, showing Avista as one of  
21 the smallest investor-owned utilities in North America. Exhibit 102 includes a diagram  
22 showing Avista's current corporate structure. Exhibit 103 includes a map of Avista's electric  
23 and natural gas service area in the Pacific Northwest.

24

1 **II. APPLICANT'S PROPOSAL AND REQUEST**  
2 **OF THE COMMISSION**  
3

4 **Q. Please identify the Applicant in this filing.**

5 A. The Applicant, Hydro One, through its subsidiary companies, is an investor-  
6 owned electric transmission and distribution utility headquartered in Toronto, Ontario,  
7 Canada. Hydro One provides electric distribution service to approximately 1.3 million retail  
8 end-use customers, as well as electric transmission service to many local distribution  
9 companies and large industrial customers. Approximately 98% of Hydro One's business  
10 consists of regulated utility operations, which is regulated by the Ontario Energy Board.  
11 Additional details related to both Avista and Hydro One will be provided later in my  
12 testimony.

13 Avista is an investor-owned utility providing electric generation, transmission, and  
14 distribution service to approximately 378,000 retail customers in Washington, Idaho and  
15 Montana, and the distribution of natural gas to approximately 342,000 retail customers in  
16 Oregon, Washington and Idaho. Alaska Electric Light and Power ("AEL&P"), a wholly-  
17 owned indirect subsidiary of Avista, also provides electric generation, transmission and  
18 distribution service to approximately 17,000 retail customers in the City and Borough of  
19 Juneau, Alaska.

20 **Q. What is Hydro One requesting in this filing?**

21 A. Through this filing, Hydro One Limited, acting through its acquisition  
22 subsidiary Olympus Equity LLC, is requesting an Order authorizing Hydro One Limited to  
23 exercise substantial influence over the policies and actions of Avista Corporation, under ORS  
24 757.511.



1 **Christopher Lopez**, Senior Vice President, Finance of Hydro One, will provide  
2 details regarding Hydro One’s corporate structure, Avista’s place within that structure,  
3 Hydro One’s capital structure, the financial and accounting aspects of the Proposed  
4 Transaction, how Avista will become a ring-fenced business under Hydro One,  
5 including the structural and financial commitments to be provided by Hydro One, to  
6 ensure that the Proposed Transaction will not expose Avista’s customers to any risk of  
7 harm.

8  
9 **Ferio Pugliese**, Executive Vice President, Customer Care and Corporate Affairs will  
10 provide an overview of Hydro One from a customer care perspective, describing,  
11 among other things, the various customer initiatives Hydro One has put into place to  
12 provide and enhance service to its customers.  
13

#### 14 **IV. DESCRIPTION OF THE PROPOSED TRANSACTION**

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

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

20 Following the receipt of all approvals and the closing of the Proposed Transaction,  
21 Avista will become a wholly-owned indirect subsidiary of Hydro One. At the closing,  
22 Avista’s common stock will be delisted from the New York Stock Exchange (“NYSE”), and  
23 Avista will have one shareholder, Olympus Equity LLC, which is an indirect, wholly-owned  
24 subsidiary of Hydro One.

25 Under the terms of the all-cash transaction, Avista shareholders will receive \$53 per  
26 common share, representing a twenty-four percent (24%) premium to Avista's last sale price  
27 of \$42.74 per share on July 18, 2017. The aggregate purchase price is approximately \$5.3  
28 billion, comprised of an equity purchase price of \$3.4 billion and the assumption of  
29 approximately \$1.9 billion of debt. Hydro One’s financing plan is designed to maintain a

1 strong investment grade balance sheet following completion of the acquisition, and Hydro  
2 One's regulated utility profile will remain intact with approximately ninety-eight percent  
3 (98%) in regulated earnings. Hydro One will finance the Proposed Transaction through a  
4 combination of medium and long-term borrowings amounting to approximately C\$3.4 billion,  
5 including C\$1.54 billion convertible unsecured subordinated debentures, which will form the  
6 permanent equity component of the financing plan upon conversion at closing of the Proposed  
7 Transaction. Hydro One's common shares are listed on the Toronto Stock Exchange ("TSX")  
8 under the ticker symbol "H".

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

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



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

10 Following completion of the merger, the communities Avista serves will see increased  
11 charitable contributions and a continuation of the strong support Avista provides in economic  
12 development and innovation. Finally, Avista and Hydro One employees will experience  
13 career development, professional employment opportunities and personal growth as the two  
14 companies pursue efficiencies and innovation through the use of technology, best practices  
15 and business processes.

16

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

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

20 A. Avista's decision to merge with Hydro One was driven by the unique  
21 partnership that is possible with Hydro One. The merger with Hydro One will allow Avista  
22 and its customers to benefit from being part of a larger organization (the benefits of scale),

1 while at the same time preserving local control of Avista and the retention of Avista's  
2 employees and management team, as well as its culture and its way of doing business.

3 With regard to scale, the number of investor-owned electric and/or natural gas utilities  
4 in North America has decreased significantly over the years through consolidation. When  
5 comparing the size of investor-owned utilities from largest to smallest, Avista is one of the  
6 smallest investor-owned utilities remaining in North America.<sup>1</sup> A bar chart indicative of the  
7 investor-owned utilities in North America, from largest to smallest, is attached as Exhibit 101.  
8 The merger of Avista and Hydro One will place the combined company toward the middle of  
9 the range of investor-owned utilities, in terms of size. Through consolidation, larger utilities  
10 have the opportunity to spread costs, especially the costs of new technology, over a broader  
11 customer base and a broader set of infrastructure which inures to the benefit of customers.

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

17 These benefits of scale will not occur in the near-term following the closing of the  
18 transaction, but some are expected to occur over the long-term. After all approvals are  
19 received and the companies merge, both companies will work together to identify, evaluate  
20 and execute on opportunities to reduce costs for both companies through, among other things,

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

1 the sharing of technology, best practices, and business processes. The benefits from these cost  
2 savings will be flowed through to customers in future general rate cases.

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

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

14 The agreements between Hydro One and Avista for operation of the business post-  
15 closing were memorialized in Exhibits A and B to the Merger Agreement, hereafter referred  
16 to as the “Delegation of Authority” (see Appendix 5 in the Application). Under the Delegation  
17 of Authority, Avista’s Board of Directors retains its authority to review, authorize and approve  
18 certain specified matters related to Avista, without any obligation to obtain separate  
19 authorization or approval from the Hydro One Board. Among the matters decided by the  
20 Avista board pursuant to the Merger Agreement are the following:

- 21 • Keeping Avista’s headquarters in Spokane;
- 22 • Keeping Avista’s brand the same;

- 1 • Keeping Avista’s office locations in each of its service areas, with no less of a  
2 significant presence in each location than that in place prior to the merger;
- 3 • Preventing workforce reductions resulting from the Proposed Transaction;
- 4 • Retaining Avista’s existing management team;
- 5 • Maintaining existing compensation and benefit practices;
- 6 • Negotiating and entering into agreements with bargaining unit employees;
- 7 • Maintaining Avista’s safety and reliability standards and policies and service quality  
8 measures in a manner that is substantially comparable to, or better than, those prior  
9 to the merger;
- 10 • Maintaining Avista’s community involvement and support initiatives at levels equal  
11 to or greater than those prior to the merger;
- 12 • Maintaining a \$4.0 million annual budget for charitable contributions (funded by  
13 both Avista and the Avista Foundation), as compared to an approximate \$2.5 million  
14 level prior to the merger;
- 15 • Making a \$2.0 million annual contribution to the Avista Foundation (following a  
16 contribution to the Foundation of \$7.0 million at the time the merger closes);
- 17 • Maintaining at least the level of economic development that existed prior to the  
18 merger, including the expenditure of funds to support regional economic  
19 development and related strategic opportunities consistent with past practices;
- 20 • Maintaining existing levels of capital allocations for capital investment in strategic  
21 and economic development, including property acquisitions in the university district,  
22 support of local entrepreneurs and seed-stage investments;
- 23 • Continued development and funding of Avista’s existing and future innovation  
24 activities; and
- 25 • Maintaining dues paid by Avista to various industry trade groups and membership  
26 organizations.

27  
28 Changes to these provisions in the Merger Agreement require a two-thirds majority  
29 vote of the Avista board. In addition to these and other commitments, the makeup of the

1 Avista Board of Directors will further reinforce and preserve the way Avista currently does  
2 business. After completion of the merger, Avista will be governed by a nine member Board  
3 of Directors, with myself serving as the Chairman of the Board. Three additional board  
4 members will be chosen by Avista and these four board members will be referred to as Avista  
5 “designees.” There will always be a total of four members chosen by Avista designees, and  
6 these Avista board members will choose their successors. Of the five board members chosen  
7 by Hydro One, three of the five will reside in the Pacific Northwest. The remaining two board  
8 members will be executives of Hydro One or one of its subsidiaries. The Avista board will  
9 be a local board primarily consisting of either board members chosen by Avista, and/or  
10 members who reside in the Pacific Northwest.

11 The agreements between Hydro One and Avista included in the Merger Agreement  
12 and the makeup of the Avista Board of Directors are designed to ensure that Avista’s culture  
13 and its way of doing business will continue for the long-term, inuring to the benefit of  
14 customers. The Proposed Transaction is not designed to target the elimination of jobs, or cost  
15 cutting that may lead to a deterioration of customer service, customer satisfaction, safety,  
16 reliability, or a deterioration of charitable giving, economic development or innovation in the  
17 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 (Baa1); (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)Baa1) 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 Hydro One's retail customers, i.e., these customers pay a commodity power cost equal to that  
2 paid by Hydro One. Hydro One's wholesale customers and its large-use customers that are  
3 market participants purchase commodity directly and do not rely on Hydro One to purchase  
4 commodity for them. Therefore, Hydro One has no material exposure to variations in the  
5 commodity cost of power.

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

10 Hydro One has approximately 5,400 full-time employees and 3,300 casual and  
11 temporary employees (not including external contractors) with total assets of C\$25 billion,  
12 annual revenues over C\$6.5 billion, and with a market capitalization of C\$14 billion. As  
13 explained by Mr. Lopez, Hydro One maintains strong credit ratings from both Standard and  
14 Poors (S&P) and Moody's.

15

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## **VIII. OVERVIEW OF AVISTA**

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**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 Washington, Idaho, 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.

1 Avista has approximately 18,300 miles of primary and secondary electric distribution lines,  
2 and an electric transmission system of 685 miles of 230 kV lines and 1,534 miles of 115 kV  
3 lines.

4 Avista provides natural gas distribution service in southwestern and northeastern  
5 Oregon, eastern Washington, and in northern Idaho. Avista owns and maintains a total of  
6 7,650 miles of natural gas distribution lines, and is served off of the Williams Northwest and  
7 Gas Transmission Northwest (GTN) pipelines. The Company is also one of the three original  
8 developers of the underground storage facility at Jackson Prairie, which is located near  
9 Chehalis, Washington.

10 Of Avista's 342,000 natural gas customers (as of June 30, 2017), 101,000, are Oregon  
11 customers. Avista serves approximately 30 retail electric customers in western Montana,  
12 many of whom are our employees who operate our Noxon Rapids generating facility. In 2014,  
13 Avista acquired AEL&P, which serves electric power to approximately 17,000 customers in  
14 the City and Borough of Juneau, Alaska. A diagram of Avista's current corporate structure is  
15 provided in Exhibit 102.

16 A map showing the Company's electric and natural gas service area in the Pacific  
17 Northwest is provided below in Illustration No. 1 below, as well as in Exhibit 103.

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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**

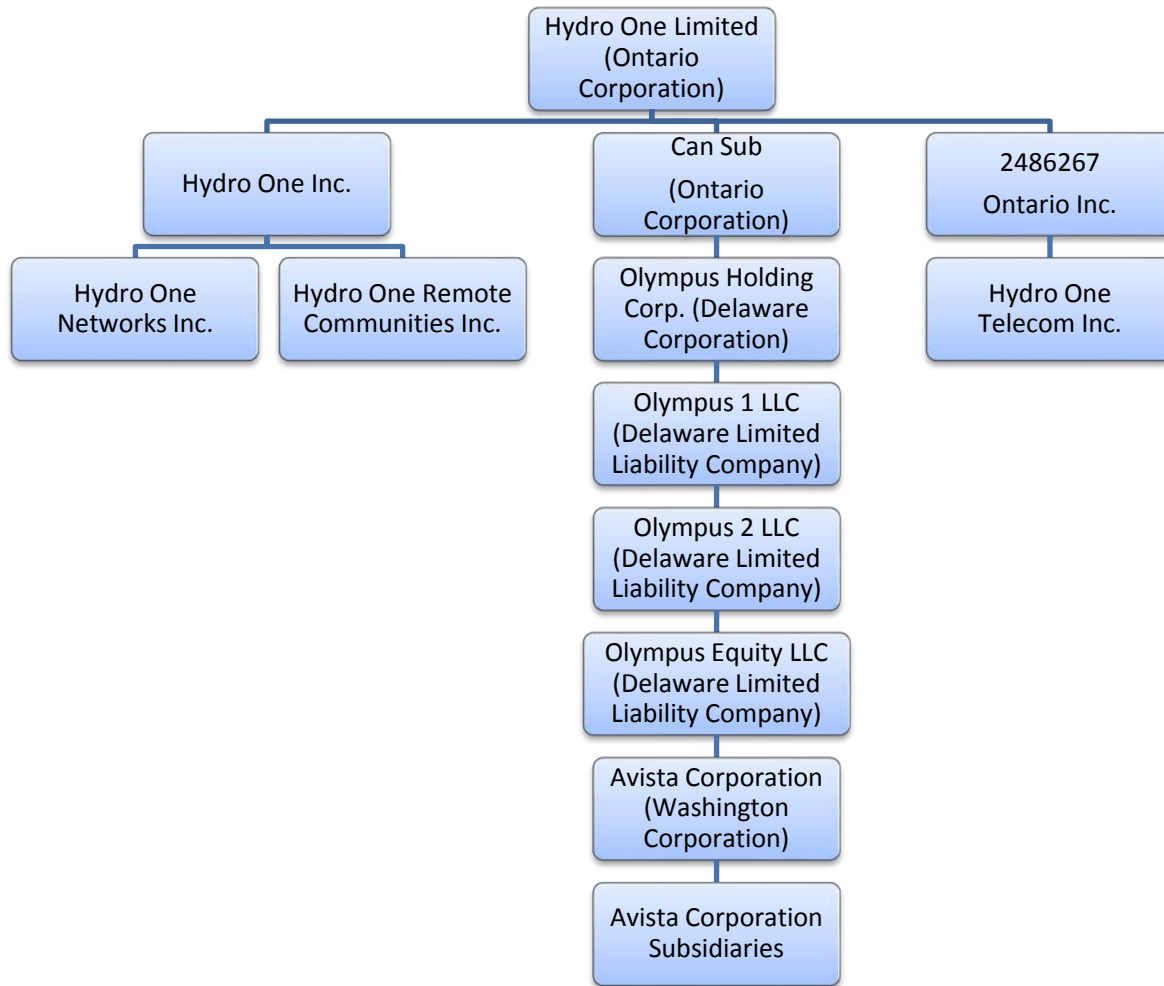
	<b>S&amp;P</b>	<b>Moody’s</b>
<b>Corporate Credit Rating</b>	BBB	Baa1
<b>Senior Secured Debt</b>	A-	A2
<b>Outlook</b>	Positive	Stable

**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:**



Avista will continue to issue debt financing, as needed. Hydro One will provide equity to support Avista’s capital structure that is designed to allow Avista access to debt financing

1 under reasonable terms and on a sustainable basis. Mr. Thies and Mr. Lopez provide  
2 additional details related to the post-closing corporate structure, as well as the continuing  
3 financial strength of Avista following the closing of the transaction.

4

5 **X. POST-CLOSING GOVERNANCE, MANAGEMENT**  
6 **AND OPERATIONS OF AVISTA**  
7

8 **Q. Please describe the governance, management and the operations of Avista**  
9 **following the close of the Proposed Transaction.**

10 A. As explained earlier, following completion of the merger, Avista’s customers  
11 and the communities Avista serves will see little or no change in the operations of Avista, as  
12 compared to Avista’s operations prior to the Proposed Transaction. Customers will, however,  
13 see immediate financial benefits in the form of proposed retail rate credits (the “Rate Credits”)  
14 beginning at the closing of the transaction, as well as opportunities for additional longer-term  
15 benefits from efficiencies gained through the sharing of best practices, technology and  
16 innovation. Avista’s customers can receive the benefits of scale while also avoiding the risk  
17 of a potential subsequent acquisition by another party that may not share Avista’s culture and  
18 values.

19 The communities Avista serves will see increased charitable contributions and a  
20 continuation of the strong support Avista provides in economic development and innovation.  
21 Avista and Hydro One employees will see increased opportunities as the two companies  
22 pursue efficiencies and innovation through the sharing of technology, best practices and  
23 business processes.

1           The Merger Agreement provides for the retention of Avista’s existing employees and  
2 management team. Following completion of the merger, Avista will be governed by a nine  
3 member Board of Directors, as explained earlier, with myself as the Chairman of the Board.

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

8

9                           **XI. BENEFITS TO CUSTOMERS FROM THE TRANSACTION**  
10

11           **Q.     Are the Hydro One and Avista proposing immediate benefits to customers**  
12 **following the closing of the transaction?**

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

21           Avista and Hydro One are proposing to flow through to Avista’s retail customers in  
22 Oregon, Washington, and Idaho a Rate Credit of \$31.5 million over a 10-year period,

1 beginning at the time the merger closes.<sup>3</sup> The Rate Credit consists of two components, and  
2 reflects an increased level of savings in years 6-10 as illustrated in Table No. 2 below.

3 **Table No. 2**

4 **Two-Step Rate Credit Proposal**

	<u>Annual Credit</u> <u>Years 1-5</u>	<u>Annual Credit</u> <u>Years 6-10</u>	<u>Total Credit</u>
7 Total Credit	\$2.65 Million	\$3.65 Million	\$31.50 Million
8 Offsetable Credit	\$1.70 Million	\$2.70 Million	\$22.00 Million

9  
10 The total Rate Credit to customers for the first five years following the closing would  
11 be \$2.65 million per year, and the credit would increase to \$3.65 million per year for the last  
12 five years of the 10-year period. During the 10-year period, the financial benefits of the Rate  
13 Credit will flow through to customers either through a separate tariff schedule or through a  
14 reduction to the underlying cost of service as these benefits are reflected in the test period  
15 numbers used for ratemaking as described more fully below. At the time of the closing, the

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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 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 \$2.65 million benefit will be provided to customers through a separate Rate Credit, as long as  
2 the reduction in costs is not already reflected in base retail rates for Avista's customers.

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

10 The \$31.5 million represents the "floor" of benefits that will be flowed through to  
11 Avista's customers, either through the Rate Credit or through benefits otherwise included in  
12 base retail rates over time. To the extent the identifiable benefits exceed the annual offsetable  
13 Rate Credit amounts, these additional benefits will be flowed through to customers in base  
14 retail rates in general rate cases as they occur. The increase in total benefits to customers for  
15 years 6-10 provide time for Avista and Hydro One to identify and capture an increased level  
16 of benefits, directly related to the Proposed Transaction, that can be flowed through to  
17 customers. As explained earlier, we believe additional efficiencies (benefits) will be realized  
18 over time from the sharing of best practices, technology and innovation between the two  
19 companies. It will take time, however, to identify and capture these benefits. The level of  
20 annual net cost savings (and/or net benefits) will be tracked and reported on an annual basis,  
21 and compared against the offsetable level of savings.

1 Avista and Hydro One are not aware of any net increase in costs to Avista’s customers  
2 related to the Proposed Transaction.<sup>4</sup> Therefore, the annual Rate Credits proposed by the  
3 companies represent an immediate “net benefit” to customers. Mr. Ehrbar explains in his  
4 testimony the manner in which the Rate Credit is proposed to be flowed through to Avista’s  
5 electric and natural gas customers.

6

7 **XII. SATISFACTION OF THE PUBLIC INTEREST AND**  
8 **COMMITMENTS**  
9

10 **Q. What are the standards for approval of the transaction by the**  
11 **Commission?**

12 A. ORS 757.511 requires the Commission's authorization before any person may  
13 directly or indirectly exercise any substantial influence over the policies and actions of a  
14 public utility such as Avista. The Commission must find that the Proposed Transaction will  
15 serve Avista's customers and is in the public interest. As described in this Application, and in  
16 the accompanying testimony, the evidence demonstrates that the Proposed Transaction is in  
17 the public interest and should be approved by the Commission.

18 Moreover, transactions under ORS 757.511 must also satisfy a "net benefits" standard.  
19 Avista and Hydro One have proposed immediate financial “net benefits” for Avista’s  
20 customers, as well as presenting the opportunity for longer-term benefits for customers from  
21 efficiencies gained through best practices, technology and innovation. As explained above,

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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 Avista and Hydro One have proposed immediate financial “net benefits” for Avista’s  
2 customers, as well as presenting the opportunity for longer-term benefits for customers from  
3 efficiencies gained through best practices, technology and innovation.

4 **Q. Please explain why the Proposed Transaction is in the public interest.**

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

18 Avista and Hydro One believe this preservation of Avista’s name, its headquarters, its  
19 culture and its way of doing business, among other things, is important to Avista’s customers,  
20 in that customers can continue to expect and experience reliable service and a high level of  
21 customer satisfaction. In addition, customers will see immediate dollar benefits in the form of  
22 proposed retail rate credits beginning at the closing of the Proposed Transaction, as well as  
23 opportunities for additional longer-term benefits from efficiencies gained through the sharing



1 of best practices, technology and innovation. These immediate and longer-term benefits will  
2 not otherwise occur absent the proposed merger.

3 Following the closing of the Proposed Transaction, the communities Avista serves will  
4 see increased charitable contributions and a continuation of the strong support Avista provides  
5 in economic development and innovation. Furthermore, Avista and Hydro One employees  
6 will see increased opportunities as the two companies pursue efficiencies and innovation  
7 through the use of technology, best practices and business processes.

8 Commitments between the two companies embedded in the Merger Agreement,  
9 including the Delegation of Authority, and the make-up of the post-closing Avista Board of  
10 Directors are all designed to ensure that Avista's culture and its way of doing business can  
11 continue for the indefinite future, for the benefit of customers. Under the Delegation of  
12 Authority, Avista's Board will retain the authority to review, authorize and approve certain  
13 specific matters related to Avista, without any obligation to obtain separate authorization or  
14 approval from the Hydro One Board. These commitments are set forth in Exhibits A and B  
15 of the Merger Agreement, which is attached to Mr. Thies' testimony as Exhibit 303.

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

18 A. Yes. As part of the request for approval of the Proposed Transaction, Hydro  
19 One and Avista are offering other commitments in addition to the Delegation of Authority in  
20 the Merger Agreement. The commitments included in the Application total 55 commitments  
21 offered by Hydro One and Avista related to approval of the Proposed Transaction. The 55  
22 commitments are grouped together into the categories identified below. The master list of all  
23 55 commitments is attached as Exhibit 304 to Mr. Thies' testimony.

- 1           A.     Reservation of Certain Authority to the Avista Board of Directors
- 2                 1.     Governance
- 3                 2.     Business Operations
- 4                 3.     Local Presence/Community Involvement
- 5
- 6           B.     Rate Commitments
- 7
- 8           C.     Regulatory Commitments
- 9
- 10          D.     Financial Integrity Commitments
- 11
- 12          E.     Ring-fencing Commitments
- 13
- 14          F.     Environmental, Renewable Energy, and Energy Efficiency Commitments
- 15
- 16          G.     Community and Low-Income Assistance Commitments

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### **XIII. REQUIRED APPROVALS**

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

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

1 A filing for approval from the Federal Communications Commission will be made  
2 related to Avista's radio licenses. In addition, clearance is required by the Committee on  
3 Foreign Investment in the United States, and compliance with applicable requirements under  
4 the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the  
5 satisfaction of customary closing conditions. Mr. Thies will provide additional details related  
6 to these required approvals.

7 We are anticipating receiving all approvals in a time frame that would allow the  
8 Proposed Transaction to close in the second half 2018.

9

10

#### XIV. CONCLUSION

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

13

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

18

The Proposed Transaction provides benefits to Avista's customers, employees,  
19 shareholders, and the communities Avista serves; including immediate financial benefits to  
20 Avista's customers. Avista and Hydro One have proposed numerous commitments as part of  
21 the Application, including ring fencing commitments and other protections for various  
22 stakeholders.

1           Avista and Hydro One request that the Commission schedule a review of the Proposed  
2 Transaction in a time frame that will allow approval by the Commission on or before August  
3 14, 2018.

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

5           A.     Yes.