

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Joint Application of  
HYDRO ONE LIMITED (acting through  
its indirect subsidiary, Olympus Equity  
LLC)**

**and**

**AVISTA CORPORATION**

**For an Order Authorizing Proposed  
Transaction**

Docket No. U-170970

SETTLEMENT STIPULATION AND  
AGREEMENT

**I. PARTIES**

1. This Settlement Stipulation and Agreement is entered into by and among the following parties in this case: Hydro One Limited (“Hydro One”), acting through Olympus Equity LLC an indirect, wholly-owned subsidiary, and Avista Corporation (“Avista”) (sometimes hereafter jointly referred to as “Joint Applicants” or the “Companies”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Unit of the Washington Office of Attorney General (“Public Counsel”), Northwest Industrial Gas Users (“NWIGU”), Industrial Customers of Northwest Utilities (“ICNU”), The Energy Project, Northwest Energy Coalition (“NWECC”), Renewable Northwest (“RNW”), Natural Resources Defense Council (“NRDC”), Sierra Club, and Washington and Northern Idaho District Council of Laborers (“WNIDCL”), jointly referred to herein as “Parties” and individually as a “Party.”

2. Accordingly, this represents a “full settlement” under WAC 480-07-730(1). The Parties, representing all who have intervened or appeared in these dockets, agree that this

Settlement Stipulation (hereinafter “Settlement” and/or “Stipulation”) is in the public interest and should be accepted by the Commission as a full resolution of the issues in these dockets.

3. The Parties understand this Settlement is subject to review and disposition by the Washington Utilities and Transportation Commission (“Commission”).

## **II. RECITALS**

4. On September 14, 2017, the Joint Applicants filed with the Commission a Joint Application For An Order authorizing Proposed Transaction whereby Olympus Equity LLC would acquire all of the outstanding common stock of Avista, and Avista would thereafter become a direct, wholly-owned subsidiary of Olympus Equity LLC and an indirect, wholly-owned subsidiary of Hydro One (the combination of these transactions is hereafter “Proposed Transaction”).<sup>1</sup>

5. The Commission convened a prehearing conference in this proceeding at Olympia, Washington on October 20, 2017, before Administrative Law Judge Dennis J. Moss. At the prehearing conference, the Commission granted the petitions to intervene by ICNU, NWIGU, The Energy Project, NWECA, RNW, NRDC, and the Sierra Club. The Commission, in Order 03, subsequently granted intervention status to WNIDCL.

6. In accordance with the procedural schedule adopted at the prehearing conference (Order 02), all Parties attended the scheduled settlement conference held in Olympia, Washington, on February 6, 2018. An additional settlement conference was held in Olympia on February 23,

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<sup>1</sup> On July 19, 2017, Avista, a Washington corporation, Hydro One, a Province of Ontario corporation, Olympus Holding Corp. (also referred to hereafter as “US Parent”), a Delaware corporation, and Olympus Corp. (“Merger Sub”), a Washington corporation and an indirect, wholly-owned subsidiary of US Parent, entered into an Agreement and Plan of Merger. Following all approvals, at the effective time on the closing date, Merger Sub will be merged with and into Avista, and the separate existence of Merger Sub shall thereupon cease, and Avista will be the surviving corporation and will become a direct, wholly-owned subsidiary of Olympus Equity LLC and an indirect, wholly-owned subsidiary of Hydro One.

2018. Based on these discussions and related correspondence, the Parties have reached an agreement on proposed commitments (attached as Appendix A to this Settlement Stipulation) that provide a basis upon which the Parties recommend Commission approval of the Proposed Transaction in Washington.

### **III. TERMS OF THE SETTLEMENT STIPULATION**

7. Appendix A to this Stipulation contains the complete list of commitments that the Joint Applicants agree to make upon consummation of the Proposed Transaction (hereinafter referred to as “Commitments”). By virtue of executing this Stipulation, the Joint Applicants agree to perform all of the Commitments set forth in Appendix A according to the provisions of each Commitment as set forth therein.

8. The effective date of the Commitments set forth in Appendix A to this Stipulation shall be the date of the closing of the Proposed Transaction, provided that the date of the Commission’s final order in this matter is the effective date for Commitments requiring Hydro One or its subsidiaries, including Avista, to take action before the closing of the Proposed Transaction.

9. In the process of obtaining approval of the Proposed Transaction in other states, the Commitments may be expanded or modified as a result of regulatory decisions or settlements. The Parties agree that the Commission shall have an opportunity and the authority to consider and adopt in Washington any commitments or conditions with which the Joint Applicants agree in other jurisdictions, even if such commitments and conditions are agreed to after the Commission enters its order in this docket. To facilitate the Commission's consideration and adoption of the commitments and conditions from other jurisdictions, the Parties recommend that the Commission issue an order approving this Stipulation as soon as practical, but reserve in such order the explicit

right to re-open the Commitments set forth in Appendix A in order to reflect commitments and conditions accepted in another state jurisdiction. Commitment 81 (Most Favored Nation) in Appendix A sets forth the process and limitations for addressing changes to commitments agreed to in other jurisdictions.

10. The Parties agree that with the Commitments set forth in Appendix A, the Proposed Transaction meets the net benefit and public interest standards under RCW 80.01.040(3), RCW 80.12.020 and WAC 480-143-170 required for approval in Washington. RCW 80.12.020 provides that Commission approval must be predicated on a finding that the Proposed Transaction would provide a “net benefit” to customers:

**Order required to sell, merge, etc.—Exemption.**

(1) No public service company shall sell, lease, assign or otherwise dispose of the whole or any part of its franchises, properties or facilities whatsoever, which are necessary or useful in the performance of its duties to the public, and no public service company shall, by any means whatsoever, directly or indirectly, merge or consolidate any of its franchises, properties or facilities with any other public service company, without having secured from the commission an order authorizing it to do so. The commission shall not approve any transaction under this section that would result in a person, directly or indirectly, acquiring a controlling interest in a gas or electrical company without a finding that the transaction would provide a net benefit to the customers of the company.

Moreover, RCW 80.01.040(3) directs the Commission to “[r]egulate in the public interest,” and WAC 480-143-170 reiterates that requirement:

**Application in the Public Interest** – If, upon the examination of any application and accompanying exhibits, or upon a hearing concerning the same, the commission finds the proposed transaction is not consistent with the public interest, it shall deny the application.

11. As described in the Commitments to this stipulation and in the Joint Testimony to follow, the evidence demonstrates that the Proposed Transaction is in the public interest and should be approved by the Commission. Furthermore, the Proposed Transaction will provide “net

benefits” for Avista’s customers in Washington, as reflected in the proposed Commitments (attached as Appendix A to this Settlement Stipulation).

12. The Parties agree that, due to tax-related changes made by the Tax Cuts and Jobs Act, H.R. 1 of the 115th Congress, which shall be more fully described in testimony supporting this Stipulation, the Post-Closing Corporate Structure set forth on page 2 of Appendix 1 to the Joint Application should be simplified to eliminate Olympus 1 LLC and Olympus 2 LLC. Accordingly, the Post-Closing Corporate Structure should be as set forth in Appendix B to this Settlement Stipulation. The Parties recognize, however, that parallel changes must be made in the dockets on the Proposed Transaction that are pending in Oregon, Idaho, Montana and Alaska. If one or more of such parallel changes cannot be made, the Parties agree that the Post-Closing Corporate Structure set forth on page 2 of Appendix 1 to the Joint Application is also acceptable. Additionally, if the Tax Cuts and Jobs Act is repealed or amended such that further changes to the Post-Closing Corporate Structure are necessary, the Joint Applicants will propose a revised corporate structure, subject to Commission approval.

13. The Joint Applicants acknowledge that the Commission's approval of the Stipulation, the Commitments, or the Joint Application shall not bind the Commission in other proceedings with respect to the determination of prudence, just and reasonable character, rate or ratemaking treatment, or public interest of services, accounts, costs, investments, any particular construction project, expenditures, or actions referenced in the Commitments.

14. The Parties therefore agree to support this Stipulation as a settlement of all issues in this proceeding and to recommend approval of the Proposed Transaction in this proceeding subject to the agreed-upon Commitments. The Parties understand that this Stipulation is not binding on the Commission in ruling on the Joint Application.

15. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. By executing this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Stipulation, nor shall any Party be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except those proceedings involving the enforcement or implementation of the terms of this Stipulation.

16. The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance, and shall cooperate in developing supporting testimony required by WAC 480-07-740(2). The Parties agree to support the Stipulation throughout this proceeding, provide one or more witnesses each to sponsor such Stipulation as well as legal representatives to support the Stipulation at a Commission hearing (if necessary), and recommend that the Commission issue an order adopting the Commitments referenced herein. In the event the Commission rejects this Stipulation or accepts this Stipulation upon conditions not contained herein, the provisions of WAC 480-07-750(2) shall apply.

17. Each Party retains the right to provide information to the public about this Settlement Stipulation, after this Settlement Stipulation is filed with the Commission. Each Party shall provide to each other Party a copy of each public announcement, news release or similar communication (hereafter “public communication”) that the issuing Party intends to make regarding this Settlement Stipulation, as soon as practicable in advance of publication (hereafter “disclosure requirement”). The disclosure requirement shall not apply to a Party that has provided

a copy of a public communication addressing the Settlement Stipulation to other Parties prior to filing the Settlement Stipulation.

18. This Stipulation is entered into by each Party as of the date entered below. Subject to Paragraph 19, the obligations of the Parties under this Stipulation are effective as of the date it has been fully executed by all Parties.

19. The obligations of the Joint Applicants under this Stipulation, with the exception of paragraphs 14 through 18, are subject to the Commission's approval of the Joint Application in this docket on terms and conditions acceptable to the Joint Applicants, in their sole discretion.

20. The Parties may execute this Stipulation in counterparts, which together will constitute one agreement. A signed signature page sent by email is as effective as an original document.

DATED: March 27, 2018

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Kari Vander Stoep, Partner, K&L Gates LLP  
On Behalf of Hydro One Limited and  
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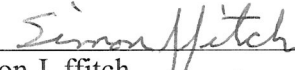
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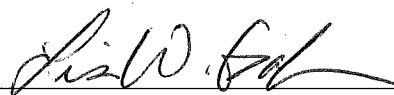
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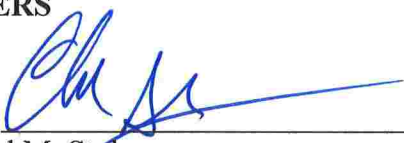
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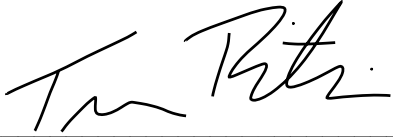
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**MASTER LIST OF COMMITMENTS IN WASHINGTON**

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## A. Reservation of Certain Authority to the Avista Board of Directors

1. **Authority Reserved:** Consistent with and subject to the terms of Exhibits A and B to the Merger Agreement (referred to as “Delegation of Authority”) contained in Appendix 5 of the Joint Application, decision-making authority over commitments 2-15 below is reserved to the Board of Directors of Avista Corporation (“Avista”) and any change to the policies stated in commitments 2-15 requires a two-thirds (2/3) vote of the Avista Board, provided that Avista must obtain approval for such changes from all regulatory bodies with jurisdiction over the Commitments before such changes can go into effect, and provide written notice to all parties to Docket U-170970 of such request for approval:

### Governance

2. **Executive Management:** Avista will seek to retain all current executive management of Avista, subject to voluntary retirements that may occur. This commitment will not limit Avista’s ability to determine its organizational structure and select and retain personnel best able to meet Avista’s needs over time. The Avista board retains the ability to dismiss executive management of Avista and other Avista personnel for standard corporate reasons (subject to the approval of Hydro One Limited (“Hydro One”) for any hiring, dismissal or replacement of the CEO);
3. **Board of Directors:** After the closing of the Proposed Transaction, Avista’s board will consist of nine (9) members, determined as follows: (i) two (2) directors designated by Hydro One who are executives of Hydro One or any of its subsidiaries; (ii) three (3) directors who meet the standards for “independent directors” - under section 303A.02 of the New York Stock Exchange Listed Company Manual (the “Independent Directors”) and who are residents of the Pacific Northwest region, to be designated by Hydro One (collectively, the directors designated in clauses (i) and (ii) hereof, the “Hydro One Designees”), subject to the provisions of Clause 2 of Exhibit A to the Merger Agreement; (iii) three (3) directors who as of immediately prior to the closing of the Proposed Transaction<sup>1</sup> are members of the Board of Directors of Avista, including the Chairman of Avista’s Board of Directors (if such person is different from the Chief Executive Officer of Avista); and (iv) Avista’s Chief Executive Officer (collectively, the directors designated in clauses (iii) and (iv) hereof, the “Avista Designees”). The initial Chairman of Avista’s post-closing Board of Directors shall be the Chief Executive Officer of Avista as of the time immediately prior to closing for a one year term. If any Avista Designee resigns, retires or otherwise ceases to serve as a director of Avista for any reason, the remaining Avista

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<sup>1</sup> “Proposed Transaction” means the transaction proposed in the Joint Application of Avista and Hydro One filed on September 14, 2017.

Designees shall have the sole right to nominate a replacement director to fill such vacancy, and such person shall thereafter become an Avista Designee.

The term “Pacific Northwest region” means the Pacific Northwest states in which Avista serves retail electric or natural gas customers, currently Alaska, Idaho, Montana, Oregon and Washington;

### **Business Operations**

4. **Avista’s Brand and Plan for the Operation of the Business:** Avista will maintain Avista’s brand and Avista will establish the plan for the operation of the business and its Subsidiaries;
5. **Capital Investment for Economic Development:** Avista will maintain its existing levels of capital allocations for capital investment in strategic and economic development items, including property acquisitions in the university district, support of local entrepreneurs and seed-stage investments;
6. **Continued Innovation:** Avista will continue development and funding of its and its subsidiaries’ innovation activities;
7. **Union Relationships:** Avista will honor its labor contracts and has the authority to negotiate, enter into, modify, amend, terminate or agree to changes in any collective bargaining agreement or any of Avista’s other material contracts with any labor organizations, union employees or their representatives;
8. **Compensation and Benefits:** Avista will maintain compensation and benefits related practices consistent with the requirements of the Merger Agreement;

### **Local Presence/Community Involvement**

9. **Avista’s Headquarters:** Avista will maintain (a) its headquarters in Spokane, Washington; (b) Avista’s office locations in each of its other service territories, and (c) no less of a significant presence in the immediate location of each of such office locations than what Avista and its subsidiaries maintained immediately prior to completion of the Proposed Transaction;
10. **Local Staffing:** Avista will maintain Avista Utilities’ staffing and presence in the communities in which Avista operates at levels sufficient to maintain the provision of safe and reliable service and cost-effective operations and consistent with pre-acquisition levels;
11. **Community Contributions:** For five years after the close of the Proposed Transaction, Avista will maintain a \$4,000,000 annual budget for charitable contributions (funded by both Avista and the Avista Foundation) and additionally a \$2,000,000 annual contribution will be made to Avista’s charitable foundation. No approval from any regulatory bodies with jurisdiction over the Commitments is required for any changes to this commitment from and after the sixth year

following closing; however any such changes will continue to require a two-thirds (2/3) vote of the Avista Board;<sup>2</sup>

12. **Community Involvement:** Avista will maintain at least Avista's existing levels of community involvement and support initiatives in its service territories; including involvement with tribes and low-income service agencies and support initiatives;
13. **Economic Development:** Avista will maintain at least Avista's existing levels of economic development, including the ability of Avista to spend operations and maintenance funds<sup>3</sup> to support regional economic development and related strategic opportunities in a manner consistent with Avista's past practices;
14. **Membership Organizations:** Avista will maintain the dues paid by it to various industry trade groups and membership organizations; and
15. **Safety and Reliability Standards and Service Quality Measures:** Avista will maintain Avista's safety and reliability standards and policies and service quality measures in a manner that is substantially comparable to, or better than, those currently maintained.

Avista will not seek to remove or reduce existing penalty provisions associated with its safety, reliability, or service quality measures for 10 years after the merger.

If the 5-year rolling average of SAIFI or SAIDI in Washington exceeds 107.5% of the average of their respective scores from 2013 to 2017 (excluding Major Event Days (MEDs), consistent with Avista's service quality program, tariff schedule 85), Hydro One and Avista commit to increase the rate credit for Washington electric customers by \$250,000 per year. This increased rate credit will persist until the 5-year rolling average is less than the threshold stated above.

## B. Rate Commitments

16. **Treatment of Net Cost Savings:** Any net cost savings that Avista may achieve as a result of the Proposed Transaction will be reflected in subsequent rate proceedings, as such savings materialize. To the extent the savings are reflected in base retail rates they will offset the Rate Credit to customers, up to the offsetable portion of the Rate Credit.

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<sup>2</sup> Note that Commitment 64 contains an additional commitment relating to charitable contributions; pursuant to that commitment Hydro One will cause Avista to make a one-time contribution of \$7,000,000 to Avista's charitable foundation at or promptly following closing of the Proposed Transaction.

<sup>3</sup> Operations and maintenance funds dedicated to economic development and non-utility strategic opportunities will be recorded below-the-line to a nonoperating account.

17. **Pre-Transaction Test Year:** The parties agree to the following provisions for ratemaking purposes.
- a. If Avista files for a rate case between the conclusion of Dockets UE-170485 and UG-170486 and December 31, 2018, Avista will present a normalized test year using the most recent 12-month period available.
  - b. If Avista files for a rate case between January 1, 2019, and April 30, 2019, Avista must use a normalized test year of October 1, 2017 – September 30, 2018.
  - c. If Avista files for a rate case between May 1, 2019, and April 30, 2021, Avista must present two normalized test years, (1) October 1, 2017 – September 30, 2018 for informational purposes, and (2) the most recent 12-month period available.
18. **Treatment of Transaction Costs:**
- a. Costs associated with the Proposed Transaction will be separately tracked as non-utility costs with no charges, either allocated or direct, to be recovered from Avista customers. After the consummation of the Proposed Transaction, any remaining transaction costs or other costs of Olympus Holding Corp. or Hydro One will not appear on Avista's utility books, i.e. such costs will be recorded as non-utility. Avista shall furnish the Commission with journal entries and supporting detail showing the nature and amount of all costs of the Proposed Transaction (including but not limited to management time, BOD time, in-house and outside counsel time, any consultants engaged, etc.) since the Proposed Transaction was first contemplated, as well as the accounts charged, within 120 days of a Commission order in this docket.
  - b. Avista will exclude from Avista general rate cases, or any other method of cost recovery, all costs related to the Proposed Transaction including but not limited to: (i) all legal work from in-house counsel and outside counsel; (ii) any financial advisory fees associated with the Proposed Transaction; (iii) the acquisition premium; (iv) costs related to M&A consulting and advice (v) preparation of and materials for presentations relating to the Proposed Transaction (vi) any senior executive compensation or any Avista board of director time tied to a change of control of Avista; (vii) any other costs directly related to the Proposed Transaction.
19. **Rate Credits:** Avista and Hydro One are proposing to flow through to Avista's retail customers in Washington a Rate Credit of approximately \$30.7 million<sup>4</sup> over

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<sup>4</sup> The exact agreed-upon figure is \$30,715,050, which is equal to 5% of the Washington base revenue as of 02/01/18. Washington electric base revenue is \$492,134,000, and Washington natural gas base revenue (including natural gas costs – Schedules 150/155) is \$122,167,000. Five percent of those revenues are \$24,606,700 (electric) and \$6,108,350 (natural gas).

a 5-year period, beginning at the time the merger closes. For customers on Schedule 25, the credit will be spread by allocating 1/3 of the total Schedule 25 credit monies to the first two energy blocks and 2/3 of the total credit monies to the third block.

The Total Rate Credit to customers for the five years following the closing will be approximately \$6.1 million<sup>5</sup> per year. A portion of the annual total Rate Credit will be offsetable, in the amount of \$1.02 million<sup>6</sup>. During the 5-year period the financial benefits will be flowed through to customers either through the separate Rate Credit described above or through a reduction to the underlying cost of service as these benefits are reflected in the test period numbers used for ratemaking. At the time of the close, the \$6.1 million benefit will be provided to customers through a separate Rate Credit, as long as the reduction in costs (of up to \$1.02 million annually) has not already been reflected in base retail rates for Avista's customers.

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

The \$30.7 million represents the "floor" of benefits that will be flowed through to Avista's customers, either through the Rate Credit or through benefits otherwise included in base retail rates. To the extent the identifiable benefits exceed the annual offsetable Rate Credit amounts, these additional benefits will be flowed through to customers in base retail rates in general rate cases as they occur. Avista and Hydro One believe additional efficiencies (benefits) will be realized over time from the sharing of best practices, technology and innovation between the two companies. It will take time, however, to identify and capture these benefits. The level of annual net cost savings (and/or net benefits) will be tracked and reported on an annual basis, and compared against the offsetable level of savings.

Any application of offsetable savings will be reviewed by the Commission before the offset is applied, and Avista bears the burden of proof to prove that savings have materialized and the offset to rate credits should apply.

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<sup>5</sup> The exact amount agreed upon is \$6,143,010 per year. The annual Washington electric Rate Credit for each of the five years is \$4,921,340. The annual Washington natural gas Rate Credit for each of the five years is \$1,221,670.

<sup>6</sup> The offsetable portion of the Rate Credit is calculated using a pro rata share of the jurisdictional total of the rate credit (i.e. Washington's share of the offsetable Rate Credit is 60.29%, therefore Washington's share of the \$1.7 million offsetable portion is \$1.02 million).



### C. Regulatory Commitments

20. **State Regulatory Authority and Jurisdiction:** Olympus Holding Corp. and its subsidiaries, including Avista, as appropriate, will comply with all applicable laws, including those pertaining to transfers of property (Chapter 80.12), affiliated interests (Chapter 80.16), and securities and the assumption of obligations and liabilities (Chapter 80.08).
21. **Compliance with Existing Commission Orders:** Olympus Holding Corp. and its subsidiaries, including Avista, acknowledge that all existing orders issued by the Commission with respect to Avista or its predecessor, Washington Water Power Co., will remain in effect, and are not modified or otherwise affected by the Proposed Transaction.

Olympus Holding Corp. and its subsidiaries, including Avista, will comply with all applicable future Commission orders that remain in force.

22. **Separate Books and Records:** Avista will maintain separate books and records from its affiliates.
23. **Access to and Maintenance of Books and Records:** Olympus Holding Corp. and its subsidiaries, including Avista, will provide reasonable access to Avista's books and records; access to financial information and filings; access rights with respect to the documents supporting any costs that may be allocable to Avista; and access to Avista's board minutes, audit reports, and information provided to credit rating agencies pertaining to Avista.

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

The Proposed Transaction will not result in reduced access to the necessary books and records that relate to transactions with Avista, or that result in costs that may be allocable to Avista. Avista will provide Commission Staff and other parties to regulatory proceedings reasonable access to books and records (including those of Olympus Holding Corp. or any affiliate or subsidiary companies) required to verify or examine transactions with Avista, or that result in costs that may be allocable to Avista.

Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of Avista's accounts, books, papers and documents in compliance with all applicable laws. Nothing in the Proposed Transaction will limit or affect the Commission's rights with respect to inspection of Olympus Holding Corp.'s accounts, books, papers and documents pursuant to all applicable laws; provided, that such right to inspection shall be limited to Olympus Holding Corp.'s accounts, books, papers and documents that pertain solely to transactions affecting Avista's regulated utility operations.

Olympus Holding Corp. and its subsidiaries, including Avista, will provide the Commission with access to written information provided by and to credit rating agencies that pertains to Avista. Olympus Holding Corp. and each of its subsidiaries will also provide the Commission with access to written information provided by and to credit rating agencies that pertains to Olympus Holding Corp.'s subsidiaries to the extent such information may affect Avista.

Hydro One and its affiliates agree that the Commission may have access to all the accounting records of Hydro One and its affiliates that are the bases for charges to Avista, to determine the reasonableness of the costs and the allocation factors used by Hydro One and its affiliates, or its subdivisions to assign costs to Avista and amounts subject to allocation or direct charges. Hydro One and its affiliates agree that they will not raise lack of jurisdiction as a means of denying such access, and agree to cooperate fully with such Commission investigations.

24. **Cost Allocations Related to Corporate Structure and Affiliate Interests:** Avista agrees to provide cost allocation methodologies used to allocate to Avista any costs related to Olympus Holding Corp. or its other subsidiaries, and commits that there will be no cross-subsidization by Avista customers of unregulated activities.

The cost-allocation methodology provided pursuant to this commitment will be a generic methodology that does not require Commission approval prior to it being proposed for specific application in a general rate case or other proceeding affecting rates.

Avista will bear the burden of proof in any general rate case that any corporate and affiliate cost allocation methodology is reasonable for ratemaking purposes. Neither Avista nor Olympus Holding Corp. or its subsidiaries will contest the Commission's authority to disallow, for retail ratemaking purposes in a general rate case, unreasonable, or misallocated costs from or to Avista or Olympus Holding Corp or its other subsidiaries.

With respect to the ratemaking treatment of affiliate transactions affecting Avista, Hydro One, and Olympus Holding Corp. and its subsidiaries, as applicable, will comply with the Commission's then-existing practice; provided, however, that nothing in this commitment limits Avista from also proposing a different ratemaking treatment for the Commission's consideration, or limit the positions any other party may take with respect to ratemaking treatment.

Avista will notify the Commission of any change in corporate structure that affects Avista's corporate and affiliate cost allocation methodologies. Avista will propose revisions to such cost allocation methodologies to accommodate such changes. Avista will not take the position that compliance with this provision constitutes approval by the Commission of a particular methodology for corporate and affiliate cost allocation.

25. **Ratemaking Cost of Debt and Equity:** Avista will not advocate for a higher cost of debt or equity capital as compared to what Avista's cost of debt or equity capital would have been absent Hydro One's ownership.

For future ratemaking purposes:

- a. Determination of Avista's debt costs will be no higher than such costs would have been assuming Avista's credit ratings by at least one industry recognized rating agency, including, but not limited to, S&P, Moody's, Fitch or Morningstar, as such ratings in effect on the day before the Proposed Transaction closes and applying those credit ratings to then-current debt, unless Avista proves that a lower credit rating is caused by circumstances or developments not the result of financial risks or other characteristics of the Proposed Transaction;
  - b. Avista bears the burden to prove prudent in a future general rate case any pre-payment premium or increased cost of debt associated with existing Avista debt retired, repaid, or replaced as a part of the Proposed Transaction; and
  - c. Determination of the allowed return on equity in future general rate cases will include selection and use of one or more proxy group(s) of companies engaged in businesses substantially similar to Avista, without any limitation related to Avista's ownership structure.
26. **Avista Capital Structure:** At all times following the closing of the Proposed Transaction, Avista's actual common equity ratio will be maintained at a level no less than 44 percent. This commitment does not restrict the Commission from ordering a hypothetical capital structure.
27. **FERC Reporting Requirements:** Avista will continue to meet all the applicable FERC reporting requirements with respect to annual and quarterly reports (e.g., FERC Forms 1, 2, 3q) after closing of the Proposed Transaction.
28. **Participation in National and Regional Forums:** Avista will continue to participate, where appropriate, in national and regional forums regarding transmission issues, pricing policies, siting requirements, and interconnection and integration policies, when necessary to protect the interest of its customers.
29. **Treatment of Confidential Information:** Nothing in these commitments will be interpreted as a waiver of Hydro One's, its subsidiaries', or Avista's rights to request confidential treatment of information that is the subject of any of these commitments.
30. **Commission Enforcement of Commitments:** Hydro One and its subsidiaries, including Avista, understand that the Commission has authority to enforce these commitments in accordance with their terms. If there is a violation of the terms of these commitments, then the offending party may, at the discretion of the Commission, have a period of thirty (30) calendar days to cure such violation.

The scope of this commitment includes the authority of the Commission to compel the attendance of witnesses from Olympus Holding Corp. and its affiliates, including Hydro One, with pertinent information on matters affecting Avista. Olympus Holding Corp. and its subsidiaries waive their rights to interpose any legal objection they might otherwise have to the Commission's jurisdiction to require the appearance of any such witnesses.

31. **Submittal to State Court Jurisdiction for Enforcement of Commission Orders:** Olympus Holding Corp., on its own and its subsidiaries' behalf, including Avista's, will file with the Commission prior to closing the Proposed Transaction an affidavit affirming that it will submit to the jurisdiction of the relevant state courts for enforcement of the Commission's orders adopting these commitments and subsequent orders affecting Avista.
32. **Annual Report on Commitments:** By May 1, 2019 and each May 1 thereafter through May 1, 2029, Avista will file a report with the Commission regarding the status of compliance with each of the commitments as of December 31 of the preceding year. The report will, at a minimum, provide a description of the performance of each of the commitments, will be filed in Docket U-170970 and served to all parties to the docket. If any commitment is not being met, relative to the specific terms of the commitment, the report must provide proposed corrective measures and target dates for completion of such measures. Avista will make publicly available at the Commission non-confidential portions of the report.
33. **Commitments Binding:** Hydro One, Olympus Holding Corp. and its subsidiaries, including Avista, acknowledge that the commitments being made by them are binding only upon them and their affiliates where noted, and their successors in interest. Hydro One and Avista are not requesting in this proceeding a determination of the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions referenced in the commitments, and the parties in appropriate proceedings may take such positions regarding the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions as they deem appropriate.

If Hydro One or any other entity in the chain of Avista's ownership determines that Avista or any other entity has failed to comply with an applicable Commitment, the entity making such determinations shall take all appropriate actions to achieve compliance with the Commitment.

#### **D. Financial Integrity Commitments**

34. **Capital Structure Support:** Hydro One will provide equity to support Avista's capital structure that is designed to allow Avista access to debt financing under reasonable terms and on a sustainable basis.

35. **Utility-Level Debt and Preferred Stock:** Avista will maintain separate debt and preferred stock, if any, to support its utility operations.
36. **Continued Credit Ratings:** Each of Hydro One and Avista will continue to be rated by at least one nationally recognized statistical “Rating Agency.” Hydro One and Avista will use reasonable best efforts to obtain and maintain a separate credit rating for Avista from at least one Rating Agency within the ninety (90) days following the closing of the Proposed Transaction. If Hydro One and Avista are unable to obtain or maintain the separate rating for Avista, they will make a filing with the Commission explaining the basis for their failure to obtain or maintain such separate credit rating for Avista, and parties to this proceeding will have an opportunity to participate and propose additional commitments.
37. **Credit Ratings Notification:** Hydro One and Avista agree to notify the Commission within two business days of any downgrade of Avista’s credit rating to a non-investment grade status by S&P, Moody’s, or any other such ratings agency that issues such ratings with respect to Avista.
38. **Restrictions on Upward Dividends and Distributions:**
- a. If either (i) Avista’s corporate credit/issuer rating as determined by both Moody’s and S&P, or their successors, is investment grade, or (ii) the ratio of Avista’s EBITDA to Avista’s interest expense is greater than or equal to 3.0, then distributions from Avista to Olympus Equity LLC shall not be limited so long as Avista’s equity ratio is equal to or greater than 44 percent on the date of such Avista distribution after giving effect to such Avista distribution, except to the extent the Commission establishes a lower equity ratio for ratemaking purposes. Both the EBITDA and equity ratio shall be calculated on the same basis that such calculations would be made for ratemaking purposes for regulated utility operations.
  - b. Under any other circumstances, distributions from Avista to Olympus Equity LLC are allowed only with prior Commission approval.
  - c. If Avista does not have an investment-grade rating from both Moody’s and S&P, or from one of these entities, or its successor, if only one issues ratings with respect to Avista, and the ratio of EBITDA to Avista’s interest expense is less than 3.0, no dividend distribution to Olympus Equity LLC or its successors will occur.
39. **Pension Funding:** Avista will maintain its pension funding policy in accordance with sound actuarial practice. Hydro One will not seek to change Avista’s pension funding policy.
40. **SEC Reporting Requirements:** Following the closing of the Proposed Transaction, Avista will file required reports with the SEC.

41. **Compliance with the Sarbanes-Oxley Act:** Following the closing of the Proposed Transaction, Avista will comply with applicable requirements of the Sarbanes-Oxley Act.

#### **E. Ring-Fencing Commitments**

42. **Golden Share:** Entering into voluntary bankruptcy shall require the affirmative vote of a “Golden Share” of Avista stock. The Golden Share shall mean the sole share of Preferred Stock of Avista as authorized by the Commission. This share of Preferred Stock must be in the custody of an independent third-party, where the third-party has no financial stake, affiliation, relationship, interest, or tie to Avista or any of its affiliates, or any lender to Avista, or any of its affiliates. This requirement does not preclude the third-party from holding an index fund or mutual fund with negligible interests in Avista or any of its affiliates. In matters of voluntary bankruptcy, this Golden Share will override all other outstanding shares of all types or classes of stock.
43. **Independent Directors:** At least one of the nine members of the board of directors of Avista will be an independent director who is not a member, stockholder, director (except as an independent director of Avista or Olympus Equity LLC), officer, or employee of Hydro One or its affiliates. At least one of the members of the board of directors of Olympus Equity LLC will be an independent director who is not a member, stockholder, director (except as an independent director of Olympus Equity LLC or Avista), officer, or employee of Hydro One or its affiliates. The same individual may serve as an independent director of both Avista and Olympus Equity LLC. The organizational documents for Avista will not permit Avista, without the consent of a two-thirds majority of all its directors, including the affirmative vote of the independent director at Avista (or if at that time Avista has more than one independent director, the affirmative vote of at least one of Avista’s independent directors), to consent to the institution of bankruptcy proceedings or the inclusion of Avista in bankruptcy proceedings. In addition to an affirmative vote of this independent director, the vote of the Golden Share shall also be required for Avista to enter into a voluntary bankruptcy.
44. **Non-Consolidation Opinion:**
- a. Within ninety (90) days of the Proposed Transaction closing, Avista and Olympus Holding Corp. will file a non-consolidation opinion with the Commission which concludes, subject to customary assumptions and exceptions, that the ring-fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of Avista with those of Olympus Holding Corp. or its affiliates or subsidiaries (other than Avista and its subsidiaries).
  - b. Hydro One and Olympus Holding Corp. must file an affidavit with the Commission stating that neither Hydro One, Olympus Holding Corp. nor any of their subsidiaries, will seek to include Avista in a bankruptcy without the

consent of a two-thirds majority of Avista's board of directors including the affirmative vote of Avista's independent director, or, if at that time Avista has more than one independent director, the affirmative vote of at least one of Avista's independent directors.

- c. If the ring-fencing provisions in these commitments are not sufficient to obtain a non-consolidation opinion, Olympus Holding Corp. and Avista agree to promptly undertake the following actions:
    - i. Notify the Commission of this inability to obtain a non-consolidation opinion.
    - ii. Propose and implement, upon Commission approval, such additional ring-fencing provisions around Avista as are sufficient to obtain a non-consolidation opinion subject to customary assumptions and exceptions.
    - iii. Obtain a non-consolidation opinion.
45. **Olympus Equity LLC:** Olympus Holding Corp.'s indirect subsidiaries will include Olympus Equity LLC and Avista. See the post-acquisition organizational chart in Appendix B to the Settlement Stipulation. Following closing of the Proposed Transaction, all of the common stock of Avista will be owned by Olympus Equity LLC, a new Delaware limited liability company. Olympus Equity LLC will be a bankruptcy-remote special purpose entity, and will not have debt.
46. **Restriction on Pledge of Utility Assets:** Avista agrees to prohibitions against loans or pledges of utility assets to Hydro One, Olympus Holding Corp., or any of their subsidiaries or affiliates, without Commission approval. In addition, the Applicants agree that Avista's assets will not be pledged by Avista or any of its affiliates, including Hydro One and Olympus Holding Corp. and any of their subsidiaries or affiliates, for the benefit of any entity other than Avista.
47. **Hold Harmless; Notice to Lenders; Restriction on Acquisitions and Dispositions:**
- a. Avista will hold Avista customers harmless from any business and financial risk exposures associated with Olympus Holding Corp., Hydro One, and Hydro One's other affiliates.
  - b. Pursuant to this commitment, Avista and Olympus Holding Corp. will file with the Commission, prior to closing of the Proposed Transaction, a form of notice to prospective lenders describing the ring-fencing provisions included in these commitments stating that these provisions provide no recourse to Avista assets as collateral or security for debt issued by Hydro One or any of its subsidiaries, other than Avista.
  - c. In furtherance of this commitment:

- i. Avista commits that Avista's regulated utility customers will be held harmless from the liabilities of any unregulated activity of Avista or Hydro One and its affiliates. In any proceeding before the Commission involving rates of Avista, the fair rate of return for Avista will be determined without regard to any adverse consequences that are demonstrated to be attributable to unregulated activities. Measures providing for separate financial and accounting treatment will be established for each unregulated activity.
- ii. Olympus Holding Corp. and Avista will notify the Commission subsequent to Olympus Holding Corp.'s board approval and as soon as practicable following any public announcement of: (1) any acquisition by Olympus Holding Corp. of a regulated or unregulated business that is equivalent to five (5) percent or more of the capitalization of Avista; or (2) any change in control or ownership of Avista, except that the notice of a change to the upstream ownership of Avista or Olympus Holding Corp. among wholly owned subsidiaries of Hydro One may be provided in either an updated organizational chart included in the annual report filing described in Commitment 32 or in a separate notice filing. Notice pursuant to this provision is not and will not be deemed an admission or expansion of the Commission's authority or jurisdiction over any transaction or in any matter or proceeding whatsoever.

Within sixty (60) days following the notice required by this subsection (c)(ii)(2), Avista and Olympus Holding Corp. or its affiliates, as appropriate, will seek Commission approval of any sale or transfer of any material part of Avista, or of any transaction or series of transactions, regardless of size, that would result in a person or entity, other than a wholly owned subsidiary of Hydro One, directly or indirectly, acquiring a controlling interest in Avista or Olympus Holding Corp. The term "material part of Avista" means any sale or transfer of stock representing ten percent (10%) or more of the equity ownership of Avista.

- iii. Neither Avista nor Olympus Holding Corp. will assert in any future proceedings that, by virtue of the Proposed Transaction and the resulting corporate structure, the Commission is without jurisdiction over any transaction that results in a change of control of Avista.
- d. If and when any subsidiary of Avista becomes a subsidiary of Hydro One or one of its subsidiaries other than Avista, Avista will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth Avista's proposed corporate and affiliate cost allocation methodologies.



48. **Olympus Holding Corp. and Olympus Equity LLC Sub-entities:** Olympus Holding Corp. will not operate or own any business and will limit its activities to investing in and attending to its shareholdings in Olympus Equity LLC, which, in turn, will not operate or own any business and will limit its activities to investing in and attending to its shareholdings in Avista.
49. **No Amendment of Ring-Fencing Provisions:** Hydro One, Olympus Holding Corp. and Avista commit that no material amendments, revisions or modifications will be made to the ring-fencing provisions as specified in these regulatory commitments without prior Commission approval pursuant to a limited re-opener for the sole purpose of addressing the ring-fencing provisions.
50. **No Inter Company Debt:** Avista will notify the Commission before entering into any inter-company debt transactions with Olympus Holding Corp., Hydro One, or any of their subsidiaries or affiliates.
51. **No Inter Company Lending:** Without prior Commission approval, Avista will not lend money to Olympus Holding Corp., Hydro One, or any of their subsidiaries or affiliates.

#### **F. Environmental, Renewable Energy, and Energy Efficiency Commitments**

52. **Renewable Portfolio Standard Requirements:** Hydro One acknowledges Avista's obligations under applicable renewable portfolio standards, and Avista will continue to comply with such obligations.

Avista will acquire all renewable energy resources required by law and such other renewable energy resources as may from time to time be deemed advisable in accordance with Avista's integrated resource planning ("IRP") process and applicable regulations.

53. **Renewable Energy Resources:**

Avista's non-fossil fueled generation resources constitute more than 50% of its generation portfolio, and Avista exceeds the renewable energy standards currently applicable to the company under RCW 19.285.040(2).

Avista makes the following renewable energy commitments. Both commitments are made only to the extent resources are reasonably commercially available and are (1) necessary to meet load and (2) consistent with the lowest reasonable cost resource portfolio pursuant to Avista's established IRP and pursuant to the Commission's resource evaluation and acquisition rules and policies.

- a. Avista will commit to initiating a Request for Proposal with the intent of acquiring additional eligible renewable energy resources as part of this process above and beyond the current renewable energy standards in law. Avista will commit to obtain approximately 50 aMW of expected energy from new eligible renewable resources by 2022. The aMW obtained under this commitment may

be used to satisfy any increase that may be caused by changes to the renewable energy standards in law after the date an Order approving this merger has been entered.

- b. Avista will commit to obtain at least 90 aMW of expected energy from new eligible renewables resources to become operational approximately within a year of the timeframe that Colstrip 3 and 4 go offline.

“Resources” is understood to include Power Purchase Agreements (“PPAs”). Nothing in either commitment prohibits Avista from retaining or selling renewable energy credits associated with such resources that are surplus to Avista’s needs to meet Washington Renewable Portfolio Standards targets.

Communications with customers shall accurately reflect the environmental attributes associated with power delivered to such customers. Hydro One and Avista acknowledge that Avista retains the burden of proof to demonstrate the prudence of any resource acquisition.

The utility should work with an independent third-party consultant, with expertise in renewable energy resources, to ensure that the utility has up-to-date resource cost and performance assumptions, as well as the appropriate learning curves

- 54. **Greenhouse Gas and Carbon Initiatives:** Hydro One acknowledges Avista’s Greenhouse Gas and Carbon Initiatives contained in its current Integrated Resource Plan, and Avista will continue to work with interested parties on such initiatives.
- 55. **Cost of Greenhouse Gas Emissions:** Unless it conflicts with any instructions contained in the Commission’s acknowledgement letter in response to Avista’s current integrated resource plan (IRP), beginning with the next IRP, Avista commits to modeling a range of potential costs for greenhouse gas emissions, and will work with its IRP Advisory Group to determine the appropriate values to model.
- 56. **Greenhouse Gas Inventory Report:** Avista will report greenhouse gas emissions as required.
- 57. **Efficiency Goals and Objectives:** Hydro One acknowledges Avista’s energy efficiency goals and objectives set forth in Avista’s 2017 Integrated Resource Plan and other plans, and Avista will continue its ongoing collaborative efforts to expand and enhance them.
- 58. **Optional Renewable Power Program:** Avista will continue to offer renewable power programs in consultation with stakeholders.
- 59. **Energy Imbalance Market (“EIM”):** Avista is currently refreshing its EIM analysis and will release it publicly by the end of 2018. Avista commits to hold

workshops with the Commission and interested stakeholders to review the analysis and discuss the prudent next steps.

60. **Regulatory Integrated Resource Planning (IRP) Sideboards:** Avista commits to calculating a variable generation resource's contribution to capacity in terms of that resource's contribution to resource adequacy and that resource's ability to reduce the loss of load probability in some or all hours or days utilizing the Effective Load Carrying Capability ("ELCC") methodology or an appropriate approximation.
61. **Industrial Customers' Self Direct Conservation:** Avista shall provide a one-time self-direct option for a large conservation project. The project shall have a capital cost of at least \$15 million but no more than \$30 million and must be commenced within five years of closing of the merger. After applying available incentive funding through Avista's Schedule 91, Avista shall finance the remaining capital cost of the project. The customer that pursues the conservation project shall repay the financed portion of the project, including a carrying charge equal to Avista's rate of return, through its Schedule 91 charges until full amortization. In the event that the customer defaults or ceases operations prior to full amortization of the Avista-financed amount, the remaining balance will be recovered through Schedule 25 contributions to Schedule 91 until such time as the remaining balance is fully amortized. No other customers will be impacted financially from this commitment and all customers will benefit from the increased energy efficiency acquisition.
62. **Transport Electrification:** Avista commits and Hydro One agrees that Avista commits, to expanding access to transportation electrification for all customers. As part of the long-term electric vehicle supply equipment (EVSE) program that Avista is developing following the completion of its pilot under UE-160082, the Joint Applicants commit to setting internal goals and objectives for Avista, in coordination with the Joint Utility Electric Vehicle Stakeholder Group, that do the following:
  - Significantly increase outreach and education to customers about the benefits of electric vehicle ownership and use.
  - Ensure engagement with low-income customers and organizations that serve low-income customers fully enables participation by these customers and addresses historical issues of participation.
  - Significantly increase EVSE program components that serve and benefit low-income residential customers, with a goal of 30% of residential program funds being dedicated to projects that serve low-income customers.
  - Overcome barriers for EVSE siting with small business customers.

- Implement incentives that minimize or fully eliminate the cost of EVSE for customers.
63. **Professional Home Energy Audit:** Avista commits to provide home energy audits to 2,000 homes at \$300 per home, over a 10-year period, in Washington. Hydro One will arrange total funding of \$600,000 for this commitment. With more robust data available after the installation of AMI, Hydro One and Avista agree to revisit this commitment to determine if the number of homes served could be expanded.

#### **G. Community and Low-Income Assistance Commitments**

64. **Community Contributions:** Hydro One will cause Avista to make a one-time \$7,000,000 contribution to Avista's charitable foundation at or promptly following closing.<sup>7</sup>
65. **Low-Income Energy Efficiency Funding:** Avista will continue to work with its advisory groups on the appropriate level of funding for low income energy efficiency programs.
66. **Low-Income Rate Assistance Program (LIRAP):** Hydro One and Avista commit to continue Avista's LIRAP and related pilot programs.
67. **Funding for Low-Income Participation in New Renewables:** Hydro One will arrange funding totaling \$5,000,000 over a period of up to ten (10) years for the purpose of funding one or more renewable generation project(s) to benefit Avista's low-income customers. The types of projects that may be funded include, but are not limited to, on site renewable energy installations such as photovoltaic equipment, community solar projects, and other renewable energy equipment, in which the benefits will be directed to Avista's low-income customers. The funds will be paid into a separate account to be managed and disbursed by Avista at the direction of its Energy Assistance Advisory Group (which includes third-party advisors such as The Energy Project, Public Counsel, Commission Staff, and low-income agencies as well as Avista). The Energy Assistance Advisory Group will determine the project selection (which includes design and implementation). Eligible costs may include project construction, consulting costs, and reasonable administration costs required for the coordination of renewable energy projects.
68. **Addressing Other Low-Income Customer Issues:** Avista will continue to work with low-income agencies to address other issues of low-income customers, including funding for bill payment assistance.

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<sup>7</sup> Note that Commitment 11 contains additional provisions relating to Avista's charitable contributions.

69. **Replacement of Manufactured Homes:** Hydro One will arrange funding of \$2,000,000 over a 10-year period in Washington to replace manufactured homes.

At least half of the funds must be spent in the first five years. The demand side management (“DSM”) advisory group and Avista will work together to design the program, and Avista will begin implementing the program within six months of the date that the Proposed Transaction closes. The program will prioritize replacement of homes manufactured before 1976.

To the extent any funds are not used over the 10-year period, these funds will be redirected for additional funding for low-income weatherization programs.

70. **Low Income Weatherization:** Avista commits and Hydro One agrees that Avista commits, to continue Avista’s existing weatherization programs, described in Schedules 90 and 190.

Hydro One will arrange funding of \$4,000,000 over 10 years to fund low income weatherization in Washington. This funding is over and above existing funding for low-income weatherization.

For both existing funding and the new Hydro One funding, 20 percent of the funds may be used for “direct” project coordination costs and 10 percent for “indirect” general overhead costs of administering the weatherization program.

71. **Security Deposits:** Avista commits and Hydro One agrees that Avista commits to eliminate security deposits for new Avista residential customers and to return existing security deposits to customers who have a deposit held longer than 6 months. After two years from Commission approval of the Proposed Transaction, any party may request the Commission to modify or remove this commitment if it determines that application of this commitment has an unreasonable impact on Avista’s uncollectible debt.

72. **AMI Consumer Protection:** Avista commits and Hydro One agrees that Avista commits to discussing implementation of prepayment billing and remote disconnect at the Commission’s upcoming AMI workshops, and agree not to implement prepayment until authorized by the Commission after conclusion of the AMI workshop, and related AMI dockets. Avista agrees to track the benefits of remote disconnection/reconnection identified in its AMI business case, starting with the AMI technology data collected from customers already equipped with an AMI meter. In addition, Avista commits that, it will not remotely disconnect customers for non-payment when the National Weather Service for that particular region has forecasted a daily high temperature of 38 degrees or less or a daily high temperature of 100 degrees or more. If, however, the Commission adopts a rule prescribing a temperature threshold for remote disconnection that is inconsistent with this commitment, the rule will supersede this commitment.

73. **Improve Penetration of Low-Income Programs:** Hydro One and Avista will undertake a targeted effort with a goal of improving the penetration rate of low-

income programs with a focus on underserved, vulnerable, and high energy burden households. This commitment will include expanding marketing, outreach, and data analysis.

74. **Tribal Communities:** In implementing these conditions, Avista will reach out to tribal communities to encourage participation of members of such communities in receiving the benefits of this settlement.

## H. Miscellaneous Commitments

75. **Sources of Funds for Hydro One Commitments:** Throughout this list of merger commitments, any commitment that states Hydro One will arrange funding is not contingent on Hydro One's ability to arrange funding, particularly from outside sources, but is a firm commitment to provide the dollar amount specified over the time period specified and for the purposes specified. To the extent Avista has retained earnings that are available for payment of dividends to Olympus Equity LLC consistent with the ring fencing provisions of this list of merger commitments, such retained earnings may be used. Funds available from other Hydro One affiliates may be used without limitation. Avista will not seek cost recovery for any of the commitments funded or arranged by Hydro One in this list of merger commitments. Hydro One will not seek cost recovery for such funds from ratepayers in Ontario.
76. **Colstrip Depreciation:** Hydro One and Avista agree to a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life of those units through December 31, 2027. Existing undepreciated balance (\$114.2 Million) will be recovered as follows:
- \$16.7 Million – unprotected Excess DFIT/Deferral of January – April 2018 tax credit.
  - \$45.3 Million – through an annual depreciation expense of approximately \$4.533 million (WA Share), which is the current level of annual depreciation expense presently being recovered from ratepayers (i.e., no increase to rates)
  - \$52.2 Million – regulatory asset offset by the amortization of protected Excess DFIT, i.e. over 36 years

See Attachment A to Appendix A (Master List of Commitments in Washington) to the Settlement Stipulation, “Colstrip Commitment Summary and Description”, which is incorporated herein by reference.

77. **Montana Community Transition Fund:** Hydro One and Avista will arrange funding of \$3.0 Million towards a Colstrip community transition fund.

This commitment is not intended as a “cap” of the amount that Avista/Hydro One may ultimately contribute to help the Colstrip community transition from coal-fired generation.

78. **Colstrip Transmission Planning:** Avista will work with the other Path 8 (MT-to-NW) owners (Northwestern Energy and BPA) to resolve questions surrounding the ability of new generation to use the Colstrip line once Colstrip Units 1 and 2 retire, and also when Units 3 and 4 retire.

At least one year prior to any closure of Colstrip Units 3 and 4, Avista will develop a transition plan for its Colstrip transmission assets. Avista will hold at least one workshop with Commission Staff and stakeholders to determine the transition plan’s impacts to Washington ratepayers.

Avista will work with stakeholders and Commission Staff and file this transition plan with the Commission. In developing this transition plan, to the extent practicable, Avista should participate in 1) the workshops on this topic that PSE and the Commission will be holding in 2018 (per the PSE GRC settlement), and 2) the BPA/Governor Bullock Transmission Task Force that commenced work on December 8, 2017, and will work through the middle of 2018.

Hydro One agrees Avista will conduct the activities described in the foregoing paragraphs.

79. **On Bill Repayment:** Hydro One will arrange funding of the approximately \$100,000 initial investment in software upgrades and \$5,000 in administrative costs. The option for repayment of the customer’s share of the cost of a replacement manufactured home (funded by third-party financial institutions) will be included in the OBRP.<sup>8</sup> Under no circumstance, will the ratepayer population be responsible for any default related to the OBRP.

80. **Contract Labor:**
- a. On a prospective basis, and for a period of 10 years ending March 7, 2028, Avista will require the use of WNIDCL members for the type of work that is ordinarily and customarily performed by WNIDCL on natural gas replacement and all natural gas work. This will not apply to work performed under contracts

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<sup>8</sup> OBRP is a pass-through billing service for energy efficiency loans, where Avista would collect loan payments on customers’ bills then transmit the sum monthly to the third-party lender. Only non-profit lenders would be eligible, offering low rates for energy efficiency loans. The lender has no ability to shut off power (due to non-payment) and all lending activity is managed separate from the utility, where the lender:

- Provides all capital, bears full risk
- Manages delinquent files and collections off-bill
- Handles loans/balances separate from utility financial systems
- Meets consumer lending regulatory requirements.

already in effect as of March 7, 2018. This agreement will not apply to (a) atmospheric corrosion; (b) locating; and (c) leak survey. This agreement will also not apply to work performed where signatory contractors are not available (unavailability is typically due to locations being in remote areas), or choose not to bid on projects; provided that work performed in such areas will be paid at equivalent wages and benefits.

- b. On a prospective basis, and for a period of 10 years ending March 7, 2028, Avista will require the use of WNIDCL members for all flagging work, unless otherwise performed by Avista employees represented by IBEW Local 77. This will not apply to work performed under contracts already in effect as of March 7, 2018.
- c. WNIDCL will provide for signatory contractors laborers that are qualified pursuant to applicable OSHA 1910 regulations and all other applicable training. In addition, WNIDCL will provide WNIDCL members knowledgeable in the DOT Title 49 Code of Federal Regulations, Part 192, and all applicable state pipeline safety regulations. Contractors shall be required to provide proof of compliance with this requirement to Avista.
- d. On a prospective basis, Avista will require contractors to utilize NWLETT for required training, if applicable courses are offered by NWLETT and are reasonably accessible in the locality where the work is to be performed.
- e. Avista will meet and confer with WNIDCL to discuss possible involvement in all future hydroelectric projects that are within the sphere of WNIDCL's expertise.
- f. Avista will encourage contractors to utilize union labor, including, without limitation and as applicable, members of the Laborers', Pipefitters and Steamfitters, and IBEW, on Avista projects as part of its bidding solicitation process on all other construction work, including but not limited to capital work on hydro facilities, and will evaluate the use of such members in the staffing plans of bidding contractors as an element of Avista's bid evaluation process.
- g. Avista will continue to prioritize the hiring of qualified contractor personnel through the bidding process, by requiring analysis of not only the price proposals submitted by contractors, but a variety of other factors, including minimum staffing requirements as applicable, training programs, documented qualification programs, safety track records, OSHA 300 reportables, and other safety records as appropriate. Review of these components is intended to verify that the contractor is able to supply a sufficient workforce to meet Avista's needs, and that their personnel are appropriately trained, qualified and able to safely and reliably perform work for Avista.



- h. Work covered by these commitments does not include work that is customarily performed by Avista employees represented by IBEW Local 77 but that is contracted out pursuant to IBEW Local 77's collective bargaining agreement with Avista. It also does not include any work that is performed by Avista employees, regardless of the type of work involved.
  - i. Avista will meet and confer with WNIDCL at least six months prior to March 7, 2028 to discuss extending or modifying the terms set forth herein.
81. **Most Favored Nations:** The Applicants agree that upon the joint request of the Non-Applicant Parties, or a request of less than all Non-Applicant Parties which is unopposed by any Non-Applicant, the Commission shall have an opportunity and the authority to consider and adopt in Washington any commitments to which the Applicants agree in other jurisdictions, even if such commitments are agreed to after the Commission enters its order in this docket. To facilitate the Commission's consideration and adoption of the commitments from other jurisdictions, the Parties recommend that the Commission issue an order accepting this Stipulation as soon as practical, but to reserve in such order the explicit right to re-open to add commitments accepted in another state jurisdiction.

The Applicants further agree that upon the request of any Non-Applicant Party prior to the Commission's action on this Stipulation, if Applicants agree with any commitments in other jurisdictions, within five days of such a request, Applicants will meet and confer with the Non-Applicant Parties to discuss whether such commitments should be added to the existing list of commitments already agreed to by the Parties in this Stipulation.

**Process for Consideration:**

- Within five calendar days after Applicants file a stipulation with new or amended commitments with a commission in another state jurisdiction, Applicants will send a copy of the stipulation and commitments to the Non-Applicant Parties.
- Within five calendar days after a commission in another state jurisdiction issues an order that accepts a stipulation to which Applicants are a party and imposes new or modified commitments, that order, together with all commitments of any type agreed to by Applicants in such other state, will be filed with the Commission and served on all parties to this docket by the most expeditious means practical.
- Within ten calendar days after the last such filing from the other states ("Final Filing"), the Non-Applicant Parties may file with the Commission any response they wish to make, including their position as to whether any of the covenants, commitments and conditions from the other jurisdictions (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Washington) should be adopted in Washington.

- Within five calendar days after any such response filing, the Applicants may file a reply with the Commission.
- If any of the dates above fall on Saturday, Sunday, or a holiday, the next business day will be considered as the due date.
- The Parties agree to support in their filings the issuance by the Commission of an order regarding the adoption of such commitments as soon as practical thereafter, recognizing that the Proposed Transaction cannot close until final state orders have been issued approving the Proposed Transaction.

**Limitations on Adjustment:**

- Only commitments specific to gas service may form the basis for adjustments specific to gas service.
- Only commitments specific to electric service may form the basis for adjustments specific to electric service.
- Any commitments relating to support of communities in Montana are not subject to this provision.
- As Avista does not operate as a utility in Alaska, any commitments made in Alaska are not subject to this provision.
- For purposes of financial commitments or commitments having a financial impact, commitments should be proportionate to Avista’s corresponding business function in Washington in relation to its corresponding total company business function. Accordingly, commitments should be allocated among Avista’s WA, ID and OR jurisdictions based on the following: 1) Rate Credit is allocated based on base revenues; 2) all other financial commitments are allocated using the Company’s jurisdictional “four factor” allocation methodology, routinely employed for purposes of allocating common costs, as discussed in Mr. Ehrbar’s testimony in this proceeding. For purposes of this provision, “financial commitments or commitments having a financial impact” do not include ring fencing provisions.

**Merger Commitment No. 76 (Colstrip)**

**Summary and Description**

Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 & 4, which have a combined capacity of about 1,480 MW. These two facilities were placed in service in 1984 and 1986. No decommissioning date has been established for these assets. Current rates include depreciation expense on Colstrip Units 3 & 4 with assumed remaining useful lives of these units through December 31, 2034 and December 31, 2036, respectively.

The Parties acknowledge that there presently is no plan to close Colstrip Units 3 & 4 by a specific date, nor has Avista agreed to do so. The parties to the Settlement Stipulation in this docket (the “Parties”) agree, however, to a depreciation schedule for Colstrip Units 3 & 4 that assumes a remaining useful life of those units through December 31, 2027. The Parties agree to set depreciation rates for Colstrip Units 3 & 4 at amounts that will yield an annual depreciation expense of approximately \$4.533 million (WA Share)<sup>1</sup> for the remaining depreciable lives of those units, which is the current level of annual depreciation expense.

The Parties agree to adopt a depreciable balance of Colstrip Units 3 & 4 of \$114.2 million. This includes the currently recognized unrecovered plant balance, as well as estimated asset retirement obligations previously not included in rates<sup>2</sup>. Nothing in this Settlement will preclude Avista from seeking recovery of additional future asset retirement costs, based on a showing of prudence in future general rate cases.

The \$114.2 million balance will be recovered as follows:

- \$16.7 million (WA share) of “temporary” tax credits. These tax credits were described in Bench Request No. 9 in Avista’s current general rate case (Docket Nos. UE-170485 and UG-170486).<sup>3</sup>
- \$45.3 million, through an annual depreciation expense of approximately \$4.533 million (WA Share), which is the current level of annual depreciation expense.
- \$52.2 million, through the amortization of a Regulatory Asset (FERC Account No. 183.3) (approximately \$1.5 million per year – WA share), offset entirely by the amortization of protected Excess DFIT. The amortization schedule of the Regulatory Asset will be structured to match the amortization schedule of protected Excess DFIT, so that the amortization of protected Excess DFIT covers the remaining depreciable balance.

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<sup>1</sup> Annual depreciation expense is approximately \$6.937 million on system-basis.

<sup>2</sup> The asset retirement obligations are currently estimated at approximately \$42.7 million (WA share). These costs include decommissioning and remediation costs.

<sup>3</sup> The tax credits were the result of H.R.1 – Tax Cuts and Jobs Act signed into law in December 2017.

## Attachment A to Appendix A of Settlement Stipulation in U-170970

Nothing in this Settlement will preclude Avista from seeking recovery of routine future capital maintenance costs incurred in the normal course of business beyond January 1, 2018 not intended to extend operational life, based on a showing of prudence in future general rate cases.

The Regulatory Asset<sup>4</sup>, net of accumulated deferred federal income taxes, will be included in rate base and will earn Avista's rate of return.

Beginning October 1, 2018, Avista will include the \$1.5 million Colstrip amortization costs, in customers' base rates, but which would be offset by the electric Rate Credit of \$4.9 million, thereby reducing customers' rates approximately \$3.4 million. The incremental rate reduction on October 1, 2018 would be spread to customers on a uniform percent of base revenue basis, and on an equal percentage to the volumetric blocks in each schedule (the Rate Credit would be spread in accordance with Commitment No. 19 "Rate Credit" for Schedule 25). Avista would effectuate this through a compliance filing of its base tariffs and electric Rate Schedule 73 (for the Rate Credit).

A summary of the Colstrip costs and offsetting tax credits follows:

<b>Summary of Colstrip Costs (WA Share)</b>			
	<u>Total Amount</u>	<u>Amortization Period (Years)</u>	<u>Annual Amount</u>
Net Book Value of Colstrip Units 3 & 4, including transmission assets, at December 31, 2017	\$ 71,506,933		
Estimated asset retirement obligations	<u>42,738,900</u>		
Undepreciated Balances:	114,245,833		
Future depreciation expense recovered January 1, 2018 - December 31, 2027	(45,334,922)		
Temporary Tax Credits	<u>(16,700,000)</u>		
Net Colstrip Costs Recorded as Regulatory Asset	<u>\$ 52,210,911</u>	36	\$ 1,450,303
Electric Rate Credit	<u>\$ (24,606,700)</u>	5	<u>\$ (4,921,340)</u>
Net Impact to Customers Beginning October 1, 2018			<u>\$ (3,471,037)</u>

<sup>4</sup> The Colstrip accounts included as rate base include the following: FERC Account No. 101.0 – Plant Cost, FERC Account No. 108.0 – Accumulated Depreciation, FERC Account No. 182.3 – Regulatory Asset ARO, FERC Account No. 182.3 – Regulatory Asset Colstrip, FERC Account No. 230.0 – Colstrip ARO, and FERC Account No. 242.0 – Colstrip Accounts Payable.

Appendix B to Settlement Stipulation in U-170970

**Revised Post-Closing Corporate Structure**

