Exh. SLM-5T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. U-170970

TESTIMONY IN SUPPORT OF SETTLEMENT STIPULATION OF

SCOTT L. MORRIS

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

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

Q. Have you previously provided testimony in this proceeding?

A. Yes, I did.

Q. Please provide an overview of your testimony.

A. I will explain why Avista believes the Settlement is in the public interest and provides net benefits to customers.

Q. Are you sponsoring exhibits with your testimony?

A. No, I am not.

Q. Before providing details on the Settlement, would you also please provide an update on the Hydro One/Avista merger proceedings in other jurisdictions?

A. Yes. The transaction received approval from the Federal Energy Regulatory Commission on January 16, 2018, and from Avista shareholders on November 21, 2017. Hydro One and Avista continue to anticipate closing the transaction in the second half of 2018. Applications for regulatory approval of the transaction are still pending with utility commissions in Idaho, Oregon, Montana and Alaska. A proposed settlement was filed in Alaska on April 3, 2018. While settlement discussions are occurring in Idaho and Oregon, settlements have not yet been reached. In Montana, supplemental testimony has been filed concerning issues surrounding the treatment of Colstrip, and hearings are scheduled for May

17, 2018. Approval must also be obtained from the Federal Communications Commission. Also required is clearance by the Committee on Foreign Investment in the United States, and compliance with applicable requirements under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, as well as the satisfaction of other customary closing conditions. The 30-day waiting period under the Hart-Scott-Rodino Act expired on Thursday, April 5, 2018. This expiration of the waiting period means that the parties have received anti-trust clearance for the proposed merger and satisfies one of the closing conditions of the transaction.

Q. Are the reasons supporting the merger as equally compelling today as when the merger was first announced?

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

Avista and Hydro One believe this preservation of Avista's name, its headquarters, its culture and its way of doing business, among other things, is important to Avista's customers, in that customers can continue to expect and experience reliable service and a high level of customer satisfaction. In addition, customers will see immediate financial benefits in the form of proposed retail rate credits beginning at the close of the Proposed Transaction. As described below, the proposed Settlement will substantially increase those Rate Credits and provide additional shareholder funding of a number of customer-related initiatives.

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

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

Q. Why did Avista choose to enter into the Merger Agreement with Hydro One in the first place?

A. Avista's decision to merge with Hydro One was driven by the unique partnership that is possible with Hydro One. The merger with Hydro One will allow Avista and its customers to benefit from being part of a larger organization (the benefits of scale), while at the same time preserving local control of Avista and the retention of Avista's employees and management team, as well as its culture and its way of doing business.

With regard to scale, the number of investor-owned electric and/or natural gas utilities in North America has decreased significantly over the years through consolidation. When comparing the size of investor-owned utilities, Avista is one of the smallest remaining in North America.[1] A bar chart indicative of the investor-owned utilities in North America, from largest to smallest, was attached as Exh. SLM-2 to my initial testimony. The merger of Avista and Hydro One will place the combined company toward the middle of the range of investor-owned utilities, in terms of size. Through consolidation, larger utilities have the opportunity to spread costs, especially the costs of new technology, over a broader customer base and a broader set of infrastructure which inures to the benefit of customers.

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

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

[1] As measured by equity value.

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

Q. How was the Merger Agreement structured in order to preserve Avista's culture and its way of doing business, for the benefit of Avista's customers and the communities it serves?

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

The agreements between Hydro One and Avista for operation of the business post-closing were memorialized in Exhibits A and B to the Merger Agreement, hereafter referred to as the "Delegation of Authority" (see Appendix 5 in the Joint Application). These agreements were memorialized in the Commitments contained within the Settlement. Under the Delegation of Authority, Avista's Board of Directors retains its authority to review, authorize and approve certain specified matters related to Avista, without any obligation to obtain separate authorization or approval from the Hydro One Board.

The Joint Applicants' agreements included in the Merger Agreement and the makeup of the Avista Board of Directors are designed to ensure that Avista's culture and its way of doing business will continue for the long-term, inuring to the benefit of customers. The

Proposed Transaction is not designed to target the elimination of jobs, or cost cutting that may lead to a deterioration of customer service, customer satisfaction, safety, reliability, or a deterioration of charitable giving, economic development or innovation in the communities Avista serves.

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

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

Q. Will Avista retain the autonomy that it needs to run the business in the same manner as befits its corporate culture and dedication to customers, employees and the communities it serves?

A. Yes, it will. Without those assurances I would never have agreed to recommend to our board of directors to proceed with this transaction.

Q. Can you illustrate this point?

A. Yes. At the very outset of negotiations with Hydro One, I vividly recall a private conversation with Mayo Schmidt, the CEO of Hydro One, in which I made very clear to him that Avista needed these types of assurances on autonomy for us to run our business as we see fit. Without a moment of hesitation, Mr. Schmidt slid a pen across the table and said, words to the effect, “Scott, you have the drafting pen. Write it up the way you want.” This ultimately resulted in a set of conditions (See Exh. 5 to Joint Application), styled as a Delegation of Authority, which ultimately found their way into Commitments 1-15, as further revised by the Parties to the Settlement Stipulation. (See Appendix A to the Settlement). Indeed, to my knowledge, this approach may be unique in the world of utility mergers and acquisitions.

Q. Does the Settlement further these objectives of self-governance and local control?

A. Yes. This is reflected in Commitments relating to Avista board membership and preservation of Company headquarters in Spokane, along with retention of existing management and employees. In short, all the existing pieces that make Avista, “Avista,” will remain in place. I believe that this will best serve the public interest, given our rich heritage of serving customers with safe, reliable, and cost-effective service. By selecting an acquisition partner (Hydro One) that truly understands this heritage of Avista, we may avoid the potential of someday being acquired by others who might be less appreciative of how we do business.

Q. Will customers also benefit from other Commitments insuring financial integrity, as well as “ring-fencing”?

A. Yes. Avista will be subject to tighter controls and restrictions than currently exist, such as maintaining a specified equity component of the capital structure as well as restrictions on dividend payments. In addition, the various ring-fencing provisions further insulate the Company from external financial risks.

While it may be argued that these commitments merely satisfy a "no harm" standard, some of them reflect agreed-upon protections that do not presently exist (e.g., "financial integrity"), thereby providing "net benefits" to customers. While I realize that this may be a source of ongoing debate, I believe that, all in all, customers are receiving a net benefit in this regard.

Q. Are customers also benefiting through Rate Credits, as reflected in the Settlement?

A. Most definitely. Avista and Hydro One are agreeing in the Settlement to provide $31 million of Rate Credits to Washington customers over five (5) years. This is substantially greater than the $20 million (Washington share) initially proposed by the Applicants, and the period has been shortened from ten to five years, providing accelerated benefits to customers. Moreover, the portion that is "offsetable" by future savings has been reduced from $13 million to $5 million. Significant concessions were made by Applicants in this regard. In and of themselves, these Rate Credits provide substantial "net benefits" to customers.

Q. Aren't Applicants also offering significant additional "net benefits" in Washington in the form of financial support for measures benefiting customers?

A. Yes. An <u>additional</u> $11.7 million of shareholder funding will be devoted to initiatives such as:

- Weatherization (Low-Income) ($4M)
- Renewable Resources (Low-Income) ($5M)
- Manufactured Home Replacement ($2M)
- Professional Home Energy Audits ($600K)
- On-Bill Repayment Software ($66K)

Each of these are discussed in the Joint Testimony and in individual testimonies of the Parties. Most of this funding is appropriately directed to the low-income sector of our service territory, where the need is the greatest. The sum total of $11.7 million for these programs is a substantial benefit to customers that is a direct result of this settlement.

Q. How, then, does the total level of shareholder-funded financial commitments (excluding charitable contributions) in Washington compare with what was originally proposed in the Application?

A. Approximately $19.7 million (Washington share) of shareholder-funded Commitments were made in the original Application; these were in the form of rate credits. That number has more than doubled to $44.3 million, as a result of the Settlement, representing an increase of approximately $24.7 million over what was originally proposed. [2]

Q. By any measure, do you believe that financial benefits of $44.3 million inuring to Washington customers, and paid for by shareholders, satisfy the "net benefit" standard?

A. Yes, I do. Absent this merger, customers would not have enjoyed these net benefits. Moreover, none of the transaction costs associated with the merger will be charged to customers of Avista or Hydro One -- these are truly "net benefits."

Q. Will customers in other jurisdictions receive their share of benefits as well?

[2] This figure also includes shareholder funding of nearly $2M (Washington share) dedicated to a Community Transition Fund for resolution of certain Colstrip issues.

A. Yes, they will. Strictly applying the "most favored nations" (MFN) clause proposed in all jurisdictions (see Commitment 81) would result in nearly $74 million of financial benefits spread across Washington, Idaho, and Oregon – all paid for by shareholders.

Q. Are Avista and Hydro One also making financial commitments to support charitable and community needs?

A. Most certainly, and this is something that I am particularly passionate about. Avista's budget will be almost doubled for purposes of charitable giving, with an additional $2 million annual contribution to Avista Foundation – the charitable giving arm of Avista (see Commitment 11). On top of that, an additional one-time contribution of $7 million will be made to the Avista Foundation at closing. The Foundation provides funding to non-profit organizations throughout our service territory, addressing the needs of citizens served by Avista. When assessing whether the Proposed Transaction serves the public interest, this additional funding should be recognized. Moreover, the people ultimately benefiting from this funding are largely customers of Avista. Our customers may use services made possible by this funding. Absent a merger, less funding would be available.[3]

Q. Are there other merger commitments included in the Settlement that may be less easily quantified but still qualify as "net benefits"?

A. There are many such commitments. They respond to a whole host of environmental, energy efficiency and renewable energy needs. These include:

- Renewable energy commitments (acquisition of 50 aMW by 2022, and an additional 90 aMW if and when Colstrip is retired from service)
- Agreed-upon modeling of Greenhouse Gas Emissions

[3] As always, any charitable contributions are "below the line" costs absorbed by shareholders – not customers.

- Workshops for addressing the Energy Imbalance Markets (EIM)
- An expansion of transportation electrification
- A self-direct option for industrial conservation

Again, these Commitments were the result of the Settlement, and all provide "net benefits" to customers over time.

Q. Will you speak to the resolution of certain issues relating to Avista's ownership of Colstrip Units 3 and 4?

A. The Settlement resolved the Colstrip issues in a unique way that made it possible for all the parties to this proceeding to support the Settlement. The Colstrip solution was part of the glue that held this Settlement together.

Other witnesses will speak to the agreed-upon acceleration of the "useful life" of Colstrip for depreciation purposes (see, e.g., testimony of Witnesses Andrews (Exh. EMA-1T), Hancock (Exh. CSH-1T), Howell (Exh. DHH-1T)). That, however, says nothing about the actual closure date for Colstrip Units 3 and 4. The same holds true for the shareholder-funded Montana Community Transition Fund ($3 million (system)/$2 million Washington).

Q. Finally, have provisions been made for safety training and continuing use of union contractors?

A. Yes, WNIDCL and other Parties have come to an agreement in that regard, as reflected in Commitment 80 (a-i).

Q. Do you have any closing remarks?

A. Yes. I want to commend all parties for the constructive way they have engaged in the settlement process. All parties were respectful of differing views and were able to find common ground, without rancor or needless delay. This is "settlement work at its best."

I would especially like to single out the efforts of Staff in coordinating the process, and particularly for their innovative ideas and sensible suggestions for resolving the Colstrip issues.

Q. Does this conclude your testimony in support of the Settlement?

A. Yes, it does.