

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. U-170970

SUPPLEMENTAL DIRECT TESTIMONY OF

MAYO M. SCHMIDT

REPRESENTING HYDRO ONE

IN SUPPORT OF SETTLEMENT STIPULATION

April 10, 2018

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with**
3 **Hydro One Limited.**

4 A. My name is Mayo Schmidt. My business address is 483 Bay Street, South
5 Tower, 8th Floor, Toronto, Ontario M5G 2P5. I am the President and Chief Executive
6 Officer (“CEO”), as well as a Director, of both Hydro One Limited (“Hydro One”) and
7 Hydro One Inc.

8 **Q. Will you hold any position with Avista Corporation (“Avista”) after**
9 **the transaction is completed? If so, what position?**

10 A. Yes, if the Commission approves Hydro One’s acquisition of Avista (the
11 “Proposed Transaction”), I will serve as a member of the post-merger Avista Board of
12 Directors. I will also continue to be the President and CEO of Hydro One.

13 **Q. Did you file direct testimony in this proceeding?**

14 A. Yes. My direct testimony, which I incorporate herein by reference, did the
15 following (Exh. MMS-1T):

- 16 • described Hydro One and its affiliates;
17 • described the Proposed Transaction;
18 • explained the reasons for Hydro One’s proposed purchase of Avista;
19 • described Avista’s post-closing operations; and
20 • demonstrated how the Proposed Transaction will benefit Avista’s
21 customers, employees and communities.

22 **Q. Did the Executive Vice President, Customer Care and Corporate**
23 **Affairs at Hydro One Networks Inc. (“Hydro One Networks”), Ferruccio (Ferio) G.**
24 **F. Pugliese, file testimony in this proceeding?**

- 1 A. Yes. Mr. Pugliese’s testimony did the following (Exh. FGFP-1T):
- 2 • described Hydro One Networks’ customer service philosophy and
- 3 supporting programs;
- 4 • described Hydro One Networks’ customer service record and
- 5 improved practices that have been deployed, demonstrating its
- 6 commitment to directly address problems in a meaningful way;
- 7 • described Hydro One Networks’ experience and priorities related to
- 8 providing electric service to the rural and remote regions of Ontario,
- 9 including First Nations Communities; and
- 10 • identified opportunities for Hydro One and Avista to collaborate on
- 11 enhancing and improving service to their respective customers.

12 **Q. Do you sponsor Mr. Pugliese’s testimony for the purposes of the**

13 **Washington Utilities and Transportation Commission’s (the “Commission’s”)**

14 **hearing on the Settlement Stipulation?**

15 A. Yes. I sponsor Mr. Pugliese’s testimony and can provide live testimony

16 on the issues addressed in his direct testimony at the Commission hearing if necessary.

17 **Q. What is the purpose of your supplemental direct testimony in this**

18 **proceeding?**

19 A. The purpose of my supplemental direct testimony is to support the all-

20 parties, all-issues Settlement Stipulation by describing:

- 21 • the operations, governance, and regulation of Avista post-merger;
- 22 • Hydro One and Avista’s renewable energy and energy efficiency
- 23 commitments;

- 1 • Hydro One and Avista’s community and low-income assistance
2 commitments;
- 3 • additional commitments Hydro One and Avista have agreed to include
4 as part of the Settlement;
- 5 • how the Proposed Transaction and merger commitments provide a net
6 benefit to Avista’s customers; and
- 7 • how the Proposed Transaction and merger commitments are in the
8 public interest.

9 **Q. Please summarize your testimony.**

10 A. My testimony first discusses the post-merger operations, management, and
11 governance of Avista. The Proposed Transaction has been structured to ensure that
12 Avista’s customers will continue to receive the high-level customer service they have
13 come to know and appreciate from Avista. Post-merger, Avista will be a separate
14 indirect subsidiary under Hydro One, with its own management and its own board of
15 directors, giving Avista a similar look and feel to customers that it has today.

16 A consistent and strong Avista is however only a fraction of what Avista
17 customers stand to gain from the Proposed Transaction. My testimony outlines various
18 merger commitments provided by Hydro One and Avista—including regulatory
19 commitments, efficiency and renewable energy commitments, community and low-
20 income commitments, and funding commitments—all of which ensure the Proposed
21 Transaction results in net benefits to Avista’s customers and is in the public interest.

22 Benefits associated with the Proposed Transaction include the following Hydro
23 One and Avista commitments, among others:

- 24 • Avista will provide Rate Credits totaling approximately \$31 million to
25 its Washington customers in the first five (5) years after the merger
26 closes;

- 1 • Over \$11 million dollars in funding for low-income and other
2 customer programs, including renewable energy projects, low-income
3 weatherization, and home audits and replacements;
- 4 • A substantial contribution to Avista's charitable foundation and
5 community programs, including a one-time \$7 million contribution to
6 the Avista Foundation upon closing of the Proposed Transaction;
- 7 • Preservation of certain authority with the Avista Board to continue to
8 make operational decisions in the ordinary course of business,
9 including decisions regarding funding for innovation and economic
10 development in the communities served by Avista; and
- 11 • Over time, both Avista's and Hydro One's customers will benefit from
12 their utilities' increased purchasing power, sharing of best practices
13 and economies of scale.

14 In addition to the foregoing commitments, customers can expect benefits as a
15 result of the financial and business stability associated with Ontario's largest regulated
16 transmission and distribution company owning Avista.

17 **Q. Will anyone else be providing supplemental direct testimony on behalf**
18 **of Hydro One?**

19 A. Yes. In addition to my supplemental direct testimony, Chris Lopez,
20 Senior Vice President of Finance of Hydro One, will be offering supplemental direct
21 testimony in support of the Settlement Stipulation.

22 A table of contents of my testimony is as follows:
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Q. Are you sponsoring exhibits with your testimony?

A. Yes. Attached to my testimony is:

- Exh. MMS-5: The Governance Agreement between Hydro One and the Province of Ontario.

II. OPERATIONS, GOVERNANCE, AND REGULATION OF AVISTA POST-MERGER

Q. What are Hydro One’s plans for the operations of Avista post-merger?

A. As described in my direct testimony, post-merger, Avista will operate in much the same way as it does today. Avista will become a separate indirect subsidiary of Hydro One, but it will not be merged with other subsidiaries. Avista will have its own management and its own board of directors. In short, Avista will have the same look and feel to customers after the merger as it has today. This will ensure that Avista’s customers do not experience any disruption associated with the Proposed Transaction. Rather, Avista’s customers will continue to receive the high-level customer service they have grown accustomed to receiving from Avista. Hydro One’s commitment to this arrangement is evidenced by Commitments 1 through 15. In particular, Commitment 1

1 reserves for the Avista Board the authority to change the policies stated in Commitments
2 2 through 15.

3 **Q. As part of the Settlement, has Hydro One agreed to any revisions to**
4 **the authority reserved in Commitment 1?**

5 A. Yes. Hydro One has agreed that Avista must obtain approval from the
6 Commission and other regulatory bodies with jurisdiction to change the policies stated in
7 Commitments 2 through 15. This revision is not only consistent with Avista's business-
8 as-usual approach to its post-merger operations, but provides certainty to customers and
9 stakeholders.

10 **Q. How would you characterize Hydro One's role as a strategic buyer?**

11 A. The two primary types of transactions that exist for strategic buyers are
12 "confederation" transactions and "integration" transactions. Hydro One and Avista have
13 a confederation transaction. Unlike with integration transactions, which involve
14 bordering service territories, consolidated activities, and substantial headcount
15 reductions, confederation transactions allow the acquiring company to seek non-monetary
16 goals, such as geographic, regulatory, and rate-base (i.e., both electric and gas assets)
17 diversification. In confederation transactions, the board and management of the acquired
18 company commonly retain a high degree of control and autonomy over the day-to-day
19 operations of the regulated utility.

20 **Q. Have Hydro One and Avista taken steps to confirm the Commission's**
21 **post-merger regulatory authority?**

22 A. Yes. Hydro One and Avista have agreed to memorialize the
23 Commission's post-merger regulatory authority in a number of commitments, including

1 Commitment 20 (State Regulatory Authority and Jurisdiction), Commitment 21
2 (Compliance with Existing Commission Orders), Commitment 23 (Access to and
3 Maintenance of Books and Records), Commitment 24 (Cost Allocations Related to
4 Corporate Structure and Affiliate Interests), Commitment 30 (Commission Enforcement
5 of Commitments), Commitment 32 (Annual Report on Commitments), Commitment 33
6 (Commitments Binding), Commitment 49 (No Amendment of Ring-Fencing Provisions),
7 Commitment 50 (No Inter Company Debt), Commitment 51 (No Inter Company
8 Lending), and Commitment 81 (Most Favored Nations).

9 **Q. Has Hydro One taken any steps to simplify the post-closing corporate**
10 **structure for Avista?**

11 A. Yes. Hydro One has agreed to remove Olympus 1 LLC and Olympus 2
12 LLC from the post-closing corporate structure for Avista. As noted in the Joint
13 Application, these entities were originally created for Canadian tax planning purposes
14 and to manage the flows of inter-corporate funds. As a result of U.S. federal tax reform,
15 in the form of the Tax Cuts and Jobs Act, H.R. 1 of the 115th Congress, these entities are
16 no longer necessary and thus Hydro One proposes to remove them from the post-closing
17 corporate structure for Avista. The post-close corporate structure proposed in the
18 Settlement is in Appendix B to Settlement Stipulation in U-170970 and is contained in
19 the Supplemental Direct Testimony of Christopher F. Lopez in Support of the Settlement
20 Stipulation.

21 **Q. In proceedings in other jurisdictions with regulatory approval**
22 **authority over the Proposed Transaction, some parties have expressed concerns**

1 **about the Province of Ontario’s role as Hydro One’s largest shareholder and thus**
2 **its post-merger control over Avista. Are you familiar with that testimony?**

3 A. Yes.

4 Q. **Are the concerns raised by these parties valid?**

5 A. No.

6 Q. **What is the Province’s role in Hydro One’s business activities?**

7 A. The Province’s role is limited to being Hydro One’s largest shareholder,
8 and the Governance Agreement between Hydro One and the Province of Ontario
9 establishes this role for the Province.

10 Q. **Can you please describe the Governance Agreement between Hydro**
11 **One and the Province of Ontario?**

12 A. Yes. The Governance Agreement (Exh. MMS-5 to my testimony)
13 between Hydro One and the Province of Ontario is a binding contract that was a pre-
14 requisite for Hydro One’s successful Initial Public Offering (“IPO”). It establishes the
15 Province’s role as a shareholder—a role separate and distinct from Hydro One’s business
16 activities—and ensures that Hydro One will operate like any other investor-owned utility.

17 Under the Governance Agreement, the Hydro One board of directors (the
18 “Board”) is responsible for the management of, or supervising the management of, Hydro
19 One’s business and affairs. (Governance Agreement (“GA”) 2.1.2). The Governance
20 Agreement states that the Province will be involved in Hydro One as an investor and not
21 as a manager. (GA 2.1.3). The Province does not have a role with the Hydro One Board
22 in the processes of appointment, removal, replacement, and compensation relating to
23 executive officers or over related succession planning. Hydro One neither takes direction

1 nor seeks consent for its operations from the government of Ontario, outside of the
2 defined regulatory and oversight authority that the government has over the electricity
3 sector generally. (GA 2.1.3; 2.2).

4 **Q. What are the Province's rights and limitations as a shareholder?**

5 A. The Governance Agreement establishes a Nominating and Governance
6 Committee with governance responsibilities, including nominating directors and advising
7 the Board regarding its stewardship role in the management of Hydro One. (GA 3.5).

8 Other than the CEO, each director must be independent of Hydro One and the
9 Province. (GA 4.2.2; 4.2.3). Directors must be high-quality, reputable, experienced
10 leaders with the requisite skills, board experience, time, and motivation for an operation
11 of Hydro One's size and scope. Directors are also chosen in light of Hydro One's core
12 operating principles. (GA 4.2.1). Directors must meet the requirements of corporate and
13 securities laws and any stock exchange on which Hydro One securities are listed. (GA
14 4.2.4).

15 Several provisions in the Governance Agreement limit the Province's shareholder
16 rights. For example, the Province cannot initiate fundamental changes to Hydro One
17 described in Part XIV of the Business Corporations Act (Ontario) (e.g., amendment to
18 articles, continuance, arrangements, and amalgamations). (GA 2.5). The Province may
19 vote its shares as it sees fit in the event a fundamental change is initiated by another
20 shareholder. (GA 2.5). The Province also cannot solicit (either on its own or acting with
21 others) any person to exercise rights as a shareholder in a manner that the Province would
22 be prohibited from doing directly. (GA 2.6).

23 **Q. Can the Governance Agreement be cancelled?**

1 A. The Governance Agreement may only be terminated with the mutual
2 agreement of both parties. (GA 8.4).

3 **Q. Will the Province control Avista post-merger?**

4 A. No. As I describe above, the Province's role as the largest shareholder of
5 Hydro One is limited by the Governance Agreement.

6 **Q. Is Hydro One more vulnerable to political change than is typical for**
7 **investor-owned utilities because the Province of Ontario is Hydro One's largest**
8 **shareholder?**

9 A. No. Hydro One is not any more vulnerable to political change than any
10 other investor-owned utility in Canada, or the United States for that matter, because of
11 the Governance Agreement between Hydro One and the Province. As explained above,
12 the Governance Agreement establishes that the Province cannot interfere in the
13 management or operations of Hydro One. The only influence it conceivably has is
14 through the selection of 40% of the Hydro One board members. However, those board
15 members must be independent of both the Province and Hydro One, and they must meet
16 the high qualification standards set by Hydro One's Nominating and Governance
17 Committee. As a result, Hydro One is no more subject to the influence of the Province's
18 politicians than any other investor-owned utility is subject to the political influence of
19 elected and appointed officials in the jurisdiction in which it operates.

20 It is worth noting that investor-owned utilities in Canada and the United States
21 constantly grapple with political change. In Washington State, the State Legislature just
22 spent the 2018 legislative session actively debating whether to adopt a carbon tax. This
23 legislation would have had a huge impact on Avista. Political risk and regulatory

1 challenges exist for every investor-owned utility. Hydro One is not more vulnerable to
2 these risks than another investor-owned utility in Canada and the United States simply
3 because approximately 47% of its stock is currently owned by the Province. The
4 Governance Agreement ensures that Hydro One's vulnerabilities to political changes and
5 new regulatory initiatives are on a level playing field with its fellow utilities in North
6 America.

7 **Q. Hydro One has only been a public company for a little more than two**
8 **years. Does the management team have the necessary experience to manage a**
9 **company under the pressure of public markets and meeting investor expectations?**

10 A. Yes. Hydro One is well prepared to manage a company under the pressure
11 of public markets and meeting investor expectations. Part of the plan to make Hydro One
12 a publicly traded company was to drive efficiencies in the utility and utility sector.
13 Hydro One's executive leadership was thus strengthened to ensure that Hydro One had a
14 team with deep experience in mergers and acquisitions, and public markets. Hydro One
15 has attracted highly qualified and skilled directors and senior executives with decades of
16 experience with public company compliance.

17 I joined Hydro One in September 2015 with extensive experience in making
18 acquisitions and integrating them into an existing company. Early in my career, I held
19 management positions of increasing responsibility at General Mills, Inc., a large, publicly
20 traded company. I then joined ConAgra, another large, publicly traded company, as
21 President of their Canadian operations and spearheaded ConAgra's expansion into
22 Canada. Immediately prior to joining Hydro One, I worked at Viterro as its President and
23 CEO. During my time there, I led Viterro's transformation from a relatively small

1 regional co-operative with a \$200 million market capitalization into a publicly-held, \$7.5
2 billion dollar corporation with nearly 7,000 employees and operations around the world.
3 This transformation included the consolidation of Canada's agriculture sector, the
4 acquisition and integration of Agricore United, and the acquisition and integration of
5 ABB (Australia's leading agricultural corporation). In recognition of these
6 accomplishments, I was named "Chief Executive of the Year in 2009" by Canadian
7 Business Magazine.

8 Hydro One's Chief Operating Officer Greg Kiraly joined Hydro One in
9 September 2016. Mr. Kiraly has spent more than 30 years in the utility sector and has an
10 extensive background in energy transmission and distribution. Prior to joining Hydro
11 One, Mr. Kiraly served as senior vice president of Electric Transmission and Distribution
12 at Pacific Gas and Electric Company (PG&E), a publicly traded, investor-owned utility in
13 San Francisco that delivers gas and power to more than 16 million customers. Before
14 PG&E, Mr. Kiraly held executive-level positions in energy delivery at Commonwealth
15 Edison (Exelon) in Chicago and leadership positions in both gas and electric distribution
16 at Public Service Electric and Gas Company in Newark, New Jersey. Mr. Kiraly holds a
17 bachelor's degree in industrial engineering from New Jersey Institute of Technology and
18 a master's of business administration in finance from Seton Hall University. He is also a
19 graduate of Harvard University's Advanced Management Program.

20 On January 28, 2018, Hydro One announced that Paul Dobson was joining Hydro
21 One as its Chief Financial Officer (CFO), effective March 1, 2018. Mr. Dobson was
22 most recently CFO for Direct Energy Ltd. (Direct Energy), where he was responsible for
23 the overall financial leadership of a \$15 billion revenue business with three million

1 customers in Canada and the U.S. Prior to this CFO role, Mr. Dobson was the COO of
2 Direct Energy with responsibility for Operations, IT, Procurement, and business
3 transformation. Since 2003, Mr. Dobson has held leadership positions in finance,
4 operations, and customer service across the Centrica Group, the publicly traded parent
5 company of Direct Energy. Prior to his time at Direct Energy, Mr. Dobson worked for
6 CIBC for 10 years in both finance and business development. Throughout his career, Mr.
7 Dobson has gained considerable experience pursuing mergers and acquisitions and
8 integrating acquired companies across North America and in the United Kingdom.

9 Hydro One's Executive Vice-President, Customer Care and Corporate Affairs,
10 Ferio Pugliese, joined Hydro One in September 2016. Prior to joining Hydro One, Mr.
11 Pugliese held progressively senior leadership roles at WestJet, a publicly traded
12 company. In 2013 he led the launch and successful operation of the company's regional
13 airline as President of WestJet Encore. Prior to WestJet, Mr. Pugliese held senior roles in
14 Human Resources and Operations at Catalyst Paper Corporation, western North
15 America's largest producer of mechanical printing paper, which was publicly traded at
16 the time. He holds a Master of Arts degree in Adult Education from Central Michigan
17 University, an Honors Bachelor of Arts degree in Social Science and an Honors Bachelor
18 of Commerce degree from the University of Windsor.

19 Hydro One's Executive Vice-President and Chief Legal Officer James Scarlett
20 joined Hydro One in September 2016. Prior to joining Hydro One, Mr. Scarlett was a
21 Senior Partner at Torys LLP. He joined Torys in March 2000 and held a number of
22 leadership roles at the firm, including head of Torys' Capital Markets Group, Mining
23 Group and International Business Development strategy. Mr. Scarlett was also a member

1 of the firm's Executive Committee from 2009-2015. Mr. Scarlett's legal career prior to
2 joining Hydro One focused heavily on mergers and acquisitions. He has been involved
3 with over 15 mergers and acquisitions worth approximately C\$18 billion. Mr. Scarlett
4 has extensive finance experience, having been involved in several nine-figure public
5 offerings. He also has significant experience in public company governance, securities
6 regulatory, and general corporate law. Prior to joining Torys, Mr. Scarlett was a partner
7 at another major Canadian law firm. While at that firm, Mr. Scarlett held leadership roles
8 as head of its Corporate Group and Securities Group, as well as a member of its Board.
9 Mr. Scarlett was also seconded to the Ontario Securities Commission in 1987 and was
10 appointed as the first Director of Capital Markets in 1988, a position he held until his
11 return to private law practice in 1990. Mr. Scarlett earned his law degree (J.D.) from the
12 University of Toronto in 1981 and his Bachelor of Commerce Degree from the
13 University of McGill in 1975. In 2015, Mr. Scarlett earned his ICD.D (Institute of
14 Corporate Directors) designation.

15 On February 21, 2018, Hydro One announced that Patrick Meneley would replace
16 Paul Barry as its Executive Vice President (EVP) and Chief Corporate Development
17 Officer effective March 1, 2018. Mr. Meneley's experience with mergers and
18 acquisitions is deep and wide. Mr. Meneley was most recently EVP, Wholesale Banking
19 at TD Bank Group and Vice Chair and Head of Global Corporate and Investment
20 Banking for TD Securities. In that capacity, he spent 15 years leading TD's North
21 American corporate and investment banking business, which included a large M&A
22 advisory and execution practice. At Hydro One, Mr. Meneley will be responsible for
23 leading strategy, innovation, and mergers and acquisitions.

1 Effective November 14, 2016, Mr. Lopez was appointed as Senior Vice President
2 of Finance, bringing to Hydro One almost 17 years of progressive experience in the
3 utilities industry in Canada and Australia. Prior to joining Hydro One, Mr. Lopez was the
4 Vice President, Corporate Planning and Mergers & Acquisitions at publicly traded
5 TransAlta Corporation from 2011 to 2015. In this role, Mr. Lopez was accountable for
6 identifying and executing on growth opportunities in the United States, Canada, and
7 Australia. During this time, the company reviewed transactions with a cumulative asset
8 value in excess of C\$10 billion and successfully completed a number of transactions,
9 including the launch of TransAlta Renewables Inc., a TSX listed company, with
10 approximately C\$2 billion in assets. From 2007 to 2011, Mr. Lopez was Director of
11 Operations Finance at TransAlta in Calgary. He held senior financial roles up to and
12 including Country Financial Controller for TransAlta in Australia, from 1999 to 2007.
13 Mr. Lopez worked as a Senior Financial Accountant with Rio Tinto Iron Ore in Australia
14 from 1997 to 1999.

15 Furthermore, this is not Hydro One's first acquisition. As the largest distributor
16 in Ontario, Hydro One has been an active consolidator of local distribution companies.
17 In the late 1990s and early 2000s, when significant changes were made to the electricity
18 sector in Ontario, Hydro One acquired 88 individual local distribution companies, which
19 were subsequently integrated into Hydro One's distribution business (with the exception
20 of Hydro One Brampton Networks Inc., which was operated as a stand-alone entity).

21 More recently, Hydro One acquired Haldimand Hydro in June 2015 and Norfolk
22 Power in August 2014, as well as Woodstock Hydro in October 2015, adding
23 approximately 55,000 customers to its distribution network. A fourth Hydro One

1 acquisition, of Orillia Power Distribution, is currently pending. Through these recent
2 acquisitions, Hydro One will have increased its distribution customer base by
3 approximately 5%.

4 Furthermore, in October 2016, the Company acquired Great Lakes Power
5 Transmission LP (subsequently renamed Hydro One Sault Ste. Marie LP (“HOSSM”)),
6 an electricity transmission company operating along the eastern shore of Lake Superior,
7 north and east of Sault Ste. Marie, Ontario. HOSSM continues to operate 560 km of high
8 and medium voltage transmission lines, stations, and related infrastructure.

9 **Q. Does the management team have experience integrating two diverse**
10 **companies and cultures?**

11 A. Yes. As explained above, Hydro One has attracted highly qualified and
12 skilled directors and senior executives who have significant mergers and acquisition
13 experience and are prepared to integrate the two companies and cultures seamlessly.

14 **Q. Is Hydro One prepared to own a gas utility?**

15 A. Yes. As Hydro One was looking for potential U.S. partners, one of its
16 goals was to diversify its business lines into related businesses. Hydro One’s
17 diversification strategy includes entering the natural gas utility business. Hydro One is
18 well prepared to own a gas utility.

19 First, it cannot be stressed enough that a significant feature of our merger
20 agreement with Avista is our commitment that Avista will remain as a stand-alone utility
21 that will continue to be operated by Avista’s existing management and employees and
22 governed by the Avista Board of Directors. *See* Appendix A to Settlement Stipulation -
23 Master List of Commitments in Washington Nos. 2, 3, 4, 9, 10, 15.

1 Moreover, while Hydro One expects Avista's managers and employees to
2 continue to operate Avista's natural gas utility at the high standards it has always met, as
3 described above, Hydro One's Chief Operating Officer, Greg Kiraly, has significant
4 experience in energy transmission and distribution, in gas as well as electricity.

5 **III. RENEWABLE ENERGY AND ENERGY EFFICIENCY COMMITMENTS**

6 **Q. Have Hydro One and Avista offered additional commitments in**
7 **support of renewable energy and energy efficiency programs in the Settlement?**

8 A. Yes. In the September 2017 Joint Application, Hydro One and Avista
9 offered commitments related to Avista's renewable portfolio standard requirements,
10 greenhouse gas and carbon initiatives, greenhouse gas inventory report, efficiency goals
11 and objectives, and optional renewable power programs. Hydro One and Avista believe
12 these original commitments provided benefits to Avista's customers and communities.
13 Nevertheless, as a result of Settlement negotiations, Hydro One and Avista agreed to go
14 above and beyond these already significant commitments, offering new and expanded
15 commitments related to the procurement of renewable energy resources (Commitment
16 53), the costs of greenhouse gas emissions (Commitment 55), the energy imbalance
17 market (Commitment 59), Integrated Resource Planning (Commitment 60), self-direct
18 conservation for industrial customers (Commitment 61), transportation electrification
19 (Commitment 62), and home energy audits for 2,000 homes over a ten (10) year period
20 (Commitment 63).

21 **Q. Has Hydro One committed to provide funding for these programs?**

1 A. Yes, Hydro One has committed to arrange \$600,000 in non-ratepayer
2 funding over a ten (10) year period to provide home energy audits to 2,000 homes at a
3 cost of \$300 per home.

4 **IV. COMMUNITY AND LOW-INCOME ASSISTANCE COMMITMENTS**

5 **Q. Have Hydro One and Avista offered additional commitments with**
6 **regard to community and low-income assistance programs?**

7 A. Yes. In the Joint Application, Hydro One and Avista offered a one-time
8 \$7,000,000 contribution to Avista's charitable foundation as well as commitments to
9 continue Avista's work on low-income energy efficiency funding and Avista's work with
10 low-income agencies to address other issues of low-income customers, including funding
11 for bill payment assistance. Hydro One and Avista believe these original commitments
12 provided real, tangible benefits to Avista's customers and communities. Nevertheless, as
13 a result of Settlement negotiations, Hydro One and Avista agreed to go above and beyond
14 these already significant commitments by offering additional commitments related to the
15 continuation of Avista's Low-Income Rate Assistance Program (Commitment 66),
16 funding for low-income participation in renewables (Commitment 67), the replacement
17 of manufactured homes (Commitment 69), the continuation and expansion of Avista's
18 existing weatherization programs (Commitment 70), the elimination of security deposits
19 for new residential customers (Commitment 71), limitations on prepayment billing and
20 remote disconnections (Commitment 72), joint efforts to improve the penetration of low-
21 income programs (Commitment 73), and to reach out to tribal communities to encourage
22 participation of members of such communities in receiving the benefits of this Settlement
23 (Commitment 74).

1 **Q. Has Hydro One committed to provide funding for these programs?**

2 A. Yes. Hydro One has committed to arrange non-ratepayer funding in the
3 amount of \$11,000,000 for the following low-income projects:

4 • \$5,000,000 over a ten (10) year period for one or more renewable
5 generation project(s) to benefit Avista’s low income customers
6 (Commitment 67);

7 • \$4,000,000, over and above existing low-income weatherization funding,
8 for a ten (10) year period for low-income weatherization in Washington
9 (Commitment 70); and

10 • \$2,000,000 over a ten (10) year period for the replacement of
11 manufactured homes (Commitment 69).

12 This funding is in addition to Hydro One’s one-time \$7,000,000 contribution to the
13 Avista Foundation at the time the Proposed Transaction closes.

14 **V. ADDITIONAL COMMITMENTS PROVIDED IN THE SETTLEMENT**

15 **Q. Have Hydro One and Avista agreed to provide any other**
16 **commitments, not mentioned above, in the Settlement?**

17 A. Yes. Chris Lopez discusses charitable and community contribution
18 commitments, rate commitments, capital structure commitments, financial integrity
19 commitments, and ring-fencing commitments in his supplemental direct testimony.

20 Hydro One and Avista have also agreed to provide additional commitments related to:

21 • Sources of funding for Hydro One’s financial commitments;

22 • A depreciation schedule for Colstrip Units 3 and 4 that assumes a
23 remaining useful life of those units through December 31, 2027;

24 • \$3,000,000 for a Colstrip community transition fund;

25 • Colstrip transmission planning;

- 1 • On Bill Repayment, including funding of the approximately \$100,000
2 initial investment in software upgrades and \$5,000 in administrative costs;
- 3 • Contract labor; and
- 4 • A Most Favored Nations provision that provides the Commission
5 authority to consider and adopt in Washington commitments Hydro One
6 and Avista agree to in other jurisdictions.

7 **Q. Can you elaborate on the sources of funding for Hydro One**
8 **commitments?**

9 A. Yes. Any commitment that states Hydro One will arrange funding for a
10 particular purpose is not contingent upon Hydro One's ability to arrange funding,
11 particularly from outside sources, but is a firm commitment to provide the dollar amount
12 specified over the time period specified and for the purposes specified. Funds may come
13 from Avista retained earnings that are available for payment of dividends to Olympus
14 Equity LLC consistent with the ring fencing provisions and/or other Hydro One affiliates.
15 Avista will not seek cost recovery for any of the commitments funded or arranged by
16 Hydro One in the merger commitments. Likewise, Hydro One will not seek to recover
17 such costs or funds from ratepayers in Ontario.

18 **Q. Can you briefly describe the Most Favored Nations ("MFN")**
19 **provision in Commitment 81?**

20 A. Yes. Hydro One and Avista have agreed to a process whereby the
21 Commission will have an opportunity and the authority to consider and adopt
22 commitments made by Hydro One and/or Avista in other jurisdictions, even if those
23 commitments are made after the Commission enters an order accepting the Settlement
24 Stipulation and approving the Joint Application in this docket. The process for

1 considering commitments made in other jurisdictions and limits on the types of
2 commitments subject to the MFN are described in detail in the commitment itself.

3 **VI. BENEFITS OF THE TRANSACTION**

4 **Q. Will the Proposed Transaction provide net benefits to Washington**
5 **customers?**

6 A. Yes.

7 **Q. How will the Proposed Transaction provide net benefits to**
8 **Washington customers within the meaning of RCW 80.12.020(1)?**

9 A. The transaction provides net benefits to Washington customers in various
10 ways. First, customers will realize immediate financial benefits in the form of retail Rate
11 Credits beginning at the close of the Proposed Transaction. Avista and Hydro One will
12 flow through to Avista's retail customers in Washington a Rate Credit of \$30.7 million
13 over a period of five (5) years, beginning at the time the merger closes. This is an
14 approximate \$12 million dollar increase from the Rate Credit proposed in the Joint
15 Application (an increase from approximately \$20 million to almost \$31 million). The
16 total Rate Credit to Washington customers for the five (5) years following the closing of
17 the transaction will be approximately \$6.1 million per year. Hydro One and Avista also
18 agreed to shorten the payout period of the Rate Credit from ten (10) to five (5) years and
19 to reduce the offsetable portion of the annual Rate Credit as a result of settlement
20 negotiations. A limited portion of the Washington annual Rate Credit—up to \$1.02
21 million annually—will be offsetable, but only if Avista proves to the Commission that
22 savings have materialized and that the offset to Rate Credits should apply.

1 Second, in addition to the Rate Credits, Avista's Washington customers will see
2 numerous other financial benefits as a result of the Proposed Transaction, including:

- 3 • \$600,000 over a ten (10) year period for home energy audits for at least
4 2,000 homes at \$300 per home;
- 5 • \$5,000,000 over a ten (10) year period for one or more renewable
6 generation project(s) to benefit Avista's low income customers;
- 7 • \$2,000,000 over a ten (10) year period for the replacement of
8 manufactured homes;
- 9 • \$4,000,000, over and above existing low-income weatherization funding,
10 for a ten (10) year period for low-income weatherization in Washington;
11 and
- 12 • \$65,500 initial investment in software upgrades and administrative costs
13 for an On Bill Repayment program.

14 Third, as explained further in my direct testimony (Exh. MMS-1T), over time, due
15 to the similarities between Avista and Hydro One, the Proposed Transaction will provide
16 opportunities for increased innovation, research and development, and efficiencies by
17 extending the use of technology, best practices, and business processes over a broader
18 customer base and a broader set of infrastructure between the two companies.

19 **Q. Is the Proposed Transaction in the public interest?**

20 A. Yes. As described in my direct testimony and in this testimony, the
21 Proposed Transaction provides immediate and long-term financial benefits to Avista's
22 customers. The Proposed Transaction also secures continued and increased charitable
23 contributions, including a one-time \$7,000,000 contribution to Avista's charitable
24 foundation, and sustains economic development investments in the communities in which
25 Avista operates, including a \$3,000,000 contribution to a Colstrip community transition
26 fund. In the longer term, additional benefits will accrue to Avista's customers through its

1 combination with a larger utility that will provide benefits of scale and savings in the
2 years to come.

3 **Q. In your view, what if anything should the Commission do at this time**
4 **to provide direction on interpretation of the “net benefits” standard under RCW**
5 **80.12.020?**

6 A. Although this is not strictly a case of first impression because the
7 Commission applied the “net benefit” standard in the context of Northwest Natural’s
8 formation of a holding company,¹ we recognize that this is the first large merger
9 proceeding to which the Commission will apply the net benefit standard. Therefore it
10 might be tempting to address the issue in some detail. Nevertheless, Hydro One believes
11 that the Commission should not now try to clarify the meaning of “net benefits” for
12 several reasons. First, whatever the standard means, all parties to this proceeding agree
13 that the standard has been met. Accordingly, the issue does not need to be resolved.
14 Second, the issue is not ripe for decision because no record has been developed on this
15 issue. It would be risky to look at statements from one elected official or one other
16 jurisdiction in isolation, without knowing what alternative views exist. To do so would
17 unduly constrain the Commission from exercising its discretion in a future proceeding
18 where the issue is actually joined, the record developed, and a thorough analysis
19 provided. For example, the Commission would want to reflect on the relevance of its
20 order approving the acquisition of Puget Sound Energy in 2008, which stated: “Indeed,

¹ *In the Matter of Northwest Natural Gas Company’s Application for Approval of Corporate Reorganization to Create a Holding Company*, Docket No. UG-170094, Order 01 (Dec. 28, 2017).

1 we believe that the transaction not only does no harm, it offers affirmative benefits to
2 ratepayers and to the region.”² Finally, the application of the net benefits standard will
3 depend on the facts and circumstances of each case and the Commission should preserve
4 its flexibility in that regard.

5 **Q. Does this conclude your supplemental direct testimony?**

6 A. Yes, it does. For all the reasons stated above, Hydro One respectfully
7 requests that the Commission approve the Proposed Transaction.

² *In re Puget Holdings and Puget Sound Energy, Inc.*, Docket No. U-072375, Order 08, ¶ 8 at n.3 and ¶ 32 (Dec. 20, 2008) (citation omitted).