

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. U-17\_\_\_\_\_

DIRECT TESTIMONY OF

MAYO M. SCHMIDT

REPRESENTING HYDRO ONE

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**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Mayo Schmidt, and my business address is 483 Bay Street, South Tower, 8th Floor Reception, Toronto, Ontario M5G 2P5.

**Q. By whom are you employed and in what capacity?**

A. I am the President and Chief Executive Officer (CEO), as well as a Director, of both Hydro One Limited (“Hydro One”) and Hydro One Inc. Hydro One is a major North American electric transmission and distribution utility, serving more than 1.3 million residential and business customers in Ontario, Canada.

**Q. Please summarize your education and business experience.**

A. I received a B.B.A. from Washburn University, and an honorary Doctorate of Commerce from Washburn University. I also have followed advanced study courses at U.C.L.A., the University of Nebraska, and Harvard University. My résumé outlining my background prior to joining Hydro One is Exh. MMS-2.

**Q. What position will you hold with Avista Corporation (“Avista”) after the transaction is completed?**

A. I will be a member of the post-merger Avista Board of Directors. I will continue to be President and CEO of Hydro One.

**Summary of Testimony**

**Q. What is the purpose of your direct testimony in this proceeding?**

A. The purpose of my testimony is:

- to describe Hydro One and its affiliates,
- to describe the transaction,
- to explain the reasons for Hydro One’s proposed purchase of Avista,

- 1 • to describe Avista’s operations once the transaction is completed, and
- 2 • to demonstrate that the transaction will benefit Avista’s customers,
- 3 employees and communities.

4 **Q. Please summarize your testimony.**

5 A. My testimony demonstrates that Hydro One is well suited to serve as the  
6 parent company of Avista. I also explain how the transaction, if approved by state and  
7 federal regulators, will result in Avista’s regulated electric business becoming a new,  
8 ring-fenced, business platform under Hydro One (the “Proposed Transaction”).

9 My testimony explains the reasons for Hydro One’s proposed purchase of Avista:  
10 (1) growth, (2) diversification both in terms of jurisdictions and service areas, (3)  
11 increased scale and benefits that come from being a larger player in the utility industry,  
12 and (4) cost savings over the longer term.

13 My testimony provides evidence of the benefits to Avista’s customers,  
14 communities, and employees if the Proposed Transaction is approved. In my testimony  
15 and that of other Hydro One witnesses, we are offering dozens of commitments to the  
16 benefit of the customers and communities served by Avista.

17 Specifically, the benefits of the Proposed Transaction include the following  
18 Hydro One and Avista commitments, among others, which I detail later in my testimony:

- 19 • Avista will provide Rate Credits totaling \$31.5 million to its electric  
20 and natural gas customers in Washington, Idaho, and Oregon for 10  
21 years beginning at the time the merger closes;
- 22 • The Proposed Transaction will preserve the authority of the Avista  
23 Corporation board to continue to make operational decisions in the  
24 ordinary course of business. These decisions also include funding for  
25 innovation and economic development in the communities served by  
26 Avista;
- 27 • A substantial contribution will be made to Avista’s charitable  
28 foundation and programs; and

- 1                   • Over time, both Avista’s and Hydro One’s customers will benefit from  
2                   their utilities’ increased purchasing power, sharing of best practices  
3                   and economies of scale.

4                   In addition to the foregoing commitments, customers can expect benefits that will  
5                   result from the financial and business stability associated with North American  
6                   ownership of Avista by Ontario’s largest regulated transmission and distribution  
7                   company.

8                   **Q.     Who else will be providing testimony on behalf of Hydro One?**

9                   A.     Hydro One will also offer testimony from the following witnesses:

- 10                  • Chris Lopez, Senior Vice President of Finance of Hydro One, will  
11                  describe the Proposed Transaction; discuss Hydro One’s corporate  
12                  structure and where Avista will reside within that structure; discuss  
13                  Hydro One’s capital structure; describe Hydro One’s financing for,  
14                  and the mechanics of, the Proposed Transaction; describe Avista’s  
15                  post-transaction access to capital; enumerate certain financial,  
16                  structural, and ring-fencing commitments that Hydro One and Avista  
17                  are proposing as part of their request for approval of the Proposed  
18                  Transaction; and describe the Rate Credits included as part of the  
19                  Proposed Transaction.
- 20                  • Ferio Pugliese, Executive Vice President, Customer Care and  
21                  Corporate Affairs at Hydro One Networks Inc., will describe Hydro  
22                  One Networks’ customer service philosophy and supporting programs;  
23                  describe Hydro One Networks’ customer service record and improved  
24                  practices that have been deployed; describe Hydro One Networks’  
25                  experience and priorities related to providing electric service to the  
26                  rural and remote regions of Ontario, including First Nations  
27                  Communities; and discuss opportunities for Hydro One and Avista to  
28                  collaborate on enhancing and improving service to the customers of  
29                  Hydro One and Avista.

30                  A table of contents of my testimony is as follows:

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9 **Q. Are you sponsoring exhibits with your testimony?**

10 A. Yes. Attached to my testimony are:

- 11 • Exh. MMS-2: Mayo Schmidt Résumé, and
- 12 • Exh. MMS-3: Exhibits A and B to Merger Agreement (“Delegation of
- 13 Authority”).

15 **II. HYDRO ONE AND ITS BUSINESS ACTIVITIES**

16 **Q. Who is Hydro One and what areas does it serve?**

17 A. Hydro One is an investor-owned electric transmission and distribution  
18 utility headquartered in Toronto, Ontario, Canada.<sup>1</sup> Through its subsidiaries, Hydro One  
19 provides electric distribution service to more than 1.3 million retail end-use customers, as  
20 well as electric transmission service to many local distribution companies and large  
21 industrial customers. We have approximately 5,400 full-time employees and 3,300 casual

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<sup>1</sup> Please see Appendix 9 for identification of the officers, Executive Leadership Team and SVP of Finance of Hydro One.

1 and temporary employees (not including external contractors). Hydro One has over C\$6.5  
2 billion in annual revenues and approximately C\$14 billion in market capitalization.

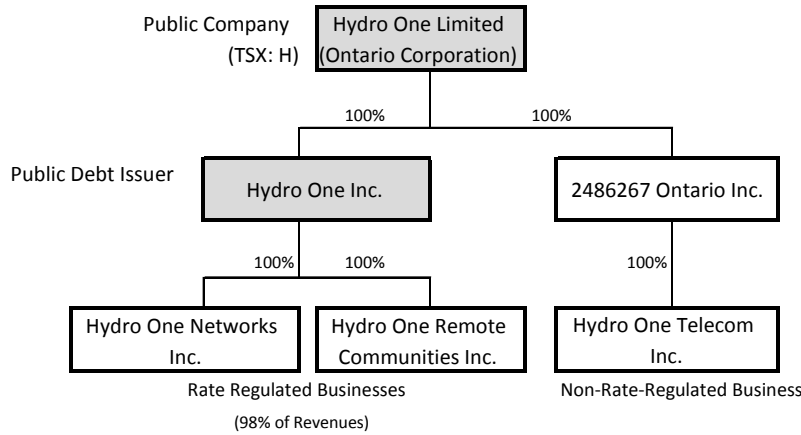
3 **Q. Please explain the business activities of Hydro One.**

4 A. Hydro One was established in 1906 as the Ontario-owned Hydro-Electric  
5 Power Commission of Ontario (later renamed Ontario Hydro). Until 2015, Hydro One  
6 was owned by the Province of Ontario. Today, Hydro One is a public company traded on  
7 the Toronto Stock Exchange under the ticker symbol “H.” Hydro One is the sole owner  
8 of Hydro One Inc., which, among other things, is the sole shareholder of two rate-  
9 regulated businesses: Hydro One Networks Inc. and Hydro One Remote Communities  
10 Inc. These rate-regulated businesses produce approximately 98% of Hydro One  
11 Limited’s revenue. Hydro One also is the sole indirect owner of Hydro One Telecom  
12 Inc., which is not regulated by the Ontario Energy Board and is registered with the  
13 Canadian Radio-television and Telecommunications Commission as a non-dominant,  
14 facilities-based telecommunications carrier. The following corporate organizational  
15 chart depicts these relationships:

**Illustration No. 1:**

**Current Corporate Structure**

The diagram below depicts the current relationship of Hydro One Limited and its primary operating subsidiaries that are referenced in the Joint Application.



**Q. Please discuss the restructuring of Ontario Hydro that led to the creation of Hydro One Inc.**

A. In 1999, Ontario Hydro was restructured into five separate entities, including Hydro One Inc. as the successor to its transmission and distribution business, and Ontario Power Generation Inc., as the successor to its generation business. Hydro One Inc., Hydro One’s wholly-owned subsidiary, was incorporated on December 1, 1998 under the *Business Corporations Act* (Ontario) as a separate corporation providing transmission and distribution services, with the Province of Ontario as its sole shareholder. Hydro One was incorporated by the Province of Ontario on August 31, 2015, under the *Business Corporations Act* (Ontario). On October 30, 2015, Hydro One’s articles of incorporation were amended to authorize the creation of an unlimited number of Series 1 preferred shares and an unlimited number of Series 2 preferred shares,

1 with the Series 1 preferred shares to be issued to the Province. On October 31, 2015, all  
2 of the issued and outstanding shares of Hydro One Inc. were acquired by Hydro One  
3 from the Province in exchange for the issuance to the Province of common shares and  
4 Series 1 preferred shares of Hydro One. On November 4, 2015, the articles of Hydro  
5 One were amended to authorize the consolidation of its outstanding common shares such  
6 that 595,000,000 common shares of Hydro One were issued and outstanding. The  
7 preferred shares continue to be outstanding. On November 5, 2015, Hydro One  
8 completed its initial public offering on the Toronto Stock Exchange by way of secondary  
9 offering of common shares by the Province of Ontario, with the goal that, over time,  
10 approximately 60% of Hydro One would be held by private investors.

11 **Q. What is the current ownership interest of the Province in Hydro One?**

12 A. As of July 31, 2017, the Province owned 49.9% of Hydro One's shares  
13 with the remainder of shares held by private investors. Based on facts known today and  
14 assuming the Proposed Transaction is completed, the Province's level of ownership of  
15 Hydro One will decline to below 45%. In addition, the Ontario *Electricity Act, 1998*  
16 restricts the Province from selling voting securities (including common shares of Hydro  
17 One) if it would own less than 40% of the outstanding number of voting securities of that  
18 class or series after the sale. If as a result of the issuance of additional voting securities  
19 of any class or series by Hydro One, the Province would own less than 40% of the  
20 outstanding number of voting securities of that class or series, then the Province shall,  
21 subject to certain requirements, take steps to acquire as many voting securities of that  
22 class or series of voting securities as are necessary to increase the Province's ownership  
23 to not less than 40% of the outstanding number of voting securities of that class or series.



1           In order to assist the Province in meeting its ownership obligations under the  
2 *Electricity Act, 1998*, under the governance agreement with the Province, Hydro One has  
3 granted the Province a pre-emptive right to subscribe for and purchase up to 45% of any  
4 proposed issuance by Hydro One of voting securities or securities that are convertible or  
5 exchangeable into voting securities (other than certain specified excluded  
6 issuances). Any offered securities not subscribed for and purchased by the Province  
7 pursuant to its pre-emptive right may be issued to any other person pursuant to the  
8 proposed offering.

9           Over the past two years, the Province of Ontario has divested a majority stake in  
10 Hydro One. In November 2015, Hydro One debuted on the Toronto Stock Exchange  
11 with a 15% initial public offering (IPO by way of secondary offering of approximately  
12 15% of the issued and outstanding common shares, followed by subsequent secondary  
13 offerings of the issued and outstanding shares in April 2016 (approximately 15%) and  
14 May 2017 (approximately 20%)). Hydro One is now governed by an independent board,  
15 other than myself as CEO, and a governance agreement that ensures autonomous  
16 commercial operations, with the Province of Ontario as an investor and not a manager.

17           **Q. Does the Province of Ontario's continued ownership of Hydro One**  
18 **stock mean that Hydro One's business and operations are controlled by the**  
19 **provincial government?**

20           A. No. The Province of Ontario is a shareholder and pursuant to its  
21 governance agreement with Hydro One it does not hold or exercise any managerial  
22 oversight over Hydro One. Of Hydro One's 15 directors, all are independent of the  
23 Province within the meaning of Canadian securities laws, and, with the exception of the

1 President and CEO, all of Hydro One's directors are independent of Hydro One. The  
2 governance agreement and Hydro One's independent board ensure that Hydro One's  
3 business and operations are completely independent from the government of the Province  
4 of Ontario.

5

6 **Hydro One's Transmission Business:**

7 **Q. Please expand on the nature of Hydro One's regulated transmission**  
8 **business.**

9 A. Hydro One's transmission business consists of owning, operating and  
10 maintaining its transmission system, which accounts for approximately 98% of Ontario's  
11 transmission capacity. Hydro One's transmission business is a rate-regulated business  
12 that receives revenues from charging transmission rates approved by the OEB. Hydro  
13 One's transmission business accounted for approximately 51% of Hydro One's total  
14 assets on December 31, 2016, and approximately 51% of its total revenues, net of  
15 purchased power, in 2016. The following map depicts the transmission network:

1 **Illustration No. 2:**  
 2 **Electricity Transmission System Map**



13  
14 Hydro One Networks, as depicted in Illustration No. 2 above, is involved in the  
 15 planning, construction, operation, and maintenance of our transmission and distribution  
 16 network. Our transmission system carries electricity from generating stations to local  
 17 distribution companies and large industrial customers through our high-voltage network  
 18 of transformer stations, transmission towers and wires. Through its wholly-owned  
 19 subsidiary, Hydro One Inc., Hydro One owns and operates 98% of the transmission  
 20 system in Ontario with over 30,000 km of high-voltage transmission lines (approximately  
 21 19,000 miles) and an approximately 123,000 circuit km (approximately 77,000 miles) of  
 22 low-voltage distribution network. The Company's transmission system is interconnected

1 to systems in Manitoba, Michigan, Minnesota, New York and Quebec and is part of the  
2 North American electricity grid's Eastern Interconnection.

3 All of Hydro One's transmission business is carried out by its wholly-owned  
4 subsidiary Hydro One Inc., through its wholly-owned subsidiary Hydro One Networks  
5 Inc. and through other wholly-owned subsidiaries of Hydro One Inc. Hydro One's  
6 distribution system delivers electricity at lower voltages to homes, farms and businesses  
7 through our network of poles and power lines, mostly in rural areas.

8 Hydro One's core competency rests with its construction and operation of its  
9 significant transmission and distribution system. In particular, Hydro One has deep  
10 experience with building transmission and distribution, particularly in rural and remote  
11 areas. We have a helicopter fleet with expertise in constructing and maintaining our  
12 transmission system. We also have significant development experience, having designed  
13 and built substantially all of Ontario's transmission system and a large portion of its  
14 distribution system. This includes the Bruce to Milton transmission project, the largest  
15 transmission infrastructure project in Ontario in over 20 years. It involved the  
16 construction of approximately 700 transmission towers and 180 km (approximately 110  
17 miles) of double circuit lines. More recently, we were selected to develop the Northwest  
18 Bulk transmission line, another large scale transmission project that if approved by the  
19 Ontario Energy Board, would reinforce the connection between Thunder Bay and Dryden  
20 (a distance of approximately 1300 km or 800 miles).

21 **Q. You mentioned that Hydro One's transmission system is**  
22 **interconnected to systems in Manitoba, Michigan, Minnesota, New York and**  
23 **Quebec and is part of the North American electricity grid's Eastern**

1 **Interconnection. Can you describe in further detail Hydro One's current presence**  
2 **in the United States?**

3 A. Hydro One has a number of interconnections with the states of Michigan  
4 and New York that provide for a significant transfer of power between Ontario and the  
5 U.S. With Michigan, there are 4 tie lines, three at 230kV and one at 345kV. Collectively  
6 these interties provide a transfer capability of approximately 1,700 MW. With New  
7 York, there are 6 tie lines, four at 230kV and two at 345kV. Collectively these interties  
8 provide a transfer capability of approximately 2,000 MW. The ability to exchange  
9 significant amounts of electricity with other jurisdictions facilitates a more competitive  
10 marketplace in both Ontario and the U.S.

11 These interties also connect Ontario to a larger North American system known as  
12 the Eastern Interconnection. The Eastern Interconnection is a contiguous electricity  
13 transmission system that extends from Manitoba to Florida and from east of the Rocky  
14 Mountains to the North American east coast. Being part of the Eastern Interconnection  
15 provides benefits to Ontario, such as greater security and stability for Ontario's power  
16 system and emergency support when there are generation constraints or shortages in  
17 Ontario. In a reciprocal manner, Ontario can provide support to other jurisdictions in the  
18 Eastern Interconnection.

19 **Q. Please provide some insight into Hydro One's philosophy regarding**  
20 **operations of transmission and distribution facilities.**

21 A. Hydro One Inc. is a pure-play electric transmission and distribution utility.  
22 As a result, we are highly focused on ensuring that we maintain and expand our  
23 transmission and distribution systems to ensure our customers receive the best possible

1 service. Between 2017 and 2021, we are planning projects that are intended to renew and  
2 modernize the grid, including upgrading and replacing infrastructure nearing the end of  
3 its lifespan, with a corresponding projected capital investment of approximately \$9.7  
4 billion.

5 **Q. Please relate Hydro One's recent experience with maintaining and**  
6 **upgrading its transmission system.**

7 A. Two recent medium-scale capital projects are representative of the  
8 investments Hydro One makes in its transmission system:

9 Clarington Transmission Station: This \$267 million project consists of two  
10 750MVA, 500/230 kV transformers and associated termination facilities. The  
11 Clarington Transmission Station will connect Hydro One's bulk transmission  
12 network to Eastern Ontario upon retirement of the Pickering Nuclear  
13 Generation Station. The station's anticipated in-service date is 2018.

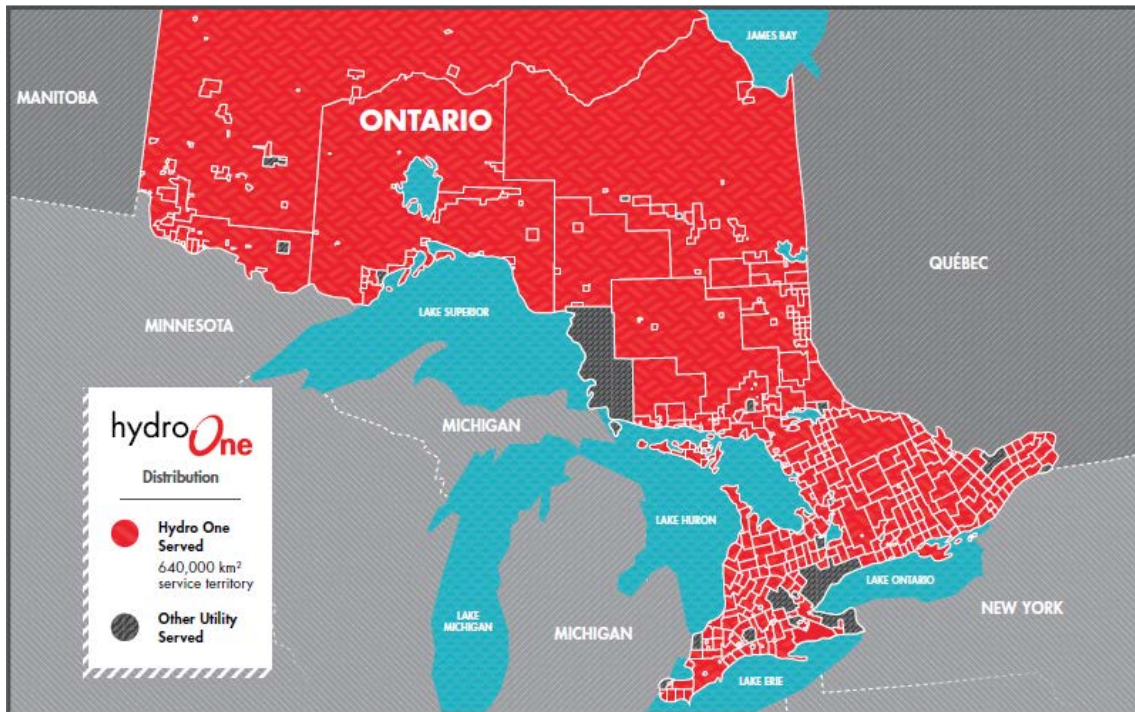
14 Richview Transmission Station: This \$103 million project replaces end-of-life  
15 equipment at the Richview Transformer Station to ensure secure and reliable  
16 power supply to the City of Toronto and surrounding communities. The  
17 anticipated in-service date is 2019.

18

19 **Hydro One's Distribution Business:**

20 Hydro One's distribution business consists of owning, operating and maintaining  
21 its distribution system. Hydro One's distribution system is the largest in Ontario, and  
22 principally serves rural communities. Hydro One's distribution business is a rate-  
23 regulated business that receives revenues by charging distribution rates that are approved  
24 by the OEB. Hydro One's distribution business accounted for approximately 37% of its  
25 total assets on December 31, 2016, and approximately 47% of its total revenues, net of  
26 purchased power, in 2016. The following map depicts the distribution footprint of  
27 Hydro One:

1 **Illustration No. 3:**  
 2 **Electricity Distribution System Map**



13 Hydro One has more than 1.3 million end-use customers, and has deployed smart  
 14 meters to nearly all of its customers. Hydro One has more than 10 years of experience  
 15 working with automated metering infrastructure (“AMI,” also known as smart meters).  
 16 As part of its industry leadership in the deployment of smart meters, Hydro One received  
 17 the Utilities Telecom Council Apex Award for demonstrating excellence and innovation  
 18 in developing telecommunications solutions for Hydro One’s rural utility Smart Grid  
 19 Project.

20 **Q. Given Hydro One’s dispersed service area throughout Ontario, what**  
 21 **is its experience in storm recovery efforts?**

22 **A.** Hydro One has developed an award-winning team responsible for speedy  
 23 storm recovery. Indeed, Hydro One prides itself in having a longstanding history of

1 responding to emergencies. We are an active member in the Edison Electric Institute  
2 Mutual Aid Agreement and are often called upon to assist with storm restoration efforts  
3 in the U.S. In the past, Hydro One has sent crews to Massachusetts, Michigan, Florida,  
4 Ohio, Vermont, Washington, D.C., and the Carolinas.

5 In July 2012, Hydro One dispatched 200 employees to Washington, Baltimore  
6 and Virginia after a devastating wind storm knocked out power to more than three million  
7 homes and businesses. A few months later, in November 2012, 225 Hydro One  
8 employees travelled to Long Island, N.Y., to assist in the Hurricane Sandy restoration  
9 efforts. Hydro One was awarded EEI's prestigious Emergency Assistance Award for  
10 supporting the June 2012 Mid-Atlantic and Midwest derecho and Hurricane Sandy  
11 recovery efforts.

12 **Q. Does Hydro One own or operate any generation assets?**

13 A. As explained further below, Hydro One Networks Inc. and Hydro One  
14 Remote Communities Inc. are two regulated subsidiaries. The largest, Hydro One  
15 Networks, does not own or operate any generation assets; it is solely a transmission and  
16 distribution utility. Hydro One Remote Communities Inc. owns a de minimis portfolio of  
17 generation assets to serve remote communities in Ontario.<sup>1</sup>

18 **Q. Please describe Hydro One Remote Communities Inc. and Hydro One**  
19 **Telecom Inc.**

20 A. Hydro One Remote Communities Inc. is another regulated subsidiary of  
21 Hydro One. Through Hydro One Remote Communities Inc., Hydro One operates and  
22 maintains the generation and distribution assets used to supply electricity to

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<sup>1</sup> Hydro One Remote Communities has a maximum generation capacity of 31.6 MW.



1 approximately 21 communities across northern Ontario that are not connected to the  
2 province's electricity grid, 15 of which are First Nations reserves.

3 Hydro One Telecom Inc. is an indirect subsidiary of Hydro One that markets  
4 dark and lit fiber optic capacity to telecommunications carriers and commercial  
5 customers. This business, which is not regulated by the Ontario Energy Board, generated  
6 more than \$85 million in revenue in 2016. Hydro One Telecom leverages Hydro One's  
7 network fiber assets used to monitor and manage power grid circuitry. Hydro One  
8 Telecom's customers include data centers, cloud service providers, enterprises, internet  
9 service providers (ISPs), other telcos and public sector entities.

10 **Q. What previous acquisitions has Hydro One Limited undertaken in the**  
11 **energy industry?**

12 A. As the largest distributor in Ontario, Hydro One has been an active  
13 consolidator of local distribution companies ("LDCs"). By the early 2000s, Hydro One  
14 acquired 88 individual LDCs in Ontario, which were subsequently integrated into Hydro  
15 One's distribution business.<sup>1</sup> More recently, we strengthened our capabilities to acquire  
16 and integrate LDCs, thereby positioning Hydro One for future earnings growth having  
17 completed the acquisitions of Woodstock Hydro Services Inc. (October 2015),  
18 Haldimand County Hydro (June 2015), and Norfolk Power (August 2014). In 2016, we  
19 acquired Great Lakes Power Transmission for approximately \$370 million, increasing  
20 Hydro One's transmission market share in Ontario to 98%.

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<sup>1</sup> With the exception of Hydro One Brampton Networks Inc., which was operated as a stand-alone entity.

1           **Q. Please discuss Hydro One's experience with energy efficiency**  
2 **programs and Demand Side Management (DSM) programs.**

3           A. Hydro One currently provides Conservation and Demand Management  
4 (CDM) programs, covering all of its customer segments; from residential to agriculture  
5 and small business to large industrial. Employing online, self-serve tools and in field  
6 tablet enrollment processes, Hydro One has endeavored to make participation in its CDM  
7 programs effortless and seamless. Endeavoring to promote local business development in  
8 the many communities that Hydro One serves, one such program employs over 150 local  
9 electrical contracting companies working in our communities. One CDM program is the  
10 Small Business Lighting Program. This direct install program has retrofitted over 39,000  
11 businesses since its inception in 2009, and generates over \$24 million in annual bill  
12 savings for participating Hydro One small business customers. Overall, conservation and  
13 demand management programs have saved approximately 395 Giga-Watt hours.

14           **Q. What has been the experience of Hydro One regarding environmental**  
15 **stewardship?**

16           A. Hydro One is one of only four utilities in Canada to achieve the  
17 Sustainable Energy Company designation from the Canadian Electrical Association.  
18 Hydro One transmits and distributes some of the cleanest electrical power in North  
19 America. We are committed to managing our facilities and operations through a risk-  
20 based approach that avoids and/or minimizes our impact on the environment and supports  
21 ecosystem protection and conservation of biological diversity. In addition, we have taken  
22 steps to mitigate greenhouse gas emissions from our facilities and operations and adapt to  
23 the adverse effects of climate change on electricity infrastructure.

1           Given the scale of our operations, and in particular the size of our transmission  
2 system, we are keenly aware of our responsibility to help build a low carbon economy.  
3 We do this by supporting the provincial and federal governments as they address climate  
4 change, by preserving local habitats and protecting biodiversity, and by continuously  
5 looking for ways to reduce our own carbon footprint.

6           Our operations are highly regulated from an environmental perspective. There are  
7 financial and reputational risks associated with the safe transportation, storage and  
8 disposal of waste and polychlorinated biphenyl (PCBs). Similarly, preserving and  
9 protecting local species at risk, managing potential land contaminations, responding to  
10 spills and managing greenhouse gas emissions are all critical aspects of our  
11 environmental responsibility mandate.

12           To assess and mitigate these risks, Hydro One has an integrated Health, Safety,  
13 and Environmental Management System (HSEMS) that is aligned with the ISO 14001  
14 Environmental Management Systems framework. Each line of business at Hydro One is  
15 expected to identify high environmental risks in its area of operation and assign teams to  
16 reduce risks.

17           As the owner of thousands of kilometers of transmission grid corridor lands in  
18 Ontario, Hydro One is particularly focused on managing these corridor lands to ensure  
19 habitat preservation and protection of species at risk. Hydro One uses a multifaceted  
20 approach to biodiversity management, combining regulatory requirements with  
21 government priorities wherever possible. Our Biodiversity Advisory Committee (BAC)  
22 has representatives from relevant lines of business and is mandated to develop, review  
23 and recommend strategies to improve performance while ensuring we respond to

1 provincial acts such as the Endangered Species Act, Migratory Bird Convention Act, Fish  
2 and Wildlife Conservation Act, and the Invasive Species Act, among others. Hydro One's  
3 new Clarington Transformer Station is an example of Hydro One's approach to  
4 biodiversity preservation and protection. After undertaking a Class EA (environmental  
5 assessment), Hydro One committed to creating habitats on excess property at the site to  
6 offset the project's impacts.

7 **Q. What has been Hydro One's experience with its utility workforce?**

8 A. Hydro One believes in maintaining constructive relationships with its  
9 unions. We have a strong partnership with our unions on health and safety and continued  
10 improvement in this area. We have structured committees for exchanging dialogue and  
11 resolving issues, which include the union and company executive. We have innovative  
12 dispute resolution forums that ensure the timely resolution of disputes when they arise  
13 and minimize time and expense for the company and the union.

14

15 **III. THE PROPOSED TRANSACTION**

16 **Q. Please describe Hydro One's proposed acquisition of Avista.**

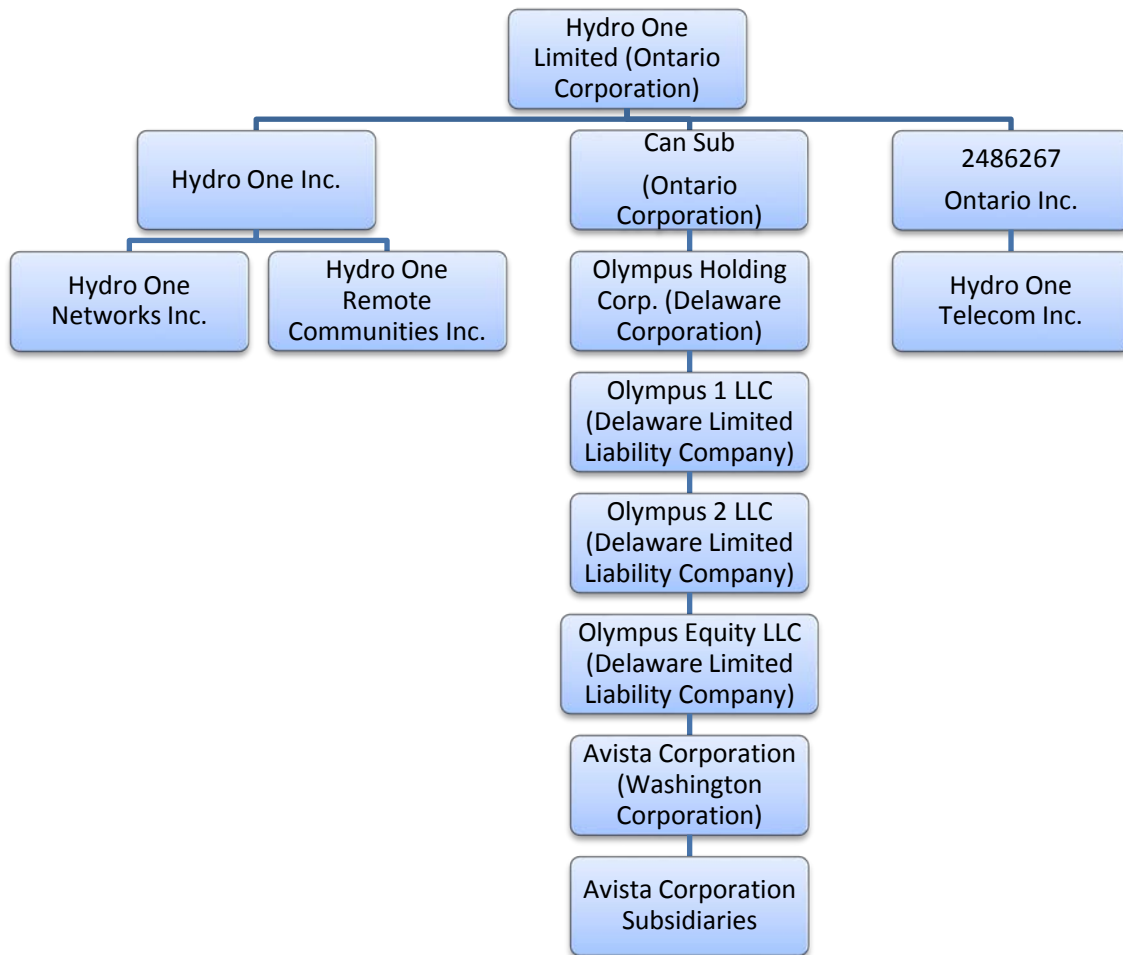
17 A. The boards of directors for Hydro One and Avista unanimously approved  
18 an all-cash transaction through which Avista shareholders will receive US\$53 per  
19 common share, representing a 24% premium to Avista's last sale price of \$42.74 per  
20 share on July 18, 2017. Avista shareholders will together receive cash consideration  
21 totaling approximately \$3.4 billion.

1 Together, Hydro One and Avista will service more than two million retail end-use  
 2 customers and we will operate across multiple North American jurisdictions, including  
 3 Ontario, Washington, Oregon, Idaho, Montana and Alaska.

4 **Q. Please describe Hydro One’s corporate organization structure after**  
 5 **the proposed merger with Avista.**

6 A. Upon completion of the Proposed Transaction, Avista will be an indirect,  
 7 wholly-owned subsidiary of Hydro One as shown in the organizational chart in  
 8 Illustration No. 4 below:

9 **Illustration No. 4:**



1           Once acquired by Hydro One, I expect Avista to be operated much as it is today,  
2 and it will continue to be headquartered in Spokane, Washington.

3           **Q. Does Hydro One view Avista as a short-term or long-term**  
4 **investment?**

5           A. Hydro One plans to be a long-term partner. This is the first time that  
6 Hydro One has embarked on the acquisition of a U.S. utility. As a utility that serves  
7 more than 1.3 million customers, Hydro One is focused on long-term opportunities that  
8 are beneficial to customers, employees, shareholders, and the communities we serve.

9

10           **IV. HYDRO ONE'S REASONS FOR ACQUIRING AVISTA**

11           **Q. Please describe the reasons for Hydro One's proposed acquisition of**  
12 **Avista.**

13           A. For more than 100 years and until just two years ago, Hydro One, and its  
14 predecessor Ontario Hydro, was owned solely by the Province of Ontario. In 2015,  
15 Hydro One became a commercially operated investor owned utility. Over the years,  
16 Hydro One had acquired a number of LDCs in Ontario to increase its distribution  
17 footprint. Since 1998, Hydro One has successfully acquired and integrated  
18 approximately 90 separate LDCs. Hydro One continues to pursue growth and the benefits  
19 that will accrue to its customers, communities and shareholders from that growth.

20           Hydro One is a pure-play transmission and distribution utility located solely  
21 within Ontario. It seeks diversification both in terms of jurisdictions and service areas.  
22 The Proposed Transaction with Avista achieves both goals by expanding Hydro One into  
23 the U.S. Pacific Northwest and expanding its operations to natural gas distribution and

1 electric generation. The Proposed Transaction with Avista will deliver the increased  
2 scale and benefits that come from being a larger player in the utility industry.

3 The utility industry is changing dramatically, with the deployment of distributed  
4 generation and storage resources, and the ever increasing reliance on renewable  
5 generation. Avista and Hydro One acting separately will be challenged to participate in  
6 these innovations on a scale similar to the larger utilities due to the size of their balance  
7 sheets and customer bases. Combined, however, Avista and Hydro One will become  
8 more competitive by creating scale and cost efficiencies over time. Hydro One and  
9 Avista intend to continue investing in innovation. Together, with nearly two million  
10 customers, they can spread some of these costs over a larger base.

11 Finally, Hydro One and Avista believe that the Proposed Transaction will deliver  
12 cost savings over the longer term. While Hydro One and Avista cannot quantify those  
13 savings at this time, the companies should achieve savings over time through scale and  
14 collaboration in supply chain activity, IT development and implementation, innovation,  
15 and potentially other areas.

16 Both Hydro One and Avista have similar cultures and values, including a strong  
17 commitment to their respective communities, which will enable a seamless integration.  
18 Both companies make customer service, high customer satisfaction, reliability, safety,  
19 respect for the environment, and reasonable retail rates a high priority. Because of their  
20 shared culture and values, both companies have high expectations that Avista's and  
21 Hydro One's objectives for the Proposed Transaction will be achieved.

22 **Q. Please describe the similarities between Avista's and Hydro One's**  
23 **existing utility operations.**

1           A.       The opportunities for a successful transaction and transition are enhanced  
2 by the significant similarities between Hydro One and Avista. The utilities' similarities  
3 include: service focused on rural areas with just a few urban centers; revenues derived  
4 nearly exclusively from regulated utility businesses; and a focus on customer satisfaction  
5 and employee safety. Similar to Avista, Hydro One: (i) has expertise providing service to  
6 remote communities, (ii) relies extensively on hydropower generation, (iii) has a service  
7 territory that includes extensive forests and an active forest products industry, and (iv)  
8 provides service to rural areas where there are more poles than customers.

9           We expect to gain operating efficiencies by extending the use of technology, best  
10 practices and business processes over a broader customer base and broader set of  
11 infrastructure. We expect efficiencies in areas such as procurement, IT and operations.  
12 In general, our shareholders will also benefit from geographic, economic and asset  
13 regulatory diversity that this transaction will provide. The markets that we are entering  
14 have expanding economies and positive and growing customer demographics, and they  
15 are in geographic territories that are remarkably similar to those that we serve today in  
16 Ontario.

17           As a result of the uniquely similar yet also complementary profiles of the two  
18 companies, once the Proposed Transaction is complete, the profiles of the regulated  
19 utilities will remain intact, with the vast majority of revenues generated by rate-regulated  
20 operations and further enhanced by the virtue of asset and geographic diversification.



1           **V.           AVISTA’S POST-TRANSACTION OPERATIONS**

2           **Q.           How will Avista operate after completion of the transaction?**

3           A.           Avista will operate very much as it does today. Avista will become a  
4 separate indirect subsidiary under Hydro One; it will not be merged with other  
5 subsidiaries. Avista will have its own management and its own board of directors. In  
6 short, Avista will have the same look and feel to customers after the merger as it has  
7 today.

8           **Q.           Please describe Hydro One’s and Avista’s agreement regarding**  
9 **decisions reserved to Avista’s board.**

10          A.           One of the issues most important to Avista CEO Scott Morris as we  
11 discussed the prospect of a merger was ensuring that Avista customers will benefit in the  
12 years to come from the unique features of this transaction: Avista will maintain its  
13 existing corporate headquarters in Spokane, Washington; Avista will continue to operate  
14 as a standalone utility in Washington, Oregon, Idaho, Montana and Alaska; Avista will  
15 maintain its other office locations throughout its service areas; and Avista will seek to  
16 retain its existing employees and management team. All of these elements together with  
17 other provisions embedded within the Merger Agreement were specifically designed at  
18 Mr. Morris’s request to ensure that Avista’s customers continue to receive the service  
19 they have come to expect from a company that has been a leader in the Pacific Northwest  
20 for more than 100 years. Essentially, Hydro One gave Mr. Morris and Avista the  
21 “drafting pen” to assure that Avista had the assurances it needed in order to enter into this  
22 Proposed Transaction.

23           This effort resulted in the unique Delegation of Authority (Exhibits A and B to the

1 Merger Agreement, Appendix 5 to the Joint Application, and Exh. MMS-3 to my  
2 testimony), which reserves to Avista's post-transaction board ongoing management  
3 authority over Avista. The Delegation of Authority confirms the post-transaction Avista  
4 board's authority to make specified decisions without obligation to obtain any separate  
5 authorization or approval from the Hydro One board, subject to limited exceptions for  
6 extraordinary items, as described in the Delegation of Authority.

7 Decision-making authority with respect to the following issues will remain with  
8 the Avista post-transaction board:

- 9 • Keeping Avista's headquarters in Spokane;
- 10 • Keeping Avista's brand the same;
- 11 • Keeping Avista's office locations in each of its service areas, with no less  
12 of a significant presence in each location than that in place prior to the  
13 merger;
- 14 • Preventing workforce reductions resulting from the Proposed Transaction;
- 15 • Retaining Avista's existing management team;
- 16 • Maintaining existing compensation and benefit practices;
- 17 • Negotiating and entering into agreements with bargaining unit employees;
- 18 • Maintaining Avista's safety and reliability standards and policies and  
19 service quality measures in a manner that is substantially comparable to,  
20 or better than, those prior to the merger;
- 21 • Maintaining Avista's community involvement and support initiatives at  
22 levels equal to or greater than those prior to the merger;
- 23 • Maintaining a \$4.0 million annual budget for charitable contributions  
24 (funded by both Avista and the Avista Foundation) as compared to an  
25 approximate \$2.5 million level prior to the merger;
- 26 • Making a \$2.0 million annual contribution to the Avista Foundation  
27 (following an initial contribution to the Foundation of \$7.0 million at the  
28 time the merger closes);

1 • Maintaining at least the level of economic development that existed prior  
2 to the merger, including the expenditure of funds to support regional  
3 economic development and related strategic opportunities consistent with  
4 past practices;

5 • Maintaining existing levels of capital allocations for capital investment in  
6 strategic and economic development, including property acquisitions in  
7 the university district, support of local entrepreneurs and seed-stage  
8 investments;

9 • Continued development and funding of Avista's existing and future  
10 innovation activities; and

11 • Maintaining dues paid by Avista to various industry trade groups and  
12 membership organizations.

13 **Q. Will Avista have its own individual business plan?**

14 A. Yes. As part of the Delegation of Authority described above, the Hydro  
15 One board acknowledges that the post-transaction Avista board and management team,  
16 will plan for the operation of its business. Hydro One approval would be required,  
17 however, for an action expected to result in a material change to the nature of the  
18 business of Avista or Avista's subsidiaries.

19 **Q. Will Avista have control and responsibility for making decisions that**  
20 **achieve objectives such as customer satisfaction, reliable service, employee safety,**  
21 **environmental stewardship and regulatory/legislative credibility?**

22 A. Yes.

23 **Q. In addition to the fact that you will be joining the Avista Board of**  
24 **Directors, how will Avista's Board of Directors change after the merger?**

25 A. Avista will have a nine-member Board of Directors, five of whom will be  
26 designated by Hydro One and four by Avista. Avista CEO Scott Morris will be chair of  
27 the board; one other Hydro One executive and I will join the Avista board. Hydro One  
28 will identify three additional directors who reside in the Pacific Northwest and who are

1 not officers, employees or directors (other than as a director of Avista or Olympus Equity  
2 LLC) of Hydro One or its affiliates.

3 **Q. Are there any plans for a reduction in force at Avista as a result of the**  
4 **transaction?**

5 A. No.

6 **Q. Do you anticipate changing the existing labor contracts as a result of**  
7 **the Proposed Transaction?**

8 A. No. Avista will honor existing labor contracts, and the Delegation of  
9 Authority acknowledges the Avista board's authority over labor issues.

10 **Q. Has Hydro One received recognitions for its commitment to**  
11 **customers, communities and employees?**

12 A. Yes. Hydro One has a long history of deploying new technology and  
13 resources to ensure that our customers are receiving the highest quality service. Our  
14 efforts have been recognized on numerous occasions, examples of which follow:

- 15 • January 2007: We became the first utility outside of the United States to  
16 receive the Edison Institute Emergency Recovery Award for outstanding  
17 efforts in restoring power to more than 500,000 customers following four  
18 successive severe storms.
- 19 • 2008: Hydro One undertook the largest smart meter deployment initiative  
20 in North America and was selected as a finalist for a prestigious Platts  
21 Global Energy Award in the category of Sustainable Energy Initiative of  
22 the Year, for work on the meter/network initiative and our commitment to  
23 creating a world in which energy use and resources are sustainable.
- 24 • September 2011: Utilimetrics awarded Hydro One with the Utilimetrics  
25 Excellence in Project Management Award for superior achievement in  
26 innovation for the Smart Grid Program. This award recognized our central  
27 role in securing wireless spectrum for use by the utility sector in Canada.
- 28 • January 2015: Hydro One received a Sustainable Energy Company  
29 designation from the Canadian Electricity Association – one of only four  
30 companies in Canada to earn the prestigious award.

- 1           • December 2016: Hydro One was selected as one of Greater Toronto’s Top  
2           Employers for 2017 by Mediacorp Canada Inc. This designation  
3           recognizes Hydro One as an industry leader in offering employees an  
4           exceptional place to work.
- 5           • In 2016, Hydro One received the 2016 Esource Utility Ad Awards, 2016  
6           Summit Creative Awards, and Corporate Knights Canada’s top utility on  
7           measures of corporate social responsibility.

8           **Q.     Would it be reasonable for the Commission to expect continued strong**  
9           **performance by Avista in the area of customer service as a consequence of the**  
10          **Proposed Transaction?**

11          A.     Yes. There will be a concentrated effort and commitment by both Hydro  
12          One and Avista to ensure that customer service will benefit as we share best practices.

13          **Q.     Will Avista remain in charge of assuring safe and reliable service?**

14          A.     Yes. Under the Delegation of Authority, Avista’s existing executive  
15          management team will manage Avista’s business and will develop and execute Avista’s  
16          business plan under the oversight of the Avista board. The Avista leadership team and  
17          board will have authority to maintain Avista’s and its subsidiaries’ safety and reliability  
18          standards and policies and service quality measures in a manner that is consistent with  
19          those currently maintained at the time of the merger by Avista and its subsidiaries.

20          **Q.     Based on Hydro One’s experience, how can the Proposed Transaction**  
21          **be expected to affect Avista’s resource planning process?**

22          A.     We anticipate that the Proposed Transaction will not affect Avista’s  
23          resource planning process in any of its service territories.

24          **Q.     How do you expect the Proposed Transaction to affect Avista’s**  
25          **commitment to renewable generation resources?**

1           A.     We anticipate that the Proposed Transaction will not affect Avista's  
2 commitment to renewable generation resources.

3           **Q.     What is Hydro One's experience with wind and renewable resources?**

4           A.     As both the operator of over 98% of the transmission system in Ontario  
5 and as the largest distributor in the province, Hydro One has been at the forefront of  
6 integrating Ontario's significant renewable generation additions over the past decade.  
7 Since the beginning of the Province's renewable generation Feed-in-Tariff program,  
8 Hydro One has connected over 12,000 renewable energy projects totaling over 1,200  
9 MW of installed capacity to the distribution system and connected over 100 projects to  
10 the transmission system equaling over 12,000 MW of installed capacity. Further, as much  
11 of this renewable generation was connected in a short period of time, Hydro One was  
12 forced to rise to the challenge of bringing a variety of renewable projects including wind,  
13 solar, hydro and biomass onto the system. This developed a unique and diverse  
14 experience within the Company and new learning in system planning, system  
15 performance and operation, and customer service.

16           **Q.     What will Hydro One's ownership of Avista mean for the**  
17 **communities that Avista serves?**

18           A.     The Proposed Transaction provides a big boost to these communities.  
19 Avista will make a \$2.0 million annual contribution to the Avista Foundation (following  
20 an initial contribution to the Foundation of \$7.0 million at the time the merger closes).  
21 Under the Delegation of Authority described above, Avista's board has the discretion to  
22 maintain a \$4.0 million annual budget for charitable contributions (funded by both Avista

1 and the Avista Foundation) as compared to an approximate \$2.5 million level prior to the  
2 merger.

3 **Q. Does Hydro One support Avista continuing its economic development**  
4 **and innovation efforts in the communities it serves?**

5 A. Yes. Hydro One has a long history of supporting economic development  
6 in Ontario, and specific examples are provided below. The Delegation of Authority  
7 ensures the post-merger Avista board has the authority to maintain Avista's and its  
8 subsidiaries' existing levels of economic development, including the ability of Avista to  
9 spend operations and maintenance funds<sup>1</sup> to support regional economic development and  
10 related strategic opportunities in a manner consistent with the past practices of Avista and  
11 its subsidiaries. The Delegation of Authority also ensures the post-merger Avista board  
12 has the authority to maintain Avista's and its subsidiaries' existing levels of capital  
13 allocations for capital investment in strategic and economic development items, including  
14 property acquisitions in Spokane's university district, support of local entrepreneurs and  
15 seed-stage investments. We understand, however, that any charitable and economic  
16 development expenditures are not to be recovered from customers under current practice.

17 **Q. Please expand on Hydro One's commitment to its communities.**

18 A. Hydro One has a long history of dedicating corporate resources and talent  
19 to support the communities in which it operates:

- 20 • August 2006: The Kleinburg Training Centre opened its doors to teach  
21 Ontario's future electricity workers. The centre not only provides vital  
22 training to Hydro One apprentices, it's a Ministry of Training, Colleges,  
23 and Universities certified facility.

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<sup>1</sup> Operations and maintenance funds dedicated to economic development and non-utility strategic opportunities will be recorded "below-the-line" to a nonoperating account.

- 1                   • November 2007: Hydro One entered into a partnership with four Ontario  
2 community colleges: Algonquin, Mohawk, Georgian and Northern, to  
3 educate and attract future employees necessary to respond to the upcoming  
4 staff retirements in our company and across our industry.
- 5                   • November 2010: Hydro One earned the Canadian Electricity Association’s  
6 (CEA) 2010 Sustainable Electricity Social Responsibility Award in  
7 recognition of our leadership in engaging our stakeholders.
- 8                   • 2012: Hydro One employees and pensioners raised over \$1,000,000 for  
9 the Charity Campaign, benefiting more than 800 charities in local  
10 communities across the province.
- 11                  • January 2013: Hydro One received the prestigious Edison Electric  
12 Institute’s 2012 Emergency Assistance Award for supporting the recovery  
13 efforts in the Mid-Atlantic and Midwest storms from Hurricane Sandy.
- 14                  • March 2013: Hydro One partnered with Ryerson University, University of  
15 Ontario Institute of Technology, the University of Waterloo and Western  
16 University to increase enrollment and career opportunities for female  
17 students pursuing Science, Technology, Engineering, and Mathematics.
- 18                  • 2016: Hydro One donated \$125,000 to Sunnybrook Health Science Centre  
19 Foundation for Ross Tilley Burn Centre Tissue Research, supporting  
20 research to better treat electrically injured patients.
- 21                  • 2016: Hydro One partnered with Frontier College to fund its Lieutenant  
22 Governor’s Aboriginal Summer Reaching Camps, contributing \$120,000  
23 towards camps dedicated to building literacy skills in Aboriginal youth.
- 24                  • 2016: Each year, Hydro One provides an in-kind donation towards the  
25 International Plowing Match in the form of a temporary mini electrical  
26 grid for the five-day event, a value worth approximately \$350,000.
- 27                  • 2016: Hydro One supported the TransCanada Trail’s Chapter 150  
28 Campaign with a \$90,000 gift to help complete an important 11.8-  
29 kilometre link between Barrie and Springwater in Ontario. The  
30 TransCanada Trail is also known as The Great Trail.
- 31                  • 2016: Hydro One sponsored the Amici Camping Charity by providing  
32 \$25,000 to the 50th Anniversary Heroes Gala, a celebration of sending  
33 children to camp for 50 years.
- 34                  • 2017: Hydro One is providing a \$100,000 gift over four years to the Say  
35 “No” to “Can’t Go” Capital Campaign Project for Camp Oochigeas, a  
36 summer camp for children suffering from cancer. Funds will be allocated  
37 to double the current square footage of the camp, enabling facilitators to



1 meet current and future demands while providing a fun, safe and  
 2 accessible year-round experience to its campers.

3

4 **VI. PROPOSED TRANSACTION BENEFITS**

5 **Q. What impact would the Proposed Transaction have on the degree of**  
 6 **regulatory oversight this Commission has over Avista?**

7 A. It would have no impact. The Commission will continue to exercise the  
 8 same degree of regulatory oversight over Avista as it does today.

9 **Q. Will the Proposed Transaction provide net benefits to Washington**  
 10 **customers?**

11 A. Yes. Customers will see immediate financial benefits in the form of  
 12 proposed retail Rate Credits beginning at the close of the Proposed Transaction. Avista  
 13 and Hydro One are proposing to flow through to Avista’s retail customers in Washington,  
 14 Idaho, and Oregon a Rate Credit of \$31.5 million over a 10-year period, beginning at the  
 15 time the merger closes. The Rate Credit consists of two components, and reflects an  
 16 increased level of savings in years 6-10 as illustrated in the table below.

**Two-Step Rate Credit Proposal**

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

17  
 18 The mechanics of the Rate Credit and the reasons for the size of the Rate Credit  
 19 are provided in the testimony of Avista witnesses Scott Morris and Patrick Ehrbar and  
 20 Hydro One witness Christopher Lopez.

1 Over time, due to the similarities between Avista and Hydro One, the Proposed  
2 Transaction will provide opportunities for increased innovation, research and  
3 development, and efficiencies by extending the use of technology, best practices, and  
4 business processes over a broader customer base and a broader set of infrastructure  
5 between the two companies.

6 These benefits of scale will not occur in the near term following the closing of the  
7 merger, but are expected to occur over the longer term. That is also why the Rate Credit  
8 is larger in years 6-10, as we begin to realize greater savings. After all approvals are  
9 received and the companies merge, both companies will work together to identify,  
10 evaluate and execute on opportunities to reduce costs for both companies. The benefits  
11 from these cost savings will be flowed through to customers in future general rate cases.  
12 Areas Hydro One and Avista expect to prioritize in evaluating opportunities for cost  
13 savings include:

- 14 • Investing in innovation that could help both Hydro One and Avista to  
15 better meet their customers' growing expectations for choice of energy  
16 supply and tools to manage energy consumption and costs. Leveraging the innovation, research and development investments of  
17 both companies could accelerate their ability to bring the benefits of  
18 new ideas and technologies to their customers.
- 19 • Exercising their purchasing power at greater scale for equipment and  
20 materials.
- 21 • Providing mutual assistance during and after storm and emergency  
22 events.
- 23 • Employment of common technology platforms for outage  
24 management, distribution management and other operations.
- 25

26 It will take time to identify and capture all of these potential benefits. The level  
27 of annual net cost savings (and/or net benefits) will be tracked and reported on an annual  
28 basis, and compared against the offsetable level of savings.

1           **Q.     Why do you believe the similarities between Avista and Hydro One**  
2 **provide evidence that the Proposed Transaction will provide net benefits to**  
3 **Washington customers?**

4           A.     The similarities between Hydro One’s and Avista’s service territories,  
5 culture, and values will support the realization of the customer benefits identified above.

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

7           A.     Yes. As described in my testimony, the Proposed Transaction provides  
8 immediate net benefits to Avista’s customers in the form of Rate Credits. In the long-  
9 term, additional benefits will accrue to Avista’s customers through its combination with a  
10 larger utility that will provide benefits of scale and savings in the years to come. In  
11 addition, the Proposed Transaction secures increased charitable contributions and sustains  
12 economic development investments in the communities in which Avista operates.

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

14           A.     Yes, it does.