Exh. MTT-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. U-17________

DIRECT TESTIMONY OF

MARK T. THIES

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is Mark T. Thies. My business address is 1411 East Mission Avenue, Spokane, Washington. I am employed by Avista Corporation ("Avista") as Senior Vice President, Chief Financial Officer and Treasurer.

Q. Please describe your education and business experience.

A. I received a Bachelor of Arts degree in 1986 with majors in Accounting and Business Administration from Saint Ambrose College in Davenport, Iowa, and became a Certified Public Accountant in 1987. I have extensive experience in finance, risk management, accounting and administration within the utility sector.

I joined Avista in September of 2008 as Senior Vice President and Chief Financial Officer (CFO). Prior to joining Avista, I was Executive Vice President and CFO for Black Hills Corporation, a diversified energy company, providing regulated electric and natural gas service to areas of Montana, South Dakota and Wyoming. I joined Black Hills Corporation in 1997 upon leaving InterCoast Energy Company in Des Moines, Iowa, where I was the manager of accounting. Previous to that I was a senior auditor for Arthur Andersen & Co. in Chicago, Illinois.

Q. What are your duties as Senior Vice President, Chief Financial Officer ("CFO") and Treasurer of Avista?

A. I have overall responsibility for the financial management and financial health of Avista. In particular, my present responsibilities include oversight of the finance, accounting, tax, financial planning, budgeting, strategy, risk and insurance of Avista.

Q. Please summarize your testimony.

A. My testimony begins with an overview of Avista from a financial perspective. I explain the terms of the Proposed Transaction, and the benefits of the transaction to Avista, its customers, and other stakeholders from my CFO perspective. My testimony will focus primarily on the commitments offered by Avista and Hydro One (hereafter referred to as "Joint Applicants") addressing capital structure, credit ratings, accounting, Commission oversight and ring-fencing protection.

I will also address the various approvals that are necessary prior to consummation of the transaction, the timing of the filings, and the anticipated timing of the closing of the transaction. Finally, I will explain how Avista will operate in the intermediate period between the signing of the Agreement and Plan of Merger (hereafter referred to as "Merger Agreement") and the closing of the Proposed Transaction.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. Exh. MTT-2 includes a copy of Avista's financial statements contained within its Form 10-K filed with the Securities and Exchange Commission (SEC) for the fiscal year ending December 31, 2016. Exh. MTT-3 is a copy of Avista's Form 10-Q filed with the SEC for the quarterly period ending June 30, 2017. Exh. MTT-4 includes a copy of the Merger Agreement, dated July 19, 2017. Exh. MTT-5 includes the "Master List of Commitments" being offered by Avista and Hydro One, as part of our request for approval of the Proposed Transaction.

II. FINANCIAL OVERVIEW OF AVISTA

Q. Before discussing the specifics of the Proposed Transaction, and how Avista will be affected by the Proposed Transaction, would you please provide some preliminary comments on Avista's current financial situation?

A. Yes. Avista is operating the business efficiently for our customers, ensuring that our energy service is reliable and customers are satisfied, while at the same time keeping costs as low as reasonably possible. An efficient, well-run business is not only important to our customers but also important to investors. We plan and execute on a capital financing plan that provides a prudent capital structure and liquidity necessary for our operations. We honor our financial commitments and we continue to rely on external capital for sustained utility operations. We initiate regulatory processes to seek timely recovery of our costs with the goal of achieving earned returns close to those allowed by regulators in each of the states we serve. These elements – cost management, capital and revenues that support operations –

are key determinants to the rating agencies whose credit ratings are critical measures of our financial situation.

I have attached a copy of Avista's Form 10-K filed with the SEC for the fiscal year ending December 31, 2016 as Exh. MTT-2, for ease of reference to additional details related to Avista's utility and non-utility operations. In addition, Avista's Form 10-Q filed with the SEC for the quarterly period ending June 30, 2017 is attached as Exh. MTT-3.

Q. What steps is Avista taking to maintain and improve its financial health?

A. We are working to assure there are adequate funds for operations, capital expenditures and debt maturities. We obtain a portion of these funds through the issuance of long-term debt and common equity. We actively manage risks related to the issuance of long-term debt through our interest rate risk mitigation plan and we maintain a proper balance of debt and common equity through regular issuances and other transactions. We actively manage energy resource risks and other financial uncertainties inherent in supplying reliable energy services to our customers. We create financial plans and forecasts to model our income, expenses and investments, providing a basis for prudent financial planning.

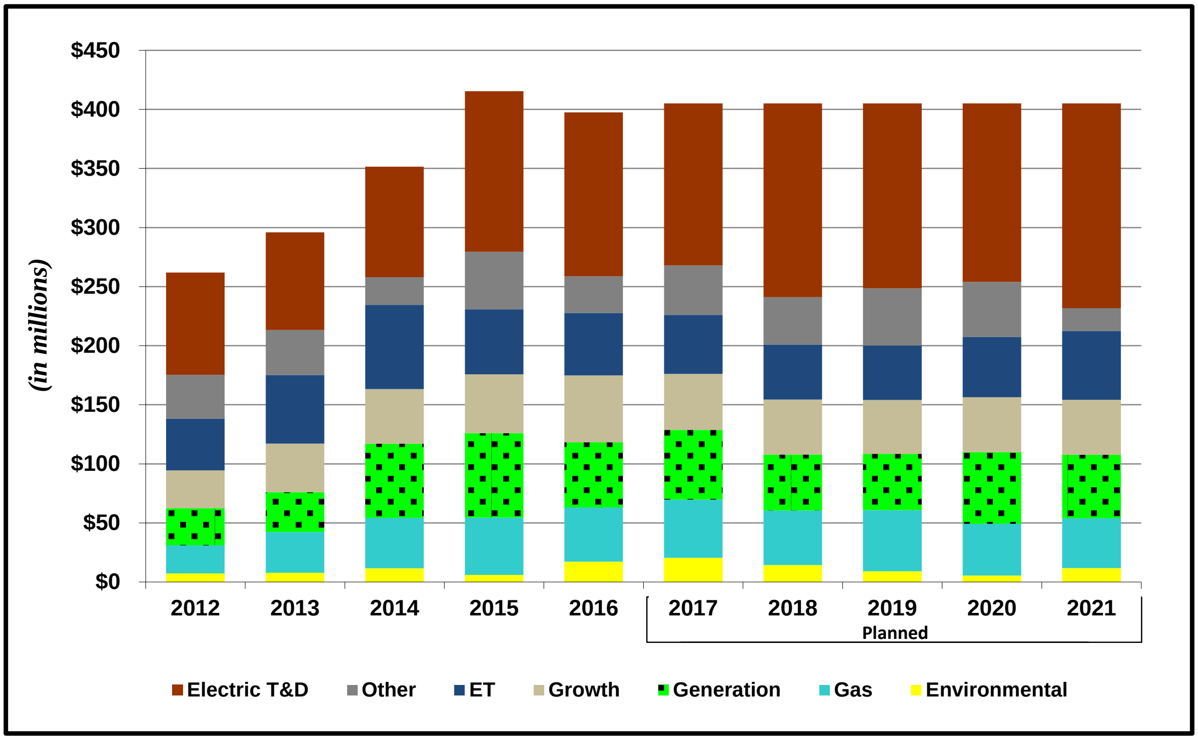
Avista currently has a sound financial profile and it is very important for Avista to maintain and enhance its financial position in order to access debt and equity financing as Avista funds significant future capital investments and refinances maturing debt.

Q. What is Avista's recent and planned capital expenditure levels?

A. Illustration No. 1 below summarizes the capital expenditure levels for Avista Utilities on a system basis for recent years, as well as planned expenditures through 2021.

<u>Illustration No. 1</u>

Capital Expenditures



** The higher level of capital expenditure in 2015 was driven by storm costs for the November windstorm, and costs related to a renegotiation of the Coyote Springs Long Term Service Agreement, which occurred late in the year.*

The capital expenditure level is expected to remain constant at $405 million annually from 2017 through 2021. For comparison purposes, Avista Utilities' regulated utility rate base, on a system basis, was $3.0 billion at June 30, 2017.

Q. What is the basis for Avista's planned level of capital expenditures?

A. The level of capital investment in recent years has been driven primarily by the business need to fund a greater portion of the departmental requests for new capital investments that, in the past, were unfunded. Each year the departments across Avista assess the near-term needs to maintain and upgrade the utility infrastructure and technology necessary to continue to provide safe, reliable service to customers, as well as maintain a high level of customer satisfaction. The proposed capital spending level for each year of the next five years is reviewed and approved by senior management of Avista, and is presented to the Finance Committee of the Board of Directors.

Q. What are Avista's expected long-term debt issuances in the next several years?

A. To provide adequate funding for the capital expenditures noted above and to repay maturing long-term debt, we are forecasting the issuance of long-term debt of approximately $900 million for the period 2017 through 2021.

Q. Are there other debt obligations that Avista must consider?

A. Yes. In addition to long-term debt, Avista's $400 million revolving credit facility expires in April 2021. Avista relies on this credit facility to provide, among other things, funding to cover daily and month-to-month variations in cash flows, interim funding for capital expenditures, and credit support in the form of cash and letters of credit that are required for energy resources commitments and other contractual obligations. A strong financial position will be necessary to gain access to a new or renewed revolving credit facility under reasonable terms prior to expiration of the existing facility.

Q. What is Avista's current and planned capital structure?

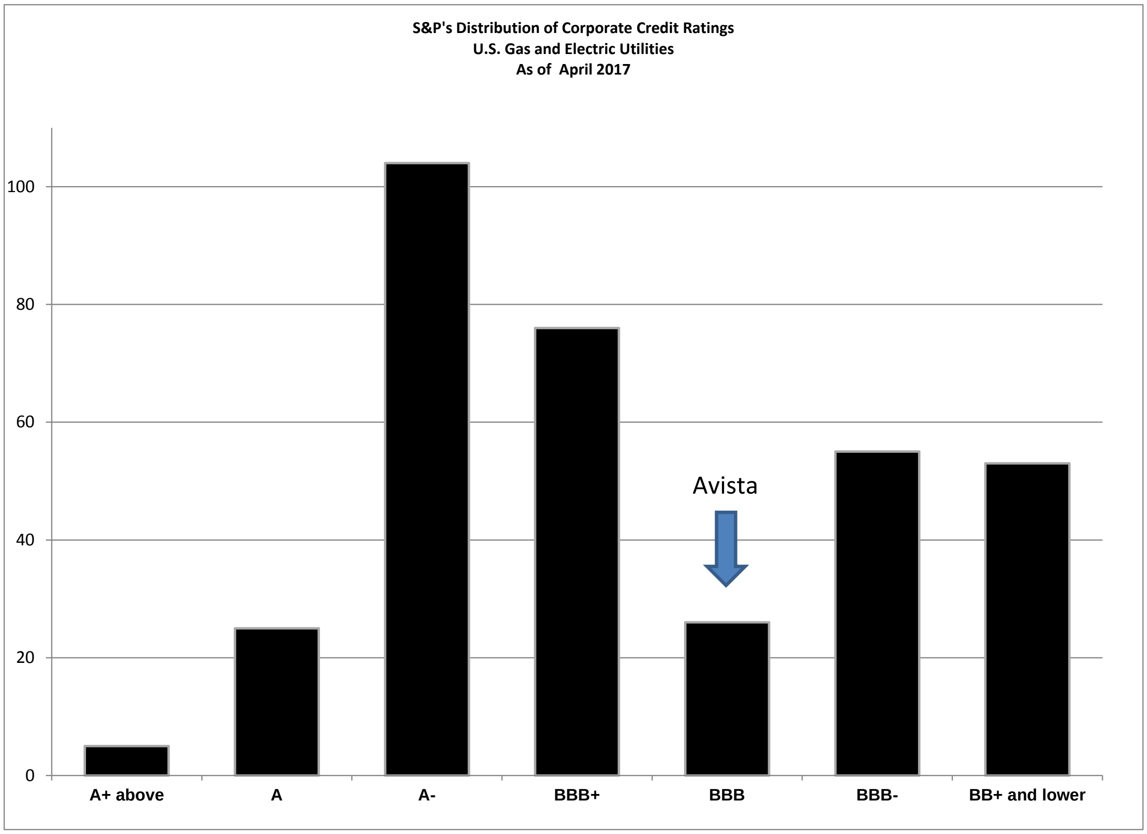
A. Avista's current capital structure includes approximately 48.5% common equity and 51.5% debt, and we plan to maintain a similar capital structure to the future. Maintaining a strong common equity ratio has several benefits for customers. We are dependent on raising funds in capital markets throughout all business cycles. These cycles include times of contraction and expansion. A solid financial profile will assist us in accessing debt capital markets on reasonable terms in both favorable financial markets and when there are disruptions in the financial markets.

Additionally, this common equity ratio is a component in supporting our current credit ratings, and our long-term goal of having a corporate credit rating of BBB+. A rating of BBB+ would be consistent with the natural gas and electric industry average. Avista's current credit ratings, assigned by Standard & Poor's (S&P) and Moody's Investor Service (Moody's) are as follows:

	S&P	**Moody's**
Corporate Credit Rating	BBB	Baa1
Senior Secured Debt	A-	A2
Outlook	Positive	Stable

As shown in Illustration No. 2 below, the average corporate credit rating for U.S. Regulated Gas and Electric Utilities is BBB+ and the most common rating is A-. The average and most common ratings are one and two notches higher, respectively, than Avista's rating.

<u>Illustration No. 2</u>



Strong credit ratings are an important component to Avista having access to capital markets on reasonable terms. Moving further away from non-investment grade (BB+) provides more stability for Avista, which is also beneficial for customers.

Q. Please explain the implications of the credit ratings in terms of Avista's ability to access capital markets.

A. Credit ratings impact investor demand and expected returns. More specifically, when we issue debt, the credit rating can affect the determination of the interest rate at which the debt will be issued. The credit rating can also affect the type of investor who will be interested in purchasing the debt. For each type of investment a potential investor could make, the investor looks at the quality of that investment in terms of the risk they are taking and the priority they would have for payment of principal and interest in the event that the organization experiences severe financial stress. Investment risks include, but are not limited to, liquidity risk, market risk, operational risk, regulatory risk, and credit risk. These risks are considered by S&P, Moody's and investors in assessing our creditworthiness.

In challenging credit markets, where investors are less likely to buy corporate bonds (as opposed to U.S. Government bonds), a stronger credit rating will attract more investors, and a weaker credit rating could reduce or eliminate the number of potential investors. Thus, weaker credit ratings may result in a company having more difficulty accessing capital markets and/or incurring higher costs when accessing capital. A balanced capital structure helps support access to both debt and equity markets under reasonable terms, and on a sustainable basis.

III. TERMS OF THE PROPOSED TRANSACTION

Q. What are the terms of the Proposed Transaction?

A. On July 19, 2017 Avista, and Hydro One Limited ("Hydro One"), Olympus Holding Corp. ("US Parent"), and Olympus Corp. ("Merger Sub") entered into a Merger Agreement. The proposed merger was unanimously approved by the Boards of Directors of both Avista and Hydro One.

Following all approvals, at the effective time on the closing date, Merger Sub will be merged with and into Avista, and the separate existence of Merger Sub will cease, and Avista will be the surviving corporation and will become a wholly-owned subsidiary of Olympus Equity LLC, an indirect, wholly-owned subsidiary of Hydro One.

I will refer to the proposed acquisition of Avista by Hydro One as the "Proposed Transaction." A copy of the Merger Agreement is attached as Exh. MTT-4. The post-closing corporate structure is presented in Exh. CFL-3, sponsored by Mr. Lopez.

The Merger Agreement sets forth the terms and conditions of the Proposed Transaction, pursuant to which Hydro One, through its affiliates, including Olympus Equity LLC, will acquire all of the outstanding shares of Avista.

Mr. Morris has addressed, among other things, the governance, management and post-closing operations of Avista. The balance of my testimony will focus primarily on the financial aspects of the Proposed Transaction.

Q. What consideration will Avista's shareholders receive upon the closing of the Proposed Transaction?

A. Under the terms of the all-cash transaction, Avista shareholders will receive $53.00 per common share, less any applicable tax withholding. Following the closing, Avista's current shareholders will cease to have any ownership interest in Avista or rights as Avista shareholders.

Q. How does the level of consideration compare with the market price of Avista's common stock prior to the signing of the Merger Agreement?

A. The $53.00 per share represents a twenty-four percent (24%) premium to Avista's closing price on July 18, 2017 of $42.74 per share.

Q. What is the total purchase price?

A. The aggregate purchase price is approximately $5.3 billion, comprised of an equity purchase price of $3.4 billion, and the assumption of approximately $1.9 billion of

Avista debt. The $1.9 billion of Avista's debt obligations assumed by Hydro One will remain at Avista.

Q. How will the purchase be funded by Hydro One and its affiliates?

A. There is no financing condition to the merger. Hydro One intends to finance the aggregate cash consideration payable at the closing of the Proposed Transaction, and related expenses, with a combination of some or all of the following:

- net proceeds from the sale by a direct, wholly-owned subsidiary of Hydro One of C$1.54 billion of convertible unsecured subordinated debentures, that are convertible into common shares of Hydro One;
- net proceeds of any subsequent bond or other debt offerings;
- amounts drawn under the existing C$250,000,000 operating credit facility available to Hydro One; and
- existing cash on hand and other sources available to Hydro One.

Hydro One's overall financing plan for the purchase is structured and targeted to maintain Hydro One's strong investment grade status, and includes the issuance of C$1.54 billion of equity, as indicated above. Mr. Lopez provides additional details related to the financing plan.

Q. Upon the closing of the Proposed Transaction, will Avista continue to be a publicly traded company?

A. Upon consummation of the Proposed Transaction, Avista will no longer have common stock that is publicly traded. Its common stock will be delisted from, and will no longer be traded on, the New York Stock Exchange or any other securities exchange, and will be deregistered under the Securities Exchange Act.

Q. Will Avista maintain its own capital structure following the closing?

A. Yes. Avista will maintain its own capital structure after the Proposed Transaction is consummated, and will continue to fund its ongoing operations with both debt and equity sources. As will be explained later in my testimony, Avista and Hydro One have offered a commitment, as part of our request for approval of the Proposed Transaction, to maintain a strong equity component in Avista's capital structure. Maintaining a strong equity layer plays a significant role in supporting financial metrics that support access to debt capital under reasonable terms.

Q. Will Avista continue to carry credit ratings from rating agencies?

A. Yes. Avista is currently rated by both S&P and Moody's. Avista will continue to carry credit ratings from at least one nationally recognized rating agency.

Q. Will the basis of presentation of Avista's financial statements change as a result of the consummation of the Proposed Transaction?

A. Avista's financial statements will continue to be maintained and presented in accordance with Generally Acceptable Accounting Principles and Federal Energy Regulatory Commission ("FERC") accounting rules.

Q. Will Avista continue to be a regulated utility upon completion of the Proposed Transaction?

A. Yes. Avista will continue to be subject to the regulation of this Commission, other state commissions and, among other agencies, FERC.

IV. BENEFITS TO AVISTA AND ITS STAKEHOLDERS

Q. From your perspective as CFO, what are the benefits to Avista and its stakeholders?

A. As highlighted in Mr. Morris's testimony, the number of investor-owned electric and natural gas utilities in North America has decreased significantly over the years through consolidation. Through consolidation, these larger utilities have the opportunity to spread costs, especially the costs of new technology, over a broader customer base and a broader set of infrastructure. The partnership of Avista and Hydro One will provide opportunities for efficiencies in the long-term through the sharing of best practices, technology and innovation. The Proposed Transaction will provide benefits to Avista's customers that otherwise would not occur.

These benefits will not only be viewed favorably by customers, but also by debt holders and rating agencies. An efficient, well-run business increases the opportunity to achieve financial metrics to support favorable credit ratings.

As explained by Mr. Morris, the merger with Hydro One will not only allow Avista and its customers to benefit from being a part of a larger organization (the benefits of scale), but at the same time preserves local control of Avista and the retention of Avista's culture and its way of doing business. We believe this preservation of local control and management of Avista is important to many stakeholders including, among others, our customers, our employees, the communities we serve, the vendors we do business with, lenders, and rating agencies.

Q. Will the Proposed Transaction affect the credit ratings of Avista?

A. The credit ratings of Avista are not expected to change immediately as a result of the Proposed Transaction. However, over the longer term there is a potential for improved credit ratings at Avista. For example, on July 19, 2017, S&P affirmed Avista's long-term ratings and revised the outlook to positive from stable upon the announcement of the Proposed

Transaction. S&P indicated the outlook revision on Avista reflects the potential for higher ratings upon the completion of the acquisition. S&P noted, among other things, that, "Our assessment is based on our view that Avista will be an important member of the HOL [Hydro One Limited] group, highly unlikely to be sold, and integral to overall group strategy and operations."

Moody's also affirmed Avista's long-term ratings with a stable outlook upon the announcement of the Proposed Transaction.

Q. How will the Proposed Transaction affect Avista's access to the debt markets?

A. Avista will continue to access the capital markets for long-term fixed income securities, such as senior secured notes, mortgage bonds, unsecured debt and hybrid securities such as the junior subordinated notes. Avista will also continue to access short-term funds directly through the credit facility. Following the closing of the Proposed Transaction, Avista will access the capital markets in what is currently being viewed as neutral to improved credit support.

Q. How will the Proposed Transaction affect Avista's access to equity capital?

A. Once the Proposed Transaction is completed, Avista will no longer need to access the capital markets for equity. The equity will be supported through retained earnings, and equity investment from Hydro One. As explained by Mr. Lopez, Hydro One has a strong balance sheet and ready access to both debt and equity markets. Hydro One's recent equity (convertible debentures) financing in July 2017 was over-subscribed by over 100%.

Through the commitments I will present later, Avista and Hydro One have agreed to maintain a capital structure that includes a strong common equity ratio, and Hydro One has a demonstrated ability to support such a commitment, as explained by Mr. Lopez.

Q. What are the expected cost savings associated with the Proposed Transaction?

A. As explained by Mr. Morris, the Proposed Transaction is designed such that following the closing there will be little to no change in Avista's day to day operations, as compared to prior to the Proposed Transaction. The Proposed Transaction does not target the elimination of jobs, or cost-cutting that could lead to a deterioration of customer service, customer satisfaction, safety, or reliability. There will, however, be some cost savings following the closing of the Proposed Transaction.

An estimate of the cost savings, and the cost categories in which they are expected, is shown in Table No. 1 below:

Table No. 1 – Estimated Immediate Cost Savings – Post-Closing

Board of Director Costs	$ 538,000
D&O Insurance	439,000
Investor Relations	365,000
Accounting	245,000
Proxy	200,000
Annual Report	189,000
Costs Excluded for Ratemaking	(267,000)
Total	**$ 1,709,000**

Q. Please briefly explain each of the estimated cost savings in Table 1 above.

A. The estimated cost savings are expected to be achieved as follows:

- **Board of Director Costs**: Following the closing, Avista's Board of Directors will have fewer non-employee members which will result in lower costs, i.e., more of the directors will be employees of either Avista or Hydro One, and will not receive separate compensation for their participation on the Avista Board. In addition, the Board will be reduced from ten to nine members.

- **<u>Directors and Officers (D&O) Insurance</u>**: Following the closing, Avista's director and officer insurance is expected to be covered under Hydro One's policy, which will result in reduced costs for Avista.

- **<u>Investor Relations</u>**: Following the closing, Avista will no longer have publicly traded common stock. This will result in reduced costs for Avista.

- **<u>Accounting</u>**: Following the closing, there will be a reduction in the hours necessary for Avista's external auditors to audit Avista's books of record, which will result in reduced costs.

- **<u>Proxy</u>**: Following the closing, Avista will no longer be required to prepare and file an annual proxy report.

- **<u>Annual Report</u>**: Following the closing, Avista will no longer be required to prepare and file an annual report to shareholders.

Q. Please explain the ($267,000) entry in Table No. 1 identified as "Costs Excluded for Ratemaking."

A. During ratemaking proceedings some of the costs in the categories in Table No. 1 above are excluded from retail rates, either through a settlement stipulation among parties approved by the Commission, or by separate order of the Commission. The ($267,000) represents the estimated amount currently excluded from retail rates. The net total of $1.7 million in Table No. 1 reflects the expected immediate savings to customers following the close of the Proposed Transaction. Additional details of the calculation of these savings are provided in my workpapers.

These cost savings are the basis for the offsetable portion of the Rate Credit explained by Mr. Morris, and proposed by Joint Applicants beginning at the closing of the Proposed Transaction. Mr. Ehrbar explains how the Rate Credit is proposed to be spread to Avista's electric and natural gas customers.

We believe additional efficiencies (benefits) will be realized over time from the sharing of best practices, technology and innovation between the two companies. It will take time, however, to identify and capture those benefits. Mr. Morris explains that the proposed financial benefits to customers will increase from $2.65 million per year for the first five years following the closing, to $3.65 million per year for the last five years of the 10-year period. This increased level of benefits in the last five years reflects the increased opportunity to achieve greater benefits over time. The level of annual net cost savings (and/or net benefits) will be tracked and reported on an annual basis.

V. COMMITMENTS OFFERED BY AVISTA AND HYDRO ONE

Q. Joint Applicants have proposed a number of commitments as part of the Joint Application. Would you please provide an overview of these commitments?

A. Yes. As part of the Joint Applicants' request for approval of the Proposed Transaction, Hydro One and Avista have offered commitments in addition to the Delegation of Authority in the Merger Agreement. (See Exhibits A and B to the Merger Agreement attached as Exh. MTT-4.) The commitments included in the Joint Application total 55 commitments offered by Hydro One and Avista. The 55 commitments are grouped together into the categories identified below. The Master List of all 55 commitments is attached as Exh. MTT-5.

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

1. Governance
2. Management and Employee
3. Local Presence/Community Involvement

B. Rate Commitments

C. Regulatory Commitments

D. Financial Integrity Commitments

E. Ring-fencing Commitments

F. Environmental, Renewable Energy, and Energy Efficiency Commitments

G. Community and Low-Income Assistance Commitments

Each of the commitments will be explained by one or more of the Avista and Hydro One witnesses sponsoring testimony in this proceeding. Within the Master List of Commitments in Exh. MTT-5, the witnesses addressing the commitments are identified.

Q. What are the specific commitments you are addressing in your testimony?

A. I am addressing the following commitments offered by Avista and Hydro One:

Rate Commitments:

- Treatment of Net Cost Savings – Commitment No. 16
- Treatment of Transaction Costs – Commitment No. 17
- Rate Credits – Commitment No. 18

Regulatory Commitments:

- State Regulatory Authority and Jurisdiction – Commitment No. 19
- Separate Books and Records – Commitment No. 21
- Access to and Maintenance of Books and Records – Commitment No. 22
- Ratemaking Cost of Debt and Equity – Commitment No. 24
- Avista Capital Structure – Commitment No. 25

- Commission Enforcement of Commitments – Commitment No. 29
- Submittal to State Court Jurisdiction for Enforcement of Commission Orders – Commitment No. 30

Financial Integrity Commitments:

- Capital Structure Support – Commitment No. 33
- Utility-Level Debt and Preferred Stock – Commitment No. 34
- Continued Credit Ratings – Commitment No. 35
- Restrictions on Upward Dividends and Distributions – Commitment No. 36
- Pension Funding – Commitment No. 37
- SEC Reporting Requirements – Commitment No. 38
- Compliance with the Sarbanes-Oxley Act – Commitment No. 39

Ring-Fencing Commitments:

- Independent Directors – Commitment No. 40
- Non-Consolidation Opinion – Commitment No. 41
- Restriction on Pledge of Utility Assets – Commitment No. 43
- Hold Harmless; Notice to Lenders; Restriction on Acquisitions and Dispositions – Commitment No. 44
- No Amendment of Ring-Fencing Provisions – Commitment No. 46

Rate Commitments:

Q. Please explain the Rate Commitments offered by Avista and Hydro One.

A. The first Rate Commitment is related to the "Treatment of Net Cost Savings" (Commitment No. 16). Avista and Hydro One[1] expect to experience cost savings in

[1] The Master List of Commitments in Exh. MTT-5 refers to a number of different corporate entities such as Olympus Equity LLC., Olympus Holding Corp., etc. In some instances my testimony will use "Hydro One" for convenience. The appropriate Hydro One entity is identified in the applicable commitment in the Master List of Commitments.

essentially two stages. First, there will be immediate reductions in costs associated with Avista no longer having publicly traded common stock, fewer non-employee board members, and other cost savings I identified earlier. Second, Avista and Hydro One expect to achieve cost savings and efficiencies in the long-term through the sharing of best practices, information technology, innovation and purchasing power. These longer-term savings will likely take years to achieve.

The immediate cost savings are proposed to be flowed through to customers in the form of an immediate Rate Credit over a 10-year period, beginning at the closing of the transaction. The Rate Credit proposal was explained by Mr. Morris, and Mr. Ehrbar explains how the Rate Credit is proposed to be spread among Avista's electric and natural gas customers.

The longer-term net cost savings, or net benefits, that Avista and Hydro One achieve as a result of the Proposed Transaction will be reflected in future rate proceedings, as the savings occur over time.

Q. What is the commitment related to "Treatment of Transaction Costs" (Commitment No. 17)?

A. Under Commitment No. 17, the costs related to the transaction itself will not be included in the retail rates charged to Avista's customers. These costs include, but are not limited to, 1) legal and financial advisory fees associated with the Proposed Transaction, 2) the acquisition premium, 3) any senior executive compensation tied to a change of control of Avista, and 4) any other costs directly related to the Proposed Transaction.

The transaction-related costs incurred by Avista are being recorded below-the-line to a nonoperating account, and will not be included in the future retail rates of Avista's customers. Likewise, the transaction-related costs incurred by Hydro One will not be included in Avista's customers' retail rates.

Q. Please explain the "Rate Credits" (Commitment No. 18) proposed by Joint Applicants.

A. As explained by Mr. Morris, the proposed annual Rate Credit is $2.65 million per year for the first five years following the closing of the transaction, and it increases to $3.65 million per year for the last five years - for a total of $31.5 million over the 10-year period. These annual rate credits are system amounts, and would be allocated by service and state jurisdiction.

Joint Applicants are proposing that the Rate Credit applicable to Washington customers be passed through to customers through separate tariffs: Schedule 73 for electric customers, and Schedule 173 for natural gas customers, as explained by Mr. Ehrbar.

Q. Is any portion of the proposed Rate Credit offsetable?

A. Yes. A portion of the proposed Rate Credit for the 10-year period is offsetable. That is, when cost savings or net benefits directly related to the transaction are already reflected in base retail rates for customers, the separate Rate Credit on Schedules 73 and 173 will be reduced by an amount up to the offsetable portion of the Rate Credit. The $1.7 million of immediate costs savings I explained earlier represents the offsetable portion of the $2.65 million annual Rate Credit for the first five years. For the last five years, $2.7 million of the $3.65 million is offsetable. To the extent that Avista demonstrates there are net cost savings, or net benefits, directly associated with the transaction that are already embedded in base retail rates, the Rate Credit for the first five years would be reduced by up to $1.7 million, and the Rate Credit for the last five years would be reduced by up to $2.7 million.

The proposed $31.5 million benefit for the 10-year period represents the "floor" of benefits customers will receive; as additional merger savings occur, those would be reflected as part of the cost of service captured in subsequent general rate cases. The $31.5 million will be received by customers either through a separate Rate Credit on tariff Schedules 73 and 173, or by the benefits being reflected in base retail rates.

Regulatory Commitments:

Q. Please explain the various Regulatory Commitments offered by Avista and Hydro One.

A. The first Regulatory Commitment is related to "State Regulatory Authority and Jurisdiction" (Commitment No. 19). For this commitment Olympus Holding Corp. and Avista agree to comply with all applicable laws, including those related to transfers of property, affiliated interests, and securities and the assumption of obligations and liabilities.

Q. What is the commitment regarding "Separate Books and Records" (Commitment No. 21)?

A. Avista has committed to maintaining separate books and records for Avista.

Q. Please explain the commitment related to "Access to and Maintenance of Books and Records" (Commitment No. 22)?

A. Under this commitment, Olympus Holding Corp. and Avista agree that the Commission and interested parties will have reasonable access to Avista's books and records, financial information and filings, and continue to have audit rights with respect to the documents supporting any costs that may be allocable to Avista. This also includes access to Avista's board minutes, audit reports, and information provided to credit rating agencies pertaining to Avista. Olympus Holding Corp. and its subsidiaries, including Avista, will also maintain the necessary books and records so as to provide an audit trail for all corporate, affiliate, or subsidiary transactions with Avista, or that result in costs that may be allocable to Avista.

The Proposed Transaction will not result in reduced access to the necessary books and records that relate to transactions with Avista, or that result in costs that may be allocable to Avista. Avista will provide Commission Staff and other parties to regulatory proceedings reasonable access to books and records (including those of Olympus Holding Corp. or any affiliate or subsidiary companies) required to verify or examine transactions with Avista, or that result in costs that may be allocable to Avista. Further, Olympus Holding Corp. and Avista will provide the Commission with access to written information provided by and to credit rating agencies that pertains to Avista. Olympus Holding Corp. and each of its subsidiaries will also provide the Commission with access to written information provided by and to credit rating agencies that pertains to Olympus Holding Corp.'s subsidiaries to the extent such information may affect Avista.

Q. What are the Joint Applicants proposing regarding "Ratemaking Cost of Debt and Equity" (Commitment No. 24)?

A. Under this commitment, Avista agrees that it will not advocate for a higher cost of debt or equity as compared to what Avista's cost of debt or equity would have been absent Hydro One's ownership. For future ratemaking purposes:

a. Determination of Avista's debt costs will be no higher than such costs would have been assuming Avista's credit ratings by at least one industry recognized rating agency, including, but not limited to, S&P, Moody's, Fitch or Morningstar, in effect on the day before the Proposed Transaction closes and applying those credit ratings to then-current debt, unless Avista proves that a lower credit rating is caused by circumstances or developments not the result of financial risks or other characteristics of the Proposed Transaction;

b. Avista bears the burden to prove prudent in a future general rate case any pre-payment premium or increased cost of debt associated with existing Avista debt retired, repaid, or replaced as a part of the Proposed Transaction; and

c. Determination of the allowed return on equity in future general rate cases will include selection and use of one or more proxy group(s) of companies engaged in businesses substantially similar to Avista, without any limitation related to Avista's ownership structure.

Q. Please describe the commitment regarding "Avista Capital Structure" (Commitment No. 25) proposed by the Joint Applicants.

A. At all times following the closing of the Proposed Transaction, Avista will have a common equity ratio of not less than 44 percent, as calculated for ratemaking purposes, except to the extent the Commission establishes a lower equity ratio for Avista for ratemaking purposes.

Q. Please explain Joint Applicants' commitment related to "Commission Enforcement of Commitments" (Commitment No. 29)?

A. Hydro One and Avista understand that the Commission has authority to enforce these commitments in accordance with their terms. If there is a violation of the terms of these commitments, then the offending party may, at the discretion of the Commission, have a period of thirty (30) calendar days to cure such violation. The scope of this commitment includes the authority of the Commission to compel the attendance of witnesses from Olympus Holding Corp. and its subsidiaries with pertinent information on matters affecting Avista.

Q. Will Olympus Holding Corp. provide a "Submittal to State Court Jurisdiction for Enforcement of Commission Orders" as a part of this transaction

(Commitment No. 30)?

A. Yes. Olympus Holding Corp. will file with the Commission, prior to the closing of the Proposed Transaction, an affidavit affirming that it will submit to the jurisdiction of the relevant state courts for enforcement of the Commission's orders adopting these commitments and subsequent orders affecting Avista.

Financial Integrity Commitments:

Q. What is Hydro One's commitment related to "Capital Structure Support" (Commitment No. 33)?

A. Once the Proposed Transaction is completed, Avista will no longer need to access the capital markets for equity. The equity will be supported through retained earnings, and equity investment from Hydro One. As explained by Mr. Lopez, Hydro One has a strong balance sheet and ready access to both debt and equity markets.

Through Commitment 33 Hydro One will support a capital structure that includes a strong common equity ratio, and Hydro One has a demonstrated ability to support such a commitment. This strong common equity ratio is an important component in supporting financial metrics that are designed to allow Avista access to debt financing under reasonable terms and on a sustainable basis.

Q. Please explain Joint Applicants' commitment related to "Utility-Level Debt and Preferred Stock" (Commitment No. 34).

A. Under this commitment, Avista will continue to maintain its own separate debt and preferred stock to support its utility operations. Avista currently does not have outstanding preferred stock, and any future issuances will be dependent on the circumstances at the time.

Q. Please explain Joint Applicants' commitment related to "Continued Credit Ratings" (Commitment No. 35).

A. Under this commitment, each of Hydro One and Avista will continue to be rated by at least one nationally recognized statistical "Rating Agency." Hydro One and Avista will use reasonable best efforts to obtain and maintain a separate credit rating for Avista from at least one Rating Agency within ninety (90) days following the closing of the Proposed Transaction. If Hydro One and Avista are unable to obtain or maintain the separate rating for Avista, they will make a filing with the Commission explaining the basis for their failure to obtain or maintain such separate credit rating for Avista, and parties will have an opportunity to participate and propose additional commitments.

Q. Please explain the commitment by Joint Applicants related to "Restrictions on Upward Dividends and Distributions" (Commitment No. 36).

A. The commitment by Avista and Hydro One regarding Commitment 36 is as follows:

a. If either (i) Avista's corporate credit/issuer rating as determined by at least one industry recognized rating agency, including, but not limited to, S&P, Moody's, Fitch, or Morningstar is investment grade or (ii) the ratio of Avista's EBITDA to Avista's interest expense is greater than or equal to 3.0, then distributions from Avista to Olympus Equity LLC shall not be limited so long as Avista's equity ratio is equal to or greater than 44 percent on the date of such Avista distribution after giving effect to such Avista distribution, except to the extent the Commission establishes a lower equity ratio for ratemaking purposes. Both the EBITDA and equity ratio shall be calculated on the same basis that such calculations would be made for ratemaking purposes for regulated utility operations.

b. Under any other circumstances, distributions from Avista to Olympus Equity LLC are allowed only with prior Commission approval.

Q. What is Joint Applicants' commitment related to "Pension Funding"

(Commitment No. 37)?

A. Under this commitment, Avista will maintain its pension funding policy in accordance with sound actuarial practice.

Q. Please explain the commitment related to "SEC Reporting Requirements" (Commitment No. 38).

A. Following the closing of the transaction, Avista will file required reports with the SEC.

Q. Please explain the commitment related to "Compliance with the Sarbanes-Oxley Act" (Commitment No. 39).

A. Following the closing of the Proposed Transaction, Avista will comply with applicable requirements of the Sarbanes-Oxley Act.

Ring-Fencing Commitments:

Q. Before you begin with the specific Ring-Fencing Commitments, what does the term "ring-fencing" mean?

A. In the context of mergers and acquisitions, ring-fencing refers to financial and corporate structuring in a transaction that results in a newly acquired company (in this case, Avista) being isolated from the upstream corporate structure of its new owners (Hydro One and its affiliates).

Q. Please explain the Ring-Fencing Commitments offered by Avista and Hydro One.

A. I will explain a number of the Ring-Fencing Commitments offered by Avista and Hydro One, and Mr. Lopez will address additional Commitments. The first Ring-Fencing Commitment is related to "Independent Directors" (Commitment No. 40).

Under Commitment No. 40, at least one of the nine members of the board of directors of Avista will be an Independent Director who is not a member, stockholder, director (except as an independent director of Avista or Olympus Equity LLC), officer, or employee of Hydro One or its affiliates. At least one of the members of the board of directors of Olympus Equity LLC will be an Independent Director who is not a member, stockholder, director (except as an independent director of Olympus Equity LLC or Avista), officer, or employee of Hydro One or its affiliates. The same individual may serve as an Independent Director of both Avista and Olympus Equity LLC. The organizational documents for Avista will not permit Avista, without the consent of a two-thirds majority of all its directors, including the affirmative vote of the Independent Director (or if at that time Avista has more than one Independent Director, the affirmative vote of at least one of Avista's Independent Directors), to consent to the institution of bankruptcy proceedings or the inclusion of Avista in bankruptcy proceedings.

Q. What is Joint Applicants' commitment related to a "Non-Consolidation Opinion" (Commitment No. 41)?

A. A non-consolidation opinion is a legal document from outside counsel concluding that certain ring-fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of a utility with those of the utility's parent company or the parent company's affiliates or subsidiaries. Under Commitment No. 41, Avista and Hydro One commit to the following:

a. Within ninety (90) days of the Proposed Transaction closing, Avista and Olympus Holding Corp. will file a non-consolidation opinion with the Commission which concludes, subject to customary assumptions and exceptions, that the ring-fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of Avista with those of Olympus Holding Corp. or its affiliates or subsidiaries (other than Avista and its subsidiaries).

b. Olympus Holding Corp. must file an affidavit with the Commission stating that neither Olympus Holding Corp. nor any of its subsidiaries, will seek to include Avista in a bankruptcy without the consent of a two-thirds majority of Avista's board of directors including the affirmative vote of Avista's independent director, or, if at that time Avista has more than one independent director, the affirmative vote of at least one of Avista's independent directors.

c. If the ring-fencing provisions in these commitments are not sufficient to obtain a non-consolidation opinion, Olympus Holding Corp. and Avista agree to promptly undertake the following actions:

(i) Notify the Commission of this inability to obtain a non-consolidation opinion.

(ii) Propose and implement, upon Commission approval, such additional ring-fencing provisions around Avista as are sufficient to obtain a non-consolidation opinion subject to customary assumptions and exceptions.

(iii) Obtain a non-consolidation opinion.

Q. Do you believe that the ring-fencing provisions being proposed are sufficient to obtain such a non-consolidation opinion?

A. Yes.

Q. Please explain Joint Applicants' commitment related to "Restriction on Pledge of Utility Assets" (Commitment No. 43).

A. Under this commitment, Avista will agree to prohibitions against loans or pledges of Avista's utility assets to Hydro One, Olympus Holding Corp., or to any of their subsidiaries or affiliates, without Commission approval.

Q. Please explain Joint Applicants' commitment referred to as "Hold Harmless; Notice to Lenders; Restriction on Acquisitions and Dispositions" (Commitment No. 44).

A. Avista and Hydro One commit to the following regarding Commitment No. 44:

a. Avista will generally hold Avista customers harmless from any business and financial risk exposures associated with Olympus Holding Corp, Hydro One, and Hydro One's other affiliates.

b. Pursuant to this commitment, Avista and Olympus Holding Corp. will file with the Commission, prior to closing of the Proposed Transaction, a form of notice to prospective lenders describing the ring-fencing provisions included in these commitments stating that these provisions provide no recourse to Avista assets as collateral or security for debt issued by Hydro One or any of its subsidiaries, other than Avista.

c. In furtherance of this commitment:

1. Avista commits that Avista's regulated utility customers will be held harmless from the liabilities of any unregulated activity of Avista or Hydro One and its affiliates. In any proceeding before the Commission involving rates of Avista, the fair rate of return for Avista will be determined without regard to any adverse consequences that are demonstrated to be attributable to unregulated activities. Measures providing for separate financial and accounting treatment will be established for each unregulated activity.

2. Olympus Holding Corp. and Avista will notify the Commission subsequent to Olympus Holding Corp.'s board approval and as soon as practicable following any public announcement of: (1) any acquisition by Olympus Holding Corp. of a regulated or unregulated business that is equivalent to five (5) percent or more of the capitalization of Avista; or (2) the change in effective control or acquisition of any material part of Avista by any other firm, whether by merger, combination, transfer of stock or assets. Notice pursuant to this provision is not and will not be deemed an admission or expansion of the Commission's authority or jurisdiction over any transaction or in any matter or proceeding whatsoever.

   Within sixty (60) days following the notice required by this subsection (c)(ii)(2), Avista and Olympus Holding Corp. or its subsidiaries, as appropriate, will seek Commission approval of any sale or transfer of any material part of Avista. The term "material part of Avista" means any sale or transfer of stock representing ten percent (10%) or more of the equity ownership of Avista.

3. Neither Avista nor Olympus Holding Corp. will assert in any future proceedings that, by virtue of the Proposed Transaction and the resulting corporate structure, the Commission is without jurisdiction over any transaction that results in a change of control of Avista.

d. If and when any subsidiary of Avista becomes a subsidiary of Hydro One or one of its subsidiaries other than Avista, Avista will so advise the Commission within thirty (30) days and will submit to the Commission a written document setting forth Avista's proposed corporate and affiliate cost allocation methodologies.

Q. Finally, please explain Joint Applicants' commitment related to "No Amendment of Ring-Fencing Provisions" (Commitment No. 46).

A. Under this commitment, Olympic Holding Corp. and Avista commit that no material amendments, revisions or modifications will be made to the ring-fencing provisions as specified in these regulatory commitments without prior Commission approval, pursuant to a limited re-opener for the sole purpose of addressing the ring-fencing provisions.

VI. REQUIRED APPROVALS FOR THE PROPOSED TRANSACTION

Q. Please describe the regulatory filings and approvals needed to consummate the Proposed Transaction.

A. As a condition to consummation of the Proposed Transaction, Avista must obtain approvals, consents or waivers from, or make filings with, a number of regulatory authorities, as well as the satisfaction of customary closing conditions. With regard to state regulatory Commissions, approvals are required from the Washington Utilities and Transportation Commission (WUTC), the Idaho Public Utilities Commission (IPUC), the

Public Utility Commission of Oregon (OPUC), the Public Service Commission of the State of Montana (MPSC), and the Regulatory Commission of Alaska (RCA).

Avista must also obtain approvals from FERC under the Federal Power Act, and from the Federal Communications Commission under the Communications Act of 1934, as amended by the Telecommunications Act of 1996.

Furthermore, filings must be made with the Department of Justice and the Federal Trade Commission pursuant to the Hart-Scott-Rodino Act, and with the U.S. Committee on Foreign Investment in the United States, pursuant to the Exon-Florio Amendment to the Defense Production Act of 1950.

The Proposed Transaction also must be approved by Avista's shareholders. A proxy statement will be filed by Avista with the SEC in September 2017, in preparation for a vote of Avista's shareholders.

Q. Do Joint Applicants believe they will satisfy all the regulatory requirements needed for the Proposed Transaction to be consummated?

A. Yes. Avista and Hydro One believe we will receive the required consents and approvals needed to complete the Proposed Transaction. Closing is anticipated to occur in the second half 2018.

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

VII. AVISTA OPERATIONS BETWEEN SIGNING AND CLOSING

Q. How does Avista plan to operate its business until the closing of the Proposed Transaction?

A. Until the closing of the Proposed Transaction Avista will operate independently of Hydro One. Avista's operations will continue in the ordinary and usual course of business, consistent with past practice, and in accordance with the provisions of the Merger Agreement.

Avista will use commercially reasonable efforts to preserve its business operations, maintain existing relations with its employees and third parties, and continue all material governmental permits, franchises and other operational authorizations.

Q. Will Avista continue to have the discretion to pay a dividend to its shareholders?

A. Yes. Avista has historically paid quarterly cash dividends on common stock, and the last dividend was declared on August 17, 2017 (payable September 15, 2017). Under the terms of the Merger Agreement, Avista may continue paying its regular quarterly cash dividends, including a "stub" dividend in the quarter in which the merger is consummated. Until the closing, the decision to pay a dividend will continue to be at the sole discretion of Avista's Board of Directors.

Under the Merger Agreement, the dividend may be increased by no more than $0.06 per share per fiscal year, without the prior written consent of Hydro One.

Q. Does that conclude your pre-filed direct testimony?

A. Yes.