

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET U-170970

JOINT TESTIMONY OF

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CHRISTOPHER F. LOPEZ (HYDRO ONE)  
SCOTT L. MORRIS (AVISTA)  
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WENDY M. GERLITZ (NWEC, RNW, NRDC)  
DOUG H. HOWELL (SIERRA CLUB)  
DAVID HAWKINS (WNIDCL)  
GLEN FREIBERG (WNIDCL)

IN SUPPORT OF  
THE SETTLEMENT STIPULATION

April 10, 2018

Revised May 7, 2018

1 **I. INTRODUCTION**

2 **Q. Please state your names, titles, and the Party you represent in this**  
3 **matter.**

4 A. Our names, titles, and representation are as follows:

- 5 • Mayo M. Schmidt, President and CEO of Hydro One Limited
- 6 • Christopher F. Lopez, Senior Vice President of Finance for Hydro One  
7 Limited
- 8 • Scott L. Morris, Chairman and Chief Executive Officer of Avista Corp
- 9 • Elizabeth M. Andrews, Senior Manager of Revenue Requirements
- 10 • Christopher S. Hancock, Regulatory Analyst in the Energy Regulation  
11 Section of the Regulatory Services Division, WUTC
- 12 • Corey J. Dahl, Public Counsel Unit Regulatory Analyst
- 13 • J. Randall Woolridge, Pennsylvania State University, testifying on behalf of  
14 Public Counsel
- 15 • Marc M. Hellman, Economist, Principal of MH Energy Economics LLC,  
16 Alliance of Western Energy Consumers
- 17 • Shawn M. Collins, Director, The Energy Project
- 18 • Wendy M. Gerlitz, Policy Director, NWEA (also testifying on behalf of  
19 RNW and NRDC)
- 20 • Doug H. Howell, Senior Campaign Representative, Sierra Club's Beyond  
21 Coal Campaign
- 22 • David Hawkins, Assistant Business Manager, WNIDCL
- 23 • Glen Freiberg, Assistant Training Director, NWLETT

24  
25 Together we are representatives of the "Parties" in this Joint Testimony.

26 **Q. Are you sponsoring any Joint Exhibits?**

27 A. Yes. Collectively, we are sponsoring Exh. JNT-2, which contains bios of  
28 each of the Parties providing Joint Testimony. Exh. JNT-3 is a copy of the Settlement  
29 Stipulation (hereafter "Settlement") filed in this docket on March 27, 2018. Exh. JNT-4 is  
30 a red-lined version of the Commitments, showing what has been changed from what was  
31 originally filed with the Joint Application and the Settlement. Exh. JNT-5 provides errata  
32 sheets that correct a clerical error in Commitment 1 and make Commitment 43 in the

1 Settlement consistent with Commitment 3 in the Settlement. Exh. JNT-6 is an errata sheet  
 2 that further clarifies Commitment 1. Provided below is a Table of Contents for our Joint  
 3 Testimony:

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 20  
 21 **Q. Would you provide a general description of the Joint Application and**  
 22 **the nature of the relief requested?**

23 A. Yes. On September 14, 2017, Hydro One Limited (“Hydro One”), acting  
 24 through its indirect, wholly-owned subsidiary Olympus Equity LLC, and Avista  
 25 Corporation (“Avista”) (sometimes hereafter jointly referred to as “Joint Applicants” or the  
 26 “companies”) requested an order of the Washington Utilities and Transportation  
 27 Commission (the “Commission”) authorizing the Proposed Transaction (“merger”)  
 28 whereby Olympus Equity LLC would acquire all of the outstanding common stock of

1 Avista, and Avista would thereafter become a direct, wholly-owned subsidiary of Olympus  
2 Equity LLC and an indirect, wholly-owned subsidiary of Hydro One. The Joint Applicants  
3 have requested approval of this merger under the provisions of RCW 80.01.040, RCW  
4 80.12.020, and WAC 480-143-170.

5 **Q. Who are the Parties to this proceeding?**

6 A. The Parties to this proceeding are: Hydro One, Avista, the Staff of the  
7 Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Unit of  
8 the Washington Office of Attorney General (“Public Counsel”), the Alliance of Western  
9 Energy Consumers (“AWEC”) (formerly known as Northwest Industrial Gas Users  
10 (“NWIGU”) and Industrial Customers of Northwest Utilities (“ICNU”)), The Energy  
11 Project, NW Energy Coalition (“NWEC”), Renewable Northwest (“RNW”), Natural  
12 Resources Defense Council (“NRDC”), Sierra Club, and Washington and Northern Idaho  
13 District Council of Laborers (“WNIDCL”), jointly referred to herein as “Parties” and  
14 individually as a “Party.”

15 **Q. Are all of the Parties signatories to the Settlement?**

16 A. Yes, all Parties are signatories to the Settlement. As shown above, the  
17 Parties represent a wide range of interests. These constituencies include residential  
18 (including low-income constituents), commercial, and industrial customers. Other Parties  
19 to the Settlement represent environmental, clean and renewable energy, and labor interests.

20 **Q. Does the Settlement represent a resolution of the issues in this case that**  
21 **is satisfactory to all of the Parties?**

22 A. Yes, it does. The Settlement is the result of extensive discussions and  
23 compromise among the Parties that successfully addressed their concerns. As such, this

1 Settlement is a full, all party Settlement, under the Commission’s rules. (WAC 480-07-  
2 730.)

3 **Q. Would you please describe the process that led to the filing of the**  
4 **Settlement?**

5 A. In accordance with the procedural schedule adopted at the prehearing  
6 conference (see Order 02), all Parties attended the scheduled settlement conference held in  
7 Olympia, Washington, on February 6, 2018. An additional settlement conference was held  
8 in Olympia on February 23, 2018. Based on these discussions and subsequent  
9 correspondence, Parties reached an agreement on proposed commitments (Appendix A to  
10 the Settlement – Exh. JNT-3) that provides a basis upon which the Parties recommend  
11 Commission approval of the Proposed Transaction in Washington.

12 **Q. Did all of the Parties participate in settlement discussions?**

13 A. Yes, all of the Parties fully participated in the settlement discussions, and all  
14 are signatories to the Settlement. The Parties, representing all who have intervened or  
15 appeared in this docket, agree that this Settlement is in the public interest, provides “net  
16 benefits” to customers, and should be accepted by the Commission as a full resolution of  
17 the issues in this docket.

18 **Q. Did the Parties engage in extensive discovery before entering into the**  
19 **Settlement?**

20 A. Yes, all of the Parties conducted formal and informal discovery. The Joint  
21 Applicants supported their merger Application with seven witnesses and 25 exhibits  
22 containing 571 pages of documentation. Over the next five months, the Parties submitted  
23 552 data requests, with 777 individual questions, exploring issues critical to them

1 regarding the proposed merger. The Parties have sufficiently explored areas of concern,  
2 are well versed in the issues, and entered into meaningful settlement discussions.

3 **Q. Does this Settlement represent a compromise among the various**  
4 **Parties, in order to reach common ground, while still serving the public interest?**

5 A. Yes. As noted in the Settlement, the Parties agree that this Settlement  
6 represents a compromise in the positions of the Parties, and that the Settlement is in the  
7 public interest. The Parties agree further that the Settlement meets the requirements for  
8 Commission approval under relevant Washington statutes.

9 As with any settlement, no Party shall be deemed to agree that any provision of this  
10 Settlement is appropriate for resolving issues in any other proceeding, except those  
11 proceedings involving enforcement or implementation of the Settlement terms. The  
12 Parties agreed to support the Settlement and recommend approval of the Proposed  
13 Transaction in this proceeding, subject to the agreed-upon Commitments.

14 **Q. Will the public have an opportunity to address the Application and**  
15 **proposed Settlement?**

16 A. Yes. There are four public comment hearings in Washington currently set  
17 for April 23, April 24, May 2, and May 3, 2018 in Spokane, Colville, Othello, and Colfax,  
18 Washington, respectively.

19 **Q. How have the Parties organized their testimony in support of the filed**  
20 **Settlement?**

21 A. The Parties will provide both Joint Testimony (this testimony) and  
22 individual testimony. This Joint Testimony will provide an overview of the Settlement  
23 terms, describing, with some particularity, the commitments that are agreed-upon and

1 attached to the Settlement. (See Exh. JNT-3, Appendix A.) Recognizing that each Party  
2 has its own perspective regarding why the Settlement meets the statutory requirements,  
3 each Party will also provide its own individual testimony explaining its concerns, how the  
4 public interest is met by approving this merger, and why it provides “net benefits” to  
5 customers. Each Party presents its own rationale for finding this Settlement in the public  
6 interest, and the separate testimonies reflect the opinions of the sponsoring Party or Parties.  
7 The individual testimonies and are not intended to represent the position of all parties. No  
8 Party, unless otherwise indicated, adopts the testimony of another Party as their own, and  
9 nothing in this Settlement was intended to indicate such an agreement.

10

11 **II. APPLICABLE STANDARDS GOVERNING APPROVAL**

12 **Q. What are the applicable standards governing merger approvals in the**  
13 **State of Washington?**

14 A. Pursuant to legislation enacted in 2009, RCW 80.12.020 was amended to  
15 provide that the Commission “shall not approve any transaction under this section that  
16 would result in a person, directly or indirectly, acquiring a controlling interest in a gas or  
17 electrical company without a finding that the transaction would provide a net benefit to the  
18 customers of the company.” (Emphasis added.) Prior to this 2009 legislation, the  
19 Commission applied a “no harm” standard, meaning that it needed only to find that the  
20 proposed transaction resulted in no harm to customers.

21 The Parties agree that, with the Commitments set forth in Appendix A of the  
22 Settlement, the Proposed Transaction meets the “net benefit” and public interest standards  
23 under RCW 80.01.040(3), RCW 80.12.020 and WAC 480-143-170 required for approval

1 in Washington. Under the current law, Commission approval must be predicated on a  
 2 finding that the Proposed Transaction provides a “net benefit” to customers. Moreover,  
 3 RCW 80.01.040(3) directs the Commission to “[r]egulate in the public interest,” and WAC  
 4 480-143-170 reiterates that requirement:

5  
 6 Application in the Public Interest – If, upon the examination of any application and  
 7 accompanying exhibits, or upon a hearing concerning the same, the commission  
 8 finds the proposed transaction is not consistent with the public interest, it shall deny  
 9 the application.

10 As described in the Commitments attached to the Settlement, and in the testimony  
 11 filed individually by the Parties, the evidence demonstrates that the Proposed Transaction  
 12 provides net benefits to Avista’s customers in Washington, is in the public interest, and  
 13 should be approved by the Commission without condition. It is important to note that each  
 14 Party has its own perspective on why this Settlement is in the public interest and how it  
 15 provides “net benefits” to customers; that discussion will be found in the individual  
 16 testimonies of each Party. This testimony can be found at:

- 17 • Mayo M. Schmidt, Exh. MMS-4T
- 18 • Christopher F. Lopez, Exh. CFL-5T
- 19 • Scott L. Morris, Exh. SLM-5T
- 20 • Elizabeth M. Andrews, Exh. EMA-1T
- 21 • Christopher S. Hancock, Exh. CSH-1T
- 22 • J. Randall Woolridge, Exh. JRW-1T
- 23 • Marc M. Hellman, Exh. MMH-1T
- 24 • Shawn Collins, Exh. SC-1T
- 25 • Corey Dahl, Exh. CJD-1T
- 26 • Wendy M. Gerlitz, Exh. WMG-1T
- 27 • Doug Howell, Exh. DHH-1T
- 28 • David Hawkins, Exh. DH-1T
- 29 • Glen Freiberg, Exh. GF-1T

30  
 31 **Q. Has the Commission recently applied the “net benefit” and public**  
 32 **interest standards noted above?**



1           A.     Yes. In an Open Meeting in late 2017, Docket No. UG-170094, the  
2 Commission approved Northwest Natural Gas’ request to form a holding company, calling  
3 into play the new “net benefit” standard. However, in approving Northwest Natural’s  
4 request, the Commission specifically stated that its “decision . . . does not provide specific  
5 guidance for future transactions under RCW 80.12.020.”<sup>1</sup> The Commission noted that  
6 their finding of net benefits in that case was based on the particular facts and circumstances  
7 presented.<sup>2</sup> Similarly, the unique facts and circumstances of the current case will  
8 ultimately guide the Commission’s decisions regarding Avista and Hyrdo One’s proposed  
9 merger and the commitments outlined in the Settlement.

10           **Q.     Please provide an overview of the transaction contemplated by the**  
11 **Settlement that was filed on March 27, 2018 in this docket.**

12           A.     The transaction involves the proposed acquisition by Hydro One of Avista  
13 (the “Proposed Transaction”). Hydro One is a corporation organized under the laws of  
14 Ontario that operates a large transmission and distribution utility in Ontario. All parties  
15 agree to resolve all issues raised in this docket as described in the Settlement, including its  
16 attachments. The primary attachment to the Settlement is the Master List of Commitments  
17 in Washington, which contains 81 commitments.

18           **Q.     Please identify the 81 commitments agreed to by the Parties.**

19           A.     The Parties agree to the following commitments, which address the broad  
20 range of issues presented by the proposed transaction and raised by the Parties.

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

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<sup>1</sup> Northwest Natural Gas Company’s Application for Approval of Corporate Reorganization to Create a Holding Company, Docket UG-170094, Order 01, ¶ 14, December 29, 2017

<sup>2</sup> Id.

- 1 1. Authority Reserved
- 2 2. Executive Management
- 3 3. Board of Directors
- 4 4. Avista’s Brand and Plan for the Operation of the Business
- 5 5. Capital Investment for Economic Development
- 6 6. Continued Innovation
- 7 7. Union Relationships
- 8 8. Compensation and Benefits
- 9 9. Avista’s Headquarters
- 10 10. Local Staffing
- 11 11. Community Contributions
- 12 12. Community Involvement
- 13 13. Economic Development
- 14 14. Membership Organizations
- 15 15. Safety and Reliability Standards and Service Quality Measures
- 16 **B. Rate Commitments**
- 17 16. Treatment of Net Cost Savings
- 18 17. Pre-Transaction Test Year
- 19 18. Treatment of Transaction Costs
- 20 19. Rate Credits
- 21 **C. Regulatory Commitments**
- 22 20. State Regulatory Authority and Jurisdiction
- 23 21. Compliance with Existing Commission Orders
- 24 22. Separate Books and Records
- 25 23. Access to and Maintenance of Books and Records
- 26 24. Cost Allocations Related to Corporate Structure and Affiliate Interests
- 27 25. Ratemaking Cost of Debt and Equity
- 28 26. Avista Capital Structure
- 29 27. FERC Reporting Requirements
- 30 28. Participation in National and Regional Forums
- 31 29. Treatment of Confidential Information
- 32 30. Commission Enforcement of Commitments
- 33 31. Submittal to State Court Jurisdiction for Enforcement of Commission
- 34 Orders
- 35 32. Annual Report on Commitments
- 36 33. Commitments Binding
- 37 **D. Financial Integrity Commitments**
- 38 34. Capital Structure Support
- 39 35. Utility-Level Debt and Preferred Stock
- 40 36. Continued Credit Ratings
- 41 37. Credit Ratings Notification
- 42 38. Restrictions on Upward Dividends and Distributions
- 43 39. Pension Funding
- 44 40. SEC Reporting Requirements
- 45 41. Compliance with the Sarbanes-Oxley Act

- 1                   **E. Ring-Fencing Commitments**
- 2                   42. Golden Share
- 3                   43. Independent Directors
- 4                   44. Non-Consolidation Opinion
- 5                   45. Olympus Equity LLC
- 6                   46. Restriction on Pledge of Utility Assets
- 7                   47. Hold Harmless; Notice to Lenders; Restriction on Acquisitions and
- 8                   Dispositions
- 9                   48. Olympus Holding Corp. and Olympus Equity LLC Sub-entities
- 10                  49. No Amendment of Ring-Fencing Provisions
- 11                  50. No Inter Company Debt
- 12                  51. No Inter Company Lending
- 13                  **F. Environmental, Renewable Energy, and Energy Efficiency**
- 14                  **Commitments**
- 15                  52. Renewable Portfolio Standard Requirements
- 16                  53. Renewable Energy Resources
- 17                  54. Greenhouse Gas and Carbon Initiatives
- 18                  55. Cost of Greenhouse Gas Emissions
- 19                  56. Greenhouse Gas Inventory Report
- 20                  57. Efficiency Goals and Objectives
- 21                  58. Optional Renewable Power Program
- 22                  59. Energy Imbalance Market (“EIM”)
- 23                  60. Regulatory Integrated Resource Planning (IRP) Sideboards
- 24                  61. Industrial Customers’ Self Direct Conservation
- 25                  62. Transport Electrification
- 26                  63. Professional Home Energy Audit
- 27                  **G. Community and Low-Income Assistance Commitments**
- 28                  64. Community Contributions
- 29                  65. Low-Income Energy Efficiency Funding
- 30                  66. Low-Income Rate Assistance Program (LIRAP)
- 31                  67. Funding for Low-Income Participation in New Renewables
- 32                  68. Addressing Other Low-Income Customer Issues
- 33                  69. Replacement of Manufactured Homes
- 34                  70. Low Income Weatherization
- 35                  71. Security Deposits
- 36                  72. AMI Consumer Protection
- 37                  73. Improve Penetration of Low-Income Programs
- 38                  74. Tribal Communities
- 39                  **H. Miscellaneous Commitments**
- 40                  75. Sources of Funds for Hydro One Commitments
- 41                  76. Colstrip Depreciation
- 42                  77. Montana Community Transition Fund
- 43                  78. Colstrip Transmission Planning
- 44                  79. On Bill Repayment80. Contract Labor
- 45                  81. Most Favored Nations

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**Q. What are some of the more significant features of the Settlement?**

A. The following are among the more noteworthy items that the Parties negotiated and reached agreement upon in the Settlement:

**Reservation of Certain Authority to the Avista Board of Directors**

- Board of Directors (strong and continuing representation of Avista’s interests)
- Avista’s Headquarters (maintain local presence)
- Community Contributions (additional funding for charitable contributions)

**Rate Commitments**

- Rate Credits (provision of over \$31 million of Rate Credits to Washington customers over five (5) years)

**Regulatory Commitments**

- Access to Information (ready access to relevant books and records of Hydro One and affiliates)
- Allocation / Assignment of Costs (no cross-subsidization of Hydro One and vice versa, no transaction costs recovered from customers)

**Financial Integrity Commitments**

- Financial Integrity Protections (capital structure / dividend restrictions / credit ratings)

**Ring-Fencing Commitments**

- Ring-Fencing Provisions (assuring insulation of Avista from any potential financial risks at Hydro One)

**Environmental, Renewable Energy, and Energy Efficiency Commitments**

- Additional Renewable Energy (50 aMW by 2020; additional 90 aMW upon retirement of Colstrip plant provided certain conditions are met)
- Modeling of Greenhouse Gas Emissions
- Workshops for Energy Imbalance Markets (EIM)
- A Self-Direct Option For Industrial Conservation

- 1 • Expanded Transportation Electrification

### 2 **Community and Low-Income Assistance Commitments**

- 3 • Low-Income Energy Efficiency Funding
- 4 • Continuation of Low-Income Rate Assistance Program (LIRAP)
- 5 • Funding for Low-Income Participation in New Renewables (\$5 million in
- 6 shareholder funding)
- 7 • Replacement of Manufactured Homes (\$2 million in shareholder funding)
- 8 • Low Income Weatherization (\$4 million in shareholder funding)
- 9 • Discontinuance and Return of Customer Security Deposits
- 10 • Limitations on Remote Disconnect Under Advanced Metering Infrastructure
- 11 (AMI)

### 12 **Miscellaneous Commitments**

- 13 • Colstrip Depreciation (accelerate Colstrip Units 3 and 4 depreciation to 2027)
- 14 • Montana Community Transition Fund (\$3 million shareholder contribution to
- 15 transition fund for community)
- 16 • Most Favored Nations (MFN) Protections (assure Washington receives its fair
- 17 share of benefits, vis-à-vis other jurisdictions)
- 18 • Use of Union Contractors (agreed-upon provisions for safety training and
- 19 continuing use of union contractors)

## 22 **III. OVERVIEW OF MERGER COMMITMENTS**

23 **Q. Please provide an overview of the merger commitments included in the**  
 24 **Settlement.**

25 A. The Settlement includes a robust set of merger commitments made by  
 26 Hydro One and Avista to ensure the Proposed Transaction is in the public interest and  
 27 provides net benefits to Avista's customers in Washington. The commitments address  
 28 Avista's post-closing operations, ratemaking and rate credits, corporate structure,

1 governance matters, financial stability and integrity, and ring-fencing. The commitments  
2 provide security to Avista's customers in Washington by, among other things, offering  
3 substantial financial commitments to those customers through rate credits and low-income  
4 programs. The commitments also advance renewable energy and energy efficiency  
5 measures. Finally and importantly, the commitments confirm the Commission's ongoing  
6 regulatory authority over Avista and its utility operations, including the maintenance of  
7 and access to books and records, allocation of costs, ratemaking, and enforcement of the  
8 commitments.

9 **Q. Are the merger commitments in the Settlement different than the**  
10 **merger commitments included in the Joint Application?**

11 A. Although Hydro One and Avista included merger commitments in their  
12 Joint Application, Parties collectively agreed during settlement negotiations upon various  
13 changes and additions to those commitments. The result is a group of comprehensive and  
14 substantial commitments that provide net benefits to Avista's customers and result in a  
15 transaction that is in the public interest.

16 The merger commitments are largely self-explanatory and designed to be read and  
17 understood as a standalone document. To aid the Commission in reviewing the merger  
18 commitments included in the Settlement, however, this section of the Joint Testimony  
19 provides an overview of the commitments by subject area and discusses changes and  
20 additions to the original commitments agreed to during settlement negotiations. Exh. JNT-  
21 4 to the Joint Testimony is a redline comparison between the merger commitments in the  
22 Joint Application and the revised merger commitments in the Settlement.

1           **Q.     How much shareholder funding is included in the merger commitments**  
 2 **as a result of the Settlement?**

3           A.     Hydro One and/or Avista have agreed to provide in Washington a total of  
 4 \$44.3 million in funding over time. This represents an additional \$24,690,373 in funding  
 5 over time, on top of the \$19,650,678 in funding provided in the original commitments  
 6 (exclusive of charitable contributions), to address customer rates and low-income customer  
 7 issues, for environmental and renewable energy programs, and other worthy programs and  
 8 projects. As noted in the table below, if this total shareholder funding of \$44.3 million in  
 9 Washington were applied to other jurisdictions on a “most favored nations” basis (see  
 10 Commitment 18), the cost to shareholders/quantifiable benefits to customers would  
 11 approximate \$74 million over the five to ten year period (depending on the specific  
 12 commitment) after the merger closes.

	<b>Net Benefit Items Funded by Shareholders</b>	<b>System*</b>	<b>Washington</b>
	<b>Rate Credit</b>	<b>\$ 51,949,250</b>	<b>\$ 30,715,050</b>
A	Total Rate Credit - 5% Base Revenues	51,949,250	30,715,050
	<b>Colstrip</b>	<b>\$ 3,000,000</b>	<b>\$ 1,960,500</b>
B	Community Transition Fund	3,000,000	1,960,500
	<b>Low-Income</b>	<b>\$ 18,699,777</b>	<b>\$ 11,665,501</b>
C	Professional Home Energy Audit	TBD	600,000
D	Weatherization	TBD	4,000,000
E	Manufactured Home Replacement	TBD	2,000,000
F	On-Bill Repayment Software	TBD	65,500
G	Renewables (Low-Income)	TBD	5,000,000
		<b>\$ 73,649,027</b>	<b>\$ 44,341,051</b>

21           \* This assumes “most favored nations” (MFN) treatment across all jurisdictions.

22           In addition, Avista/Hydro One through Commitments Nos. 11 and 64 have  
 23 proposed charitable contributions only made possible through the merger. Commitment

1 No. 11 includes an increase in Avista’s annual budget for charitable contributions in recent  
2 years, nearly doubling it to \$4 million per year and additionally a \$2 million annual  
3 contribution will be made to the Avista Foundation. Avista’s annual charitable  
4 contributions budget and annual contribution to the Avista Foundation under Commitment  
5 11 will remain in place for at least five years after the merger closes.

6 The Avista Foundation provides funding to non-profit organizations addressing the  
7 needs of communities and citizens of Washington served by Avista. Commitment No. 64  
8 further provides for a one-time contribution of \$7 million to the Avista Foundation at the  
9 time the transaction closes.

10

11

#### **IV. AVISTA OPERATIONS POST MERGER**

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**Q. Please describe the merger commitments in the Settlement that address Avista’s operations post-merger.**

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A. Commitments 1 through 15 deal with Avista’s operations post-merger. Commitment 1 reserves to the Avista Board decision-making authority over certain aspects of Avista’s business and brand, *i.e.*, those items related to governance, operations, and local presence and community involvement that are the subject of Commitments 2 through 15.

19

20

**Q. How did Commitment 1, “Authority Reserved,” change from the Joint Application to the Settlement?**

21

22

A. As filed, this commitment allowed the Avista Board to amend Commitments 2 through 15 upon a two-thirds (2/3) vote of the board. The revised



1 commitment requires Commission approval and notice to all Parties to this docket before  
2 changes to Commitments 2 through 15 can go into effect.

3 **Q. How did Commitment 3, “Board of Directors,” change from the Joint**  
4 **Application to the Settlement?**

5 A. In the Joint Application, this commitment required that three (3) directors of  
6 the Avista Board be individuals “who are not officers, employees or directors (other than  
7 as an independent director of Avista or Olympus Equity LLC) of Hydro One or any of its  
8 affiliates.” The Parties revised Commitment 3 to provide that those three (3) directors  
9 must “meet the standards for ‘independent directors’ - under section 303A.02 of the New  
10 York Stock Exchange Listed Company Manual (the ‘Independent Directors’).”

11 **Q. How did Commitment 11, “Community Contributions,” change from**  
12 **the Joint Application to the Settlement?**

13 A. Through settlement negotiations, the Parties revised Commitment 11 to  
14 specify a duration of at least five years for the charitable contributions required by the  
15 commitment. After that, any change would require only a 2/3 affirmative vote of the Avista  
16 Board and would not require Commission approval.

17 **Q. How did Commitment 12, “Community Involvement,” change from the**  
18 **Joint Application to the Settlement?**

19 A. Through settlement negotiations, the Parties revised Commitment 12 to  
20 clarify that Avista’s existing levels of community involvement would continue with tribes  
21 and low-income service agencies.

22 **Q. How did Commitment 15, “Safety and Reliability Standards and**  
23 **Service Quality Measures,” change from the Joint Application to the Settlement?**



1           **Q.    How was the original commitment addressing “Treatment of**  
2 **Transaction Costs” modified in the Settlement?**

3           A.    Parties changed the original commitment addressing Treatment of  
4 Transaction Costs (now Commitment 18 in the Settlement). As presented in the Joint  
5 Application, this commitment provided that Avista would not recover legal fees, financial  
6 advisory fees, the acquisition premium, senior executive compensation, and any other costs  
7 directly related to the Proposed Transaction. The enhanced commitment clarifies with  
8 more particularity the types of transaction costs Avista will not recover in rates. It also sets  
9 up a transparent process for clearly identifying and tracking those costs and requires Avista  
10 to provide the Commission, within 120 days of the final order in this docket, all journal  
11 entries and supporting detail showing the nature and amount of all costs of the Proposed  
12 Transaction since the Proposed Transaction was first contemplated.

13           **Q.    How did the proposed Rate Credit change as part of the Settlement?**

14           A.    The Rate Credit was increased substantially as part of the Settlement (now  
15 Commitment 19 in the Settlement). The Parties increased the amount of the rate credit in  
16 Washington from approximately \$19.7 million to approximately \$31 million. In addition,  
17 the period of the rate credit payout was shortened from ten (10) to five (5) years. This  
18 means that Washington ratepayers will receive approximately \$6.1 million annually for  
19 five years. Avista and Hydro One also agreed to seek Commission approval before  
20 applying offsetable savings against the rate credit, in an amount of up to \$1.02 million per  
21 year. Finally, Avista explicitly bears the burden of proof to show that savings have  
22 materialized and the offset to the rate credit should apply.



1           A.     The Parties augmented Commitment 23 to the Settlement to provide the  
2 Commission with access to certain documents of Hydro One and its affiliates.  
3 Commitment 23 now includes the following proviso elaborating upon the Commission’s  
4 right to access certain books and records of Hydro One and affiliates: “Hydro One and its  
5 affiliates agree that the Commission may have access to all the accounting records of  
6 Hydro One and its affiliates that are the bases for charges to Avista, to determine the  
7 reasonableness of the costs and the allocation factors used by Hydro One and its affiliates,  
8 or its subdivisions to assign costs to Avista and amounts subject to allocation or direct  
9 charges. Hydro One and its affiliates agree that they will not raise lack of jurisdiction as a  
10 means of denying such access, and agree to cooperate fully with such Commission  
11 investigations.”

12           **Q.     How did the Parties change the merger commitment regarding “Cost**  
13 **Allocations Related to Corporate Structure and Affiliate Interests”?**

14           A.     The Parties revised Commitment 24 to the Settlement to recognize that  
15 Hydro One, in addition to Avista and Olympus Holding Corp., may be subject to the  
16 Commission’s practices for ratemaking treatment of affiliate transactions. If applicable,  
17 Hydro One will comply with those practices.

18           **Q.     How did the Parties change the merger commitment regarding “Avista**  
19 **Capital Structure”?**

20           A.     The Parties revised Commitment 26 to the Settlement to more clearly state  
21 that “Avista’s actual common equity ratio will be maintained at a level no less than 44  
22 percent.” The Commitment was also augmented to clarify that it “does not restrict the  
23 Commission from ordering a hypothetical capital structure.”

1           **Q.    How did the Parties change the merger commitment regarding**  
2 **“Commission Enforcement of Commitments”?**

3           A.    The Parties revised Commitment 30 to the Settlement to clarify that in a  
4 proceeding regarding the enforcement of the merger commitments, the Commission has  
5 authority to compel the attendance of witnesses from Hydro One, and other affiliates of  
6 Olympus Holding Corp., who may have pertinent information on matters affecting Avista.

7           **Q.    How did the Parties change the merger commitment regarding the**  
8 **“Annual Report on Commitments”?**

9           A.    As part of the revisions to Commitment 32 to the Settlement, Avista agrees  
10 to submit annual reports on the status of compliance with the merger commitments for an  
11 additional six (6) years through 2029, for a total of eleven (11) annual reports (instead of  
12 five years in the original commitments). Avista will file the annual report in this docket  
13 and serve it on all Parties to the docket.

14           **Q.    How did the Parties change the merger commitment regarding**  
15 **“Commitments Binding”?**

16           A.    Commitment 33 to the Settlement now includes an affirmative obligation by  
17 Hydro One, and any of its subsidiaries in the Avista ownership chain, to rectify any failure,  
18 by any entity, to comply with the merger commitments: “If Hydro One or any other entity  
19 in the chain of Avista’s ownership determines that Avista or any other entity has failed to  
20 comply with an applicable Commitment, the entity making such determinations shall take  
21 all appropriate actions to achieve compliance with the Commitment.”

1                   **VII.    FINANCIAL INTEGRITY COMMITMENTS**

2           **Q.    Please summarize the Settlement merger commitments that ensure**  
3 **Avista’s financial integrity.**

4           A.    Commitments 34 through 41 of the Settlement ensure that Avista will  
5 remain a financially sound and fit utility post-merger through capital structure support, the  
6 maintenance of separate debt and preferred stock, continued credit ratings and credit  
7 ratings notifications, restrictions on dividends and distributions, and compliance with  
8 certain practices and reporting requirements.

9           **Q.    Please describe the new commitment titled “Credit Ratings**  
10 **Notification”?**

11          A.    Commitment 37 strengthens the Joint Applicants’ commitments in the Joint  
12 Application to maintain separate credit ratings and to restrict dividends and distributions  
13 based on credit ratings for Avista. Commitment 37 requires Avista and Hydro One “to  
14 notify the Commission within two business days of any downgrade of Avista’s credit  
15 rating to a non-investment grade status by S&P, Moody’s, or any other such ratings agency  
16 that issues such ratings with respect to Avista.”

17          **Q.    Please describe the additional restrictions added by the Parties to the**  
18 **merger commitment regarding “Restrictions on Upward Dividends and**  
19 **Distributions”.**

20          A.    In the Joint Application, Hydro One and Avista had proposed to allow  
21 upward dividends and distributions where Avista’s corporate credit/issuer rating was  
22 investment grade (scenario 1) or where the ratio of Avista’s EBITDA to Avista’s expense  
23 interest was greater than or equal to 3.0 (scenario 2). Those dividends and distribution

1 were allowed under those scenarios so long as Avista’s equity ratio was equal to or greater  
2 than 44 percent on the date of such Avista distribution, after giving effect to such Avista  
3 distribution, except to the extent the Commission established a lower equity ratio for  
4 ratemaking purposes. To strengthen this commitment, Commitment 38.a now provides  
5 that upward distributions from Avista to Olympus Equity LLC are permitted under  
6 scenario 1 only if “*both* Moody’s and S&P, or their successors” determine Avista’s  
7 corporate/credit issuer rating is investment grade. Moreover, under Commitment 38.c, if  
8 both scenario 1 and scenario 2 are not achieved, then upward dividends will not occur: “If  
9 Avista does not have an investment-grade rating from both Moody’s and S&P, or from one  
10 of these entities, or its successor, if only one issues ratings with respect to Avista, *and* the  
11 ratio of EBITDA to Avista’s interest expense is less than 3.0, no dividend distribution to  
12 Olympus Equity LLC or its successors will occur.”

13 **Q. How did the Parties change the merger commitment regarding**  
14 **“Pension Funding”?**

15 A. Under Commitment 39 to the Settlement, Hydro One has committed that it  
16 will not seek to change Avista’s pension funding policy, whereas the original commitment  
17 only specified Avista’s role in shaping pension funding policy according to “sound  
18 actuarial policy.”



1                                   **VIII.    RING-FENCING COMMITMENTS**

2           **Q.    Please summarize the ring-fencing merger commitments included in**  
3 **the Settlement.**

4           A.    Commitments 42 through 51 of the Settlement ensure that the post-merger  
5 Avista will be a bankruptcy remote utility and that none of the entities in the Avista  
6 corporate chain will be able to drag Avista into a bankruptcy proceeding.

7           **Q.    Please explain the new “Golden Share” commitment Parties included in**  
8 **the Settlement.**

9           A.    Commitment 42 of the Settlement is a new “Golden Share” commitment  
10 that requires the issuance of a single share of Preferred Stock of Avista, known as a  
11 “Golden Share,” for bankruptcy purposes. This “Golden Share” must be in the custody of  
12 an independent third party and must be voted in the affirmative for Avista to be included in  
13 voluntary bankruptcy proceedings. The independent third party must have no financial  
14 stake, affiliation, relationship, interest, or tie to Avista or any of its affiliates, or any lender  
15 to Avista, or any of its affiliates. In matters of voluntary bankruptcy, this Golden Share  
16 will override all other outstanding shares of all types or classes of stock.

17           **Q.    How did the Parties change the merger commitment regarding**  
18 **“Independent Directors”?**

19           A.    As originally proposed, Commitment 43 to the Settlement required the vote  
20 of an independent director to include Avista in voluntary bankruptcy proceedings. Hydro  
21 One and Avista agreed to revise this commitment to clarify that inclusion of Avista in a  
22 voluntary bankruptcy requires both the vote of an independent director *and* the vote of the  
23 Golden Share in Commitment 42. In addition, as part of this Joint Testimony, the Parties

1 are submitting an errata to Commitment 43 in the Settlement to make it consistent with  
2 Commitment 3 in the Settlement (Exh. JNT-5), providing that the three independent  
3 directors must meet the standards for “independent directors” under section 303A.02 of the  
4 New York Stock Exchange Listed Company Manual.

5 **Q. How did the Parties change the merger commitment regarding the**  
6 **“Non-Consolidation Opinion”?**

7 A. As originally proposed, Commitment 44 to the Settlement required Hydro  
8 One to file a non-consolidation opinion with the Commission stating that the ring-fencing  
9 provisions are sufficient to avoid an order from a bankruptcy court consolidating the assets  
10 and liabilities of Avista with those of Olympus Holding Corp., or its affiliates or  
11 subsidiaries (other than Avista and its subsidiaries). Hydro One agreed to revise this  
12 commitment to also require Hydro One, along with Olympus Holding Corp., to “file an  
13 affidavit with the Commission stating that neither Hydro One, Olympus Holding Corp. nor  
14 any of their subsidiaries, will seek to include Avista in a bankruptcy without the consent of  
15 a two-thirds majority of Avista’s board of directors including the affirmative vote of  
16 Avista’s independent director, or, if at that time Avista has more than one independent  
17 director, the affirmative vote of at least one of Avista’s independent directors.”

18 **Q. How did the Parties change the merger commitment regarding**  
19 **“Olympus Equity LLC”?**

20 A. Commitment 45 to the Settlement was revised to reflect the fact that  
21 Olympus 1 LLC and Olympus 2 LLC are no longer proposed as part of the Hydro One  
22 post-closing corporate structure. Olympus 1 LLC and Olympus 2 LLC were originally  
23 designed to help navigate Canadian and U.S. federal tax laws and jurisdictions. U.S.

1 federal tax reform has, however, made those entities unnecessary. Hydro One agreed to  
2 remove those LLCs in order to simplify the post-closing corporate structure.

3 **Q. How did the Parties change the merger commitment regarding**  
4 **“Restriction on Pledge of Utility Assets”?**

5 A. As originally proposed, Commitment 46 in the Settlement precluded Avista  
6 from loaning or pledging utility assets to Hydro One, Olympus Holding Corp., or any of  
7 their subsidiaries or affiliates, without Commission approval. As part of the Settlement,  
8 Hydro One and Avista agree that “Avista’s assets will not be pledged by Avista or any of  
9 its affiliates, including Hydro One and Olympus Holding Corp. and any of their  
10 subsidiaries or affiliates, for the benefit of any entity other than Avista.”

11 **Q. How did the Parties change the merger commitment regarding “Hold**  
12 **Harmless; Notice to Lenders; Restriction on Acquisitions and Dispositions”?**

13 A. The Parties revised Commitment 47 to the Settlement to confirm that Avista  
14 will hold Avista customers harmless from any business and financial risk exposures  
15 associated with Olympus Holding Corp., Hydro One, and Hydro One’s affiliates. Hydro  
16 One and Avista also agreed to revisions related to the requirement to notify the  
17 Commission of any change in control or ownership of Avista. Notice of a change to the  
18 upstream ownership of Avista or Olympus Holding Corp. among wholly owned  
19 subsidiaries of Hydro One may be provided in either an updated organizational chart  
20 included in the annual report filing described in Commitment 32 of the Settlement or in a  
21 separate notice filing. Hydro One and Avista also agreed to revise this commitment to  
22 specify that within sixty (60) days of the notice required by Commitment 47, “Avista and  
23 Olympus Holding Corp. or its affiliates, as appropriate, will seek Commission approval of

1 any sale or transfer of any material part of Avista, or of any transaction or series of  
2 transactions, regardless of size, that would result in a person or entity, other than a wholly  
3 owned subsidiary of Hydro One, directly or indirectly, acquiring a controlling interest in  
4 Avista or Olympus Holding Corp.”

5 **Q. How did the Parties change the merger commitment regarding**  
6 **“Olympus Holding Corp. and Olympus Equity LLC Sub-entities”?**

7 A. The Parties again removed Olympus 2 LLC from Commitment 48 to the  
8 Settlement to reflect the fact that Olympus 1 LLC and Olympus 2 LLC are no longer  
9 proposed as part of the Hydro One post-closing corporate structure.

10 **Q. How did the Parties change the merger commitment regarding “No**  
11 **Amendment to Ring-Fencing Provisions”?**

12 A. Parties revised Commitment 49 to the Settlement to confirm that Hydro One  
13 commits that no material amendments, revisions, or modifications will be made to the ring-  
14 fencing provisions without prior Commission approval. The original term only referenced  
15 Olympus Holding Corp. and Avista.

16 **Q. Please describe the new commitment under the Settlement regarding**  
17 **“No Inter Company Debt”.**

18 A. Parties added Commitment 50 to the Settlement that requires Avista to  
19 notify the Commission “before entering into any inter-company debt transactions with  
20 Olympus Holding Corp., Hydro One, or any of their subsidiaries or affiliates.”

21 **Q. Please summarize the new merger commitment under the Settlement**  
22 **regarding “No Inter Company Lending”.**

1           A.     Parties added Commitment 51 to the Settlement that prohibits Avista from  
2     lending money to Olympus Holding Corp., Hydro One, or any of their subsidiaries or  
3     affiliates without prior Commission approval.

4

5 **IX.   ENVIRONMENTAL, RENEWABLE ENERGY, AND ENERGY EFFICIENCY**

6

**COMMITMENTS**

7           **Q.     Please summarize the merger commitments in the Settlement that**  
8     **address the environment, renewable energy, and energy efficiency.**

9           A.     Commitments 52 through 63 of the Settlement advance the environmental  
10    and renewable energy policies of Washington State and provide substantial benefits to all  
11    of Avista’s customers, including its low-income, small business, and industrial customers.  
12    Through settlement negotiations, Hydro One and Avista further evidenced their support of  
13    these policies by expanding these commitments as discussed below.

14          **Q.     How did the Parties change the merger commitment regarding**  
15    **“Renewable Energy Resources”?**

16          A.     Parties agreed to substantial revisions to Commitment 53 of the Settlement.  
17    Avista agreed to initiate a Request for Proposal for additional eligible renewable energy  
18    resources above and beyond the current renewable energy standards in law. Through this  
19    Request for Proposal, and subject to certain conditions, Avista commits to obtain  
20    approximately 50 aMW of expected energy from new eligible renewable resources by  
21    2020 and to obtain at least 90 aMW of expected energy from new eligible renewable  
22    resources to become operational approximately within a year of the timeframe that Colstrip

1 3 and 4 are no longer operational. This commitment is subject to the Commission's  
2 standard prudence requirements applicable to the acquisition of generation resources.

3 **Q. Please describe the new commitment under the Settlement regarding**  
4 **“Cost of Greenhouse Gas Emissions”.**

5 A. Parties added Commitment 55 to the Settlement, which requires Avista to  
6 model a range of potential costs for greenhouse gas emissions and to work with its  
7 integrated resource plan (“IRP”) Advisory Group to determine the appropriate values to  
8 model. This modeling will occur at the beginning of the next IRP and is subject to any  
9 conflicting instructions contained in the Commission’s acknowledgement letter in response  
10 to Avista’s current IRP.

11 **Q. Please describe the new commitment under the Settlement regarding**  
12 **the “Energy Imbalance Market” (“EIM”).**

13 A. Parties added Commitment 59 in the Settlement, which commits Avista to  
14 hold workshops with the Commission and interested stakeholders to review the EIM  
15 analysis it will release by the end of 2018 and to discuss prudent next steps.

16 **Q. Please describe the new commitment under the Settlement regarding**  
17 **“Regulatory Integrated Resource Planning (IRP) Sideboards”.**

18 A. Parties included Commitment 60 in the Settlement, which requires Avista to  
19 utilize as part of its IRP process the Effective Load Carrying Capability methodology or an  
20 appropriate approximation to calculate a variable generation resource’s contribution to  
21 capacity.

22 **Q. Please describe the new commitment regarding “Industrial Customers’**  
23 **Self Direct Conservation”.**

1           A.     Under new Commitment 61 in the Settlement, Avista agrees to provide a  
2 one-time self-direct option for a large conservation project within five years of closing of  
3 the merger. The project will have a minimum capital cost of \$15 million and a maximum  
4 capital cost of \$30 million. After applying available incentive funding through Avista’s  
5 Schedule 91, Avista shall finance the remaining capital cost of the project. The costs of the  
6 project will be recovered through Schedule 91.

7           **Q.     Please describe the new commitment under the Settlement regarding**  
8 **“Transport Electrification”.**

9           A.     Under new Commitment 62, Avista commits to expanding access to  
10 transportation electrification for all customers by setting internal goals and objectives in  
11 coordination with the Joint Utility Electric Vehicle Stakeholder Group to increase outreach  
12 and education, ensure engagement with low-income customers and organizations, increase  
13 EVSE program components that serve and benefit low-income residential customers,  
14 overcome barriers for EVSE siting with small business customers, and to implement  
15 incentives to minimize or eliminate the cost of electric vehicle supply equipment for  
16 customers.

17           **Q.     Please describe the new commitment regarding “Professional Home**  
18 **Energy Audit”.**

19           A.     Under new Commitment 63 in the Settlement, Avista will provide, and  
20 Hydro One agrees to arrange funding<sup>3</sup> for, home energy audits for 2,000 homes, over a 10-  
21 year period, at \$300 per home in Washington.

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<sup>3</sup> New Commitment 75 in the Settlement clarifies that “any commitment that states Hydro One will arrange funding is not contingent on Hydro One’s ability to arrange funding, particularly from outside sources, but is

1       **X.    COMMUNITY AND LOW-INCOME ASSISTANCE COMMITMENTS**

2           **Q.    Please summarize the community and low-income assistance**  
3 **commitments in the Settlement.**

4           A.    Commitments 64 through 74 in the Settlement ensure that Avista will  
5 continue to be a good corporate citizen through increased charitable giving and community  
6 contributions. The commitments also provide that Avista’s low-income customers will  
7 continue to receive necessary rate assistance, have equitable opportunities to participate in  
8 renewable energy programs, have access to energy efficient homes and appliances, and  
9 receive increased funding for weatherization.

10           Avista’s low-income customers will benefit from these commitments, which  
11 include the elimination of security deposits for new Avista residential customers and the  
12 assurance that remote disconnections/reconnections will be studied. In addition, customers  
13 benefit from the Avista and Hydro One promise that disconnections will not occur during  
14 extreme weather scenarios. Finally, new Commitment 74 provides that Avista will reach  
15 out to tribal communities to encourage participation of members of such communities in  
16 receiving the benefits of this Settlement.

17           **Q.    Please describe the new commitment regarding the “Low-Income Rate**  
18 **Assistance Program” (“LIRAP”).**

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a firm commitment to provide the dollar amount specified over the time period specified and for the purposes specified.” Funds may come from Avista retained earnings that are available for payment of dividends to Olympus Equity LLC consistent with the ring fencing provisions and/or other Hydro One affiliates. Avista will not seek cost recovery for any of the commitments funded or arranged by Hydro One in the merger commitments. Hydro One will likewise not seek cost recovery for such funds from ratepayers in Ontario.



1           A.     Through new Commitment 66 in the Settlement, Hydro One and Avista  
2 agree to continue Avista’s LIRAP and related pilot programs thereby assuring the lasting  
3 nature of these programs.

4           **Q.     Please describe the new commitment added by the Parties regarding**  
5 **“Funding for Low-Income Participation in New Renewables”.**

6           A.     Through new Commitment 67 in the Settlement, Hydro One commits to  
7 arrange \$5,000,000 of funding over a period of up to ten (10) years for the purpose of  
8 funding one or more renewable generation project(s) to benefit Avista’s low-income  
9 customers. Projects may include on site renewable energy installations and must benefit  
10 Avista’s low-income customers. The funds for these projects will be paid into a separate  
11 account managed and disbursed by Avista at the direction of its Energy Assistance  
12 Advisory Group, which includes third-party advisors such as The Energy Project, Public  
13 Counsel, Commission Staff, and low-income agencies. The Energy Assistance Advisory  
14 Group will determine the project selection (which includes design and implementation).

15           **Q.     Please describe the new commitment added by the Parties regarding**  
16 **“Replacement of Manufactured Homes”.**

17           A.     Through new Commitment 69 in the Settlement, Hydro One commits to  
18 arrange \$2,000,000 of funding over a period of ten (10) years to replace manufactured  
19 homes. Avista will work together with the demand side management advisory group to  
20 design the program and Avista will begin implementing the program within six (6) months  
21 of closing of the Proposed Transaction. Funds not used over the ten (10) year period will  
22 be redirected for additional funding for low-income weatherization programs.

1           **Q.     Please describe the new commitment added by the Parties regarding**  
2 **“Low Income Weatherization”.**

3           A.     Under new Commitment 70 in the Settlement, Avista commits to continue  
4 its existing weatherization programs described in Schedules 90 and 190. In addition,  
5 Hydro One agrees to arrange \$4,000,000 of funding over a period of ten (10) years for low-  
6 income weatherization in Washington. This funding is over and above existing funding for  
7 low-income weatherization.

8           **Q.     Please describe the new commitment added by the Parties regarding**  
9 **“Security Deposits”.**

10          A.     Under new Commitment 71 in the Settlement, Avista commits to eliminate  
11 security deposits for new Avista residential customers and to return existing security  
12 deposits to customers who have a deposit held longer than six (6) months. After two years  
13 from Commission approval of the Proposed Transaction, any party may request the  
14 Commission to modify or remove this commitment if it determines that this commitment  
15 has an unreasonable impact on Avista’s uncollectible debt.

16          **Q.     Please describe the new commitment added by the Parties regarding**  
17 **“AMI Consumer Protection”.**

18          A.     Through new Commitment 72 in the Settlement, Avista agrees to discuss  
19 implementation of prepayment billing and remote disconnections at the Commission’s  
20 upcoming AMI workshops and agrees not to implement prepayment until authorized by  
21 the Commission after conclusion of the AMI workshop and related AMI dockets. Avista  
22 also agrees to track the benefits of remote disconnection/reconnection identified in its AMI  
23 business case. Finally, Avista commits that it will not remotely disconnect customers for

1 non-payment when the National Weather Service for that region has forecasted a daily  
2 high temperature of 38 degrees or less or a daily high temperature of 100 degrees or more,  
3 unless the Commission adopts a rule prescribing a different temperature for remote  
4 disconnection.

5 **Q. Please describe the new commitment added by the Parties regarding**  
6 **“Improve Penetration of Low-Income Programs”.**

7 A. Through new Commitment 73 in the Settlement, Hydro One and Avista  
8 agree to undertake a targeted effort, through marketing, outreach, and data analysis, to  
9 improve the penetration rate of low-income programs with a focus on underserved,  
10 vulnerable, and high energy burden households.

11 **Q. Please describe the new commitment added by the Parties regarding**  
12 **“Tribal Communities”.**

13 A. Through new Commitment 74 in the Settlement, Avista commits to reach  
14 out to tribal communities to encourage the participation of their members in receiving the  
15 benefits of the Settlement.

16 **Q. Please describe the new commitment added by the Parties regarding**  
17 **“On Bill Repayment”.**

18 A. Through new Commitment 79 in the Settlement, Hydro One commits to  
19 arrange funding of the approximately \$100,000 initial investment in software upgrades and  
20 \$5,000 in administrative costs for On Bill Repayment (“OBRP”). Commitment 79  
21 provides “The option for repayment of the customer’s share of the cost for a replacement  
22 manufactured home (funded by third-party financial institutions) [as provided in

1 Commitment 69] will be included in the OBRP. Under no circumstance will the ratepayer  
 2 population be responsible for any default related to the OBRP.”

3

4 **XI. COLSTRIP**

5 **Q. Please describe the new commitment added by the Parties regarding**  
 6 **the depreciation of Colstrip Units 3 and 4.**

7 A. Yes, through new Commitment 76 in the Settlement, Hydro One and Avista  
 8 agree to a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful  
 9 life of those units through December 31, 2027. These units are presently on a depreciation  
 10 schedule of 2034 and 2036, respectively. The undepreciated balance of \$114.2 million  
 11 will be recovered through (i) the unprotected Excess Deferred Federal Income Tax  
 12 (“DFIT”)/~~Deferral of the January–April 2018 tax credit~~, totaling ~~\$16.7~~10.4 million; (ii) an  
 13 annual depreciation expense of approximately \$4.533 million (Washington share) for a  
 14 total of \$45.3 million; and (iii) a regulatory asset offset by the amortization of protected  
 15 Excess DFIT, i.e., over 36 years, in the amount ~~\$52.2~~58.5 million.

16 **Q. Please describe the new commitment added by the Parties regarding**  
 17 **“Montana Community Transition Fund”.**

18 A. Under new Commitment 77 in the Settlement, Hydro One and Avista  
 19 commit to provide \$3,000,000 in funding towards a Colstrip community transition fund.  
 20 This commitment is not a cap on the amount Avista and/or Hydro One may ultimately  
 21 commit to this fund.<sup>4</sup>

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<sup>4</sup>This commitment, like other Settlement terms, will be funded as described in Commitment 75.



1 **XIII. MOST-FAVORED NATIONS**

2 **Q. Please describe Most-Favored Nations (“MFN”) commitment included**  
3 **in the Settlement.**

4 A. Under new Commitment 81 in the Settlement, Hydro One and Avista agree  
5 to a process whereby the Commission will have an opportunity and the authority to  
6 consider and adopt commitments made by Hydro One and/or Avista in other jurisdictions,  
7 even if those commitments are made after the Commission enters an order accepting the  
8 Settlement Stipulation and approving the Joint Application in this docket. The process for  
9 considering commitments made in other jurisdictions and limits on the types of  
10 commitments subject to the MFN are described in detail in Commitment 81.

11

12 **XIV. CONCLUSION**

13 **Q. In conclusion, do the Parties believe that the Commission should**  
14 **approve the Settlement?**

15 A. Yes. As described in the Commitments to this Settlement and in the  
16 testimony filed individually by the Parties, the evidence demonstrates that the Proposed  
17 Transaction is in the public interest and should be approved by the Commission without  
18 condition. Furthermore, the Proposed Transaction will provide “net benefits” for Avista’s  
19 customers in Washington, as reflected in the proposed Commitments (attached as  
20 Appendix A to this Settlement Stipulation – Exh. JNT-3).

21 **Q. Does that conclude your testimony?**

22 A. Yes.