

SEP 24 2018

Boise, Idaho

ON BEHALF OF AVISTA CORPORATION

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851
DAVID.MEYER@AVISTACORP.COM

ON BEHALF OF HYDRO ONE LIMITED

ELIZABETH THOMAS, PARTNER
KARI VANDER STOEP, PARTNER
K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WA 981014-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 370-6190
LIZ.THOMAS@KLGATES.COM
KARI.VANDERSTOEP@KLGATES.COM

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT)	
APPLICATION OF HYDRO ONE LIMITED)	CASE NO. AVU-E-17-09
(ACTING THROUGH ITS INDIRECT)	CASE NO. AVU-G-17-05
SUBSIDIARY, OLYMPUS EQUITY LLC))	
AND)	
AVISTA CORPORATION)	SUPPLEMENTAL
FOR AN ORDER AUTHORIZING PROPOSED)	TESTIMONY
TRANSACTION)	OF
_____)	MARK T. THIES

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 **Q. Please state your name, business address, and present**
2 **position with Avista Corp.**

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

7 **Q. Are you the same Mark T. Thies who sponsored pre-**
8 **filed direct testimony, on behalf of Avista Corporation**
9 **(Avista)?**

10 A. Yes, I sponsored Direct Testimony and Exhibit No. 3,
11 Schedule 1 through Schedule 4 in this Docket.

12 **Q. Are you sponsoring any exhibits in this testimony?**

13 A. Yes, I am sponsoring Exhibit No. 12, Schedule 1, which
14 is the Golden Share agreement ("Services and Indemnity
15 Agreement") between GSS Holdings (AGS), Inc. ("HoldCo"), a
16 Delaware corporation, Global Securitization Services, LLC
17 ("Global"), a Delaware limited liability company, and Avista.
18 HoldCo is an affiliate of Global. Global formed HoldCo, as a
19 special purpose entity (SPE) on July 17, 2018 for the sole
20 purpose of holding one share of limited voting preferred stock
21 in Avista.

22 **Q. What is the purpose of this Supplemental Testimony?**

23 A. The purpose of this Supplemental Testimony is to
24 reconfirm the benefits of this transaction (the "Proposed

1 Transaction") from a financial perspective and highlight the
2 extensive financial safeguards incorporated into the agreed
3 upon commitments (each, a "Stipulated Commitment", collectively
4 "Stipulated Commitments") in the Settlement Stipulation
5 ("Stipulation") filed on April 13, 2018, which were designed to
6 protect and insulate Avista and its customers from a change in
7 management at Hydro One or changes in the political landscape
8 of the Province of Ontario (the "Province") and ensure Avista's
9 ability to continue as a financially sound, stand-alone
10 utility.

11 As I will discuss further below, neither Hydro One, nor
12 the Province, can deprive Avista of its necessary capital and
13 assets; indeed, quite the opposite is true. Hydro One is duty-
14 bound to provide sufficient capital to allow Avista to provide
15 safe, reliable, and cost-effective service.

16 **Q. Have any of the benefits of the Proposed Transaction**
17 **to Avista and its stakeholders changed as a result of recent**
18 **developments in Ontario?**

19 A. No, the benefits highlighted in both my and Mr.
20 Morris' direct testimony have not changed. The number of
21 investor-owned electric and natural gas utilities in North
22 America has decreased significantly over the years through
23 consolidation. Through consolidation, these larger utilities
24 have the opportunity to spread costs, especially the costs of

1 new technology, over a broader customer base and a broader set
2 of infrastructure. The partnership of Avista and Hydro One will
3 provide opportunities for efficiencies in the long-term through
4 the sharing of best practices, technology and innovation. The
5 Proposed Transaction will provide benefits to Avista's
6 customers that otherwise would not occur. These benefits will
7 not only be viewed favorably by customers, but also by debt
8 holders and rating agencies. An efficient, well-run business
9 increases the opportunity to achieve financial metrics to
10 support favorable credit ratings.

11 The merger with Hydro One will not only allow Avista and
12 its customers to benefit from being a part of a larger
13 organization (the benefits of scale), but at the same time
14 preserves local control of Avista and the retention of Avista's
15 culture and its way of doing business. We believe this
16 preservation of local control and management of Avista is
17 important to many stakeholders including, among others, our
18 customers, our employees, the communities we serve, the vendors
19 we do business with, lenders, and rating agencies. None of
20 this has changed as a result of recent developments in Ontario.

21 **Q. Are there any new financial risks to Avista in light**
22 **of the recent management changes at Hydro One?**

23 A. No. As I will discuss in further detail below, there
24 are extensive financial safeguards and ring-fencing Stipulated

1 Commitments agreed to by all parties as part of the Stipulation
2 that were intentionally designed to ensure Avista will continue
3 as a financially sound, stand-alone utility.

4 **Q. Will Avista continue to maintain its own capital**
5 **structure following the closing of the Proposed Transaction?**

6 A. Yes. Avista will maintain its own capital structure
7 after the Proposed Transaction is consummated and will continue
8 to fund its ongoing operations with both debt and equity
9 sources.

10 **Q. Does Hydro One, or the Province, have the ability to**
11 **withhold equity contributions to Avista?**

12 A. No. As described in Stipulated Commitment No. 34,
13 Hydro One will provide equity injections to support Avista's
14 capital structure. This commitment to maintain a strong equity
15 component in Avista's capital structure plays a significant
16 role in supporting financial metrics that ensure Avista's
17 access to its usual and customary financial markets under
18 reasonable terms and on a sustainable basis.

19 **Q. Are there protections built into the Stipulated**
20 **Commitments regarding dividends from Avista to Olympus Equity**
21 **LLC.?**

22 A. Yes. As agreed to in Stipulated Commitment No. 38,
23 certain conditions must be met in order for Avista to provide
24 a dividend to Olympus Equity LLC. If either (i) Avista's

1 corporate credit/issuer rating as determined by both Moody's
2 Investors Service ("Moody's") and Standard & Poor's ("S&P"), or
3 their successors, is investment grade, or (ii) the ratio of
4 Avista's EBITDA to Avista's interest expense is greater than or
5 equal to 3.0, then distributions from Avista to Olympus Equity
6 LLC shall not be limited so long as Avista's equity ratio is
7 equal to or greater than 44 percent on the date of such Avista
8 distribution after giving effect to such Avista distribution.
9 If any of those conditions are not met, and Avista desired to
10 distribute a dividend to Olympus Equity LLC, such distribution
11 would require approval from the Idaho Public Utilities
12 Commission (the "Commission").

13 If Avista does not have an investment-grade rating from
14 both Moody's and S&P, or from one of these entities, or its
15 successor, if only one issues ratings with respect to Avista,
16 and the ratio of EBITDA to Avista's interest expense is less
17 than 3.0, no dividend distribution to Olympus Equity LLC or its
18 successors will occur.

19 **Q. Are there Stipulated Commitments that protect**
20 **Avista's customers' assets from being pledged as collateral?**

21 A. Yes. Avista's utility assets can be pledged as
22 collateral only for the benefit of Avista, not Hydro One, as
23 agreed to in Stipulated Commitment No. 46. Therefore, neither
24 Hydro One, nor the Province, can strip Avista of its capital or

1 loan, pledge, or transfer Avista's assets to Hydro One or any
2 affiliates of Hydro One.

3 **Q. Could Hydro One cut Avista's capital budget?**

4 A. Avista will have necessary funds available to provide
5 safe and reliable service to customers. Avista and Hydro One
6 agree that neither the proposed merger, nor future
7 acquisitions, may diminish the delivery of safe and reliable
8 utility service in Idaho as compared to Avista's performance
9 prior to the closing of the Proposed Transaction. Avista will,
10 under the leadership of the Avista Board, make the necessary
11 investments in order to ensure safe and reliable utility
12 service, and will make the necessary capital expenditures to
13 effectuate that.

14 **Q. Are there any other safeguards that maintain the**
15 **integrity of Avista's financial health?**

16 A. Yes. There are several other financial obligations
17 included in Stipulated Commitment Nos. 34-41 that provide
18 Avista adequate protection of its financial health. I will
19 highlight a couple below, having already discussed Stipulated
20 Commitment Nos. 34 and 38 earlier.

21 As outlined in Stipulated Commitment No. 35, Avista will
22 maintain separate debt and preferred stock, if any, to support
23 its utility operations. Further, Stipulated Commitment No. 36
24 states that each of Hydro One and Avista will continue to be

1 rated by at least one nationally recognized statistical "Rating
2 Agency." If Hydro One and Avista are unable to obtain or
3 maintain the separate rating for Avista, they will make a filing
4 with the Commission explaining the basis for their failure to
5 obtain or maintain such separate credit rating for Avista.

6 Stipulated Commitment No. 37 states that Hydro One and
7 Avista agree to notify the Commission within two business days
8 of any downgrade of Avista's credit rating to a non-investment
9 grade status by S&P, Moody's, or any other such ratings agency
10 that issues such ratings with respect to Avista. Additionally,
11 Avista and Hydro One have agreed that Avista will maintain its
12 present pension funding policy, continue to file required
13 reports with the U.S. Securities and Exchange Commission, and
14 comply with applicable Sarbanes-Oxley Act requirements.

15 **Q. Are there protections in place to protect Avista from**
16 **being drawn into bankruptcy proceedings that are not in the**
17 **best interest of Avista and its customers?**

18 A. Yes, there are various bankruptcy ring-fencing
19 provisions. First, as outlined in Stipulated Commitment No. 42,
20 Avista will issue a single share of preferred stock referred to
21 as the Golden Share to an independent third party. The vote of
22 this share will be required to place Avista into voluntary
23 bankruptcy. Additionally, as outlined in Stipulated Commitment
24 No. 43, Avista's entry into voluntary bankruptcy would require

1 the consent of a two-thirds majority of all of its directors,
2 including the affirmative vote of at least one of the
3 independent directors (as defined by the New York Stock Exchange
4 rules). Stipulated Commitment No. 44 further requires a non-
5 consolidation opinion filed with the Commission to confirm the
6 effectiveness of the ring-fencing measures to prevent the
7 substantive consolidation of the assets and liabilities of
8 Avista with those of Hydro One or any of its affiliates or
9 subsidiaries.

10 **Q. Has the holder of the "Golden Share" been selected?**

11 A. Yes. Avista and Hydro One have selected HoldCo as
12 the holder of the "Golden Share".

13 **Q. Please explain how you believe HoldCo meets the**
14 **definition and purpose of the Golden Share holder as provided**
15 **in Stipulated Commitment No. 42.**

16 A. Certainly. Stipulated Commitment No. 42, reads, in
17 pertinent part, as follows:

18 Entering into voluntary bankruptcy shall require the
19 affirmative vote of a "Golden Share" of Avista stock.
20 The Golden Share shall mean the sole share of
21 Preferred Stock of Avista as authorized by the
22 Commission. This share of Preferred Stock must be in
23 the custody of an independent third-party, where the
24 third-party has no financial stake, affiliation,
25 relationship, interest, or tie to Avista or any of
26 its affiliates, or any lender to Avista, or any of
27 its affiliates. This requirement does not preclude
28 the third-party from holding an index fund or mutual
29 fund with negligible interests in Avista or any of
30 its affiliates. In matters of voluntary bankruptcy,

1 this Golden Share will override all other outstanding
2 shares of all types or classes of stock.
3

4 The following information describes the holder of this share:

5 1. HoldCo is an affiliate of Global. Founded in 1996,
6 Global is a privately held limited liability
7 company owned by its senior management.
8

9 2. Global is a member of the Structured Finance
10 Industry Group, and the firm is dedicated to
11 providing professional and responsible management
12 of special structures such as the Golden Share (see
13 attached Exhibit No. 12, Schedule 1 for more
14 information about Global).
15

16 3. HoldCo does not and will not conduct any business
17 activities other than holding the Golden Share,
18 will not incur any liabilities other than those
19 necessary to carry out the duties of holding the
20 Golden Share, and will not sell, assign, transfer,
21 pledge, hypothecate or otherwise convey the Golden
22 Share.
23

24 4. GSS Holdings (CHGE), Inc., another affiliate of
25 Global, holds a similar Golden Share for Central
26 Hudson Gas & Electric Corporation.
27

28 5. GSS Holdings (NY Utility), Inc., another affiliate
29 of Global, holds similar Golden Shares for New York
30 State Electric & Gas Corporation and Rochester Gas
31 and Electric Corporation.
32

33 6. GSS Holdings (NG), Inc., another affiliate of
34 Global, holds similar Golden Shares for National
35 Grid plc companies Keyspan Gas East Corporation,
36 Niagara Mohawk Power Corporation, and The Brooklyn
37 Union Gas Company.
38

39 7. Closer to home, an affiliate of Global was approved
40 by the Oregon Public Utility Commission as the

1 holder of the Portland General Electric Company's
2 Golden Share.

3 A copy of the Services and Indemnity Agreement has been
4 provided as Exhibit No. 12, Schedule 1. Avista and Hydro One
5 request that the Commission expressly approve HoldCo as the
6 holder of the Golden Share as part of its approval of the
7 Proposed Transaction itself.

8 **Q. From Avista's perspective, why is it beneficial to**
9 **close the Hydro One transaction by the end of the year?**

10 A. There are a number of reasons why closing this
11 transaction at the end of a month, and especially at the end of
12 a calendar year, is beneficial. As you can imagine, Avista
13 will be required to have certain procedures completed as of the
14 day that the transaction closes. A year-end transaction close
15 date has several advantages. First, Avista will be required to
16 have an audit of its financials as of the transaction close
17 date. If that date is different than December 31st or January
18 1st, multiple audits would be required. This results in
19 significant effort on the part of Avista staff as well as third
20 party costs to have an audit completed by an independent
21 auditor. Next, there is less risk involved with a month-end
22 close, as the month-end close is part of our normal process,
23 whereas, a mid-month close is outside of normal operating
24 procedures and introduces a higher chance for potential error

1 (as system and report modifications would need to be configured
2 should closing occur in the middle of any month). Third, more
3 accurate valuation information is available at year-end cutoff
4 for purchase accounting, than would occur in a mid-month, or
5 non-end of the year closing. In addition, a valuation of the
6 pension will be required as of the transaction close
7 date. Avista would not need to have a mid-period pension
8 valuation completed by a third party actuary as well as the
9 normal year-end pension valuation. Finally, Avista would avoid
10 a "stub period" federal tax return, which again would help save
11 costs and minimize potential errors. In the end, a closing at
12 the end of the year would provide limited disruption to normal
13 closing and reporting cycles, which saves costs and results in
14 more accurate financial reporting.

15 **Q. Do you have any concluding remarks?**

16 A. Yes. All of the benefits of the Proposed Transaction
17 and structured safeguards remain intact, notwithstanding
18 political developments in Ontario and management changes at
19 Hydro One. The Stipulated Commitments negotiated by the parties
20 were designed to achieve these protections and preserve the
21 benefits. Nothing has changed in that regard.

22 **Q. Does that conclude your Supplemental Testimony?**

23 A. Yes, it does.