

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

November 17, 2017

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Ontario Energy Board File Number: EB-2017-0269

Application for approval of share purchase, amalgamation and related matters – Newmarket-Tay Power Distribution Ltd. and Midland Power Utility Corporation

In accordance with Procedural Order No. 1, please find attached OEB Staff Interrogatories in the above proceeding. The attached document has been forwarded to the applicants and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Judith Fernandes
Project Advisor

Encl.



OEB Staff Interrogatories

**Newmarket-Tay Power Distribution Ltd.
Midland Power Utility Corporation**

**Application for approval of share purchase,
amalgamation and related matters**

EB-2017-0269

November 17, 2017

1-Staff-1

Ref: Exh B/ p. 14 and Schedule A

Corporate charts of the parties to the proposed consolidation transaction are provided as Schedule A.

- a) Please provide a corporate chart after the completion of the consolidation transaction.
- b) Please confirm whether there will be any changes to the ownership shares of Newmarket Hydro Holdings Inc. and Tay Hydro Inc. following the amalgamation of Newmarket-Tay Power Distribution Ltd.(NT Power) and Midland Power Utility Corporation (Midland Power).

1-Staff-2

Ref: Exh B/ p.17

The application states that the share purchase price will be \$27,663,911 and that NT Power will also pay Midland Power an additional fixed amount of \$200,000 in respect of Midland Power's transaction costs and expenses.

- a) Please explain how NT Power intends to fund the additional \$200,000 to be paid for Midland Power's transaction costs and expenses.
- b) Please confirm whether NT Power intends to recover this amount through rates. If so, please provide an explanation for why NT Power is seeking recovery through rates for these costs/expenses.

1-Staff-3

Ref: Exh B/ p.17

According to the application, the share purchase agreement provides for a number of measures including economic development initiatives in the community.

- a) Please describe in detail what the economic development initiatives entail and how the applicants expect to fund these initiatives, confirming whether these will be paid for by ratepayers.

1-Staff-4

Ref: Exh B/ p.18

The application states that once NT Power has acquired all of the shares of Midland Power, NT Power and Midland Power will amalgamate promptly following the acquisition to form the Combined Utility.

- a) Please advise when the share acquisition transaction is expected to close and when the amalgamation will be completed.
- b) Please confirm if a new name is anticipated for the utility following the amalgamation transaction.

1-Staff-5

Ref: Exh B/ p.19

NT Power states that it expects there could be a modest increase in the distribution rates for Midland Power's commercial customers which can be mitigated by (i) the significant efficiencies expected to be generated; (ii) NT Power's lower ongoing cost structures; and (iii) NT Power's intent to migrate the Midland and Tay service territories to a direct connection to the IESO grid.

- a) Please indicate the quantum of the expected increase in rates for Midland Power's commercial customers.
- b) Please provide an illustration of the extent to which the applicants expect to mitigate the expected increase as the applicants have suggested by (i), (ii), and (iii).

1-Staff-6

Ref: Exh B/ pp.22-24

The proposed transaction is expected to result in cost reductions. Table 3 sets out annual OM&A and capital costs for NT Power and Midland Power and the synergies anticipated from the transaction on a yearly basis for ten years post-transaction.

- a) Please confirm whether the level of synergies set out in Table 3 represents the level of costs savings expected from undertaking the transaction and whether transition/ transaction costs are included in the cost savings. If not, please provide a revised table showing for each year, the costs of each distributor (pre-transaction) and the costs of each distributor (post transaction), the level of transition costs that the parties will incur on a yearly basis and the level of cost savings, after taking into account transition costs.
- b) On page 22, the applicants anticipate reductions in operating, maintenance and administration (OM&A) costs ranging from \$248K to \$1,424K. However, Table 3 reflects synergies ranging from \$153K, in year 1 to \$1,308K in year 10. Please provide an explanation for this difference.
- c) Table 3 reflects synergies in capital in Year 5 amounting to \$773K. Please provide a detailed explanation of what this represents and why this synergy is expected to arise in Year 5.
- d) Please confirm whether Year 1 in the table represents the year 2017 or 2018.

1-Staff-7

Ref: Exh B/ pp.26-27

The applicants have identified various business operations in which efficiencies are anticipated to drive cost savings.

- a) Please provide the costs attributable to the specific business operations which make up the projected cost savings arising from this transaction.
- b) Please explain what assumptions have been made by the applicants with respect to the expected cost savings.
- c) Please identify risks that could negatively impact the projected cost savings, setting out the projected savings if those risks materialize.

1-Staff-8

Ref: Exh B/pp. 21, 25 and 27

On page 21, it is stated that NT Power is committed to retaining all Midland Power staff members as well as continuing the existing level of operational capability in the Midland

and Tay communities. However, page 27 of the application also references the consolidation of the Tay and Midland operations and administrative facilities, which is expected to result in cost savings.

- a) Please provide a list of the existing operation centres in the NT Power and Midland service areas and describe which customers are served by each of these centres.
- b) Please describe the changes that are planned for each of these operation centres as a result of this consolidation transaction.
- c) Please confirm whether there will be any new operations centre constructed and where this will be situated relative to the existing operation centres.
- d) Please confirm whether all Midland Power staff will be retained post-transaction and, if so, for what length of time NT Power intends to retain these staff.
- e) Please provide a detailed explanation of any staff changes planned post transaction, when these changes will be implemented, and how this is expected to impact future operational capability.
- f) Please comment on the anticipated effect of any proposed changes in staff and/or operation centres on service quality, reliability, and cost effectiveness/cost efficiency of electricity distribution for the acquired area.

1- Staff-9

Ref: Exh B/pp. 20-21, p. 23 (Table 3)

The application states that NT Power sees an opportunity for improving reliability through the potential to unembed the Tay area and the Midland service area. The applicants state that they intend to prepare a plan to connect the Tay area and the Midland service area directly to the IESO controlled-grid at Waubashene transformer station.

- a) Please explain how electricity distribution service is currently provided to the Tay area and the Midland service area.
- b) Please provide further information on the process by which NT Power would have to arrange for the unembedding of these service areas, which OEB staff understands would entail disconnecting from a “host” distributor’s system and connecting directly to the Hydro One high voltage transformer station.
- c) Please provide the timeline that NT Power is targeting for this change.
- d) Please confirm whether NT Power would have to construct assets to connect to

Waubashene transformer station.

- e) Please provide the anticipated costs for unembedding service to the Tay area and the Midland service areas including the cost for the construction of assets for a direct connection to the high voltage system, if required.
- f) Please explain how NT Power intends to recover costs associated with the unembedding of service to the Tay area and the Midland service areas if this occurs during the deferred rebasing period.
- g) Please explain what is meant by “the Combined Utility could use local resources to service certain outages instead of waiting for the distribution provider to address an issue with its system”, elaborating on the specific benefits for customers.
- h) The applicants submit that the plan to un-embed the Midland Power and Tay service areas will result in significant benefit to Midland customers and NT Power customers by the elimination of costs attributable to embedded distribution. NT Power estimates that the elimination of losses related to embedded distribution could result in a three percent average savings on Midland Power customers overall electricity bills.
 - i. Please confirm whether the estimated cost savings only relates to elimination of losses or whether this includes other costs eliminated which are attributable to embedded distribution.
 - ii. Please confirm whether the applicants have incorporated these estimated cost savings in the projected synergies in Table 3 on page 23.

1- Staff-10

Ref: Exh B/pp. 20-21

Table 2 shows existing reliability metrics for Midland Power and NT Power. OEB staff observes that from 2014 to 2016, the SAIDI and SAIFI statistics for Midland Power are lower, indicating better performance than those shown for NT Power. As well, NT Power’s statistics are at their highest in 2016.

- a) Please explain how the no harm test is satisfied with respect to expected reliability for Midland Power customers in light of the statistics provided in Table 2.

1- Staff-11

Ref: Exh B/pp. 21-22

NT Power states that it expects to be able to deliver its above-standard customer service to Midland Power customers.

- a) Please provide, in a table similar to Table 2, the annual service quality indicator statistics for Midland Power and NT Power for each of the years from 2012 to 2016.

1- Staff-12

Ref: Exh B/pp. 17, 18, 23

The purchase price is expected to be \$27.7M plus \$200k for transaction costs and expenses, which is 1.7 times Midland Power's approved rate base and net regulatory assets of \$15.8M as at the 2015 year end. It is stated that the recovery of the purchase price premium will be accomplished through estimated synergy savings.

- a) From page 23, the sum of OM&A and capital synergies from years one ten is \$10.2M. However, any over-earnings above 300 basis points in years six to ten will be shared with ratepayers, thereby, reducing synergies that will be kept by the shareholder. The purchase price premium is \$11.9M (\$27.7M-\$15.8M).
 - i. Please explain how NT Power expects to be able to fully recover the costs of the premium paid.
 - ii. Please also indicate when NT Power expects to be able to fully recover the costs of the premium paid.
- b) The synergies proposed to use to recover the purchase price premium is incurred over a ten year period. Please explain how NT Power will ensure financial viability of the Combined Utility in the initial years post-amalgamation.
- c) Please provide what the premium being paid represents as a proportion of NT Power's net fixed assets.

1- Staff-13
Ref: Exh B/p. 27

The application states that the Combined Utility will prepare one set of financial statements.

- a) Please indicate when the Combined Utility is expecting to consolidate the financial records.
- b) If each of the applicants use different accounting policies, please explain any impact this may have when the financial records are consolidated.
- c) Please confirm whether either of the applicants intends to make changes, or is required by an accounting standards body to make changes to its accounting policies, as a result of the proposed amalgamation. If so, please describe the impact of any accounting changes and whether they will reduce or increase the earnings of the amalgamated utility.

1- Staff-14
Ref: Exh B/p. 28

The application states that NT Power is confident that it will be in a position to finance incremental transition costs using the savings which it expects to achieve given the anticipated efficiency gains and synergies arising from the proposed transaction. Please quantify the transition costs and compare it to the cost savings anticipated by year from year 1 to 10 post-transaction.

1- Staff-15
Ref: Exh B/p. 29

NT Power states that it is financing 90% of the proposed transaction with new term-debt from the bank.

- a) Has NT Power already secured the financing? Please explain the status of this.
- b) Please elaborate on the terms of the debt, including the interest rate and repayment terms.

1- Staff-16

Ref: Exh B/p. 11, 30

NT Power requests approval of a ten-year deferral period for the rebasing of Midland Power rates and the rates of the Combined Utility.

- a) Please confirm that approval for the ten-year deferral period is being sought for both Midland Power and the Combined Utility.
- b) Please confirm whether NT Power expects to migrate from its existing rate plan to having its rates adjusted by the Price Cap IR adjustment mechanism. If so, please confirm when this will occur.

1- Staff-17

Ref: Exh B/pp. 19, 25

On page 19, NT Power states that: “As a result of item (a) above, Midland Power’s distribution rates would remain the same, aside from a small mechanistic adjustment, for the next ten years.”

On page 25, NT Power notes that NT Power is currently in cohort 2 (stretch factor of 0.15%) while Midland Power is currently in cohort 4 (stretch factor of 0.45%).

- a) Please describe the “small mechanistic adjustment”.
- b) As read, item (a) means that Midland Power customers would likely be under the Price Cap IR rate-setting adjustment with or without the purchase and amalgamation, except for the possibility of rebasing.
 - i. While rate increases approved in cost of service applications may be higher than the price cap IR rate adjustment would provide, please provide the applicants’ views on whether there may be other “benefits” from rebasing (e.g., adjusting inter-class subsidization and revenue-to-cost imbalances, increased costs for improved or new services).
- c) If Midland Power were to continue to operate under cohort 4, the Price Cap IR rate adjustment would be $IPI - 0.45\%$ (under the current rate-setting formula). If Midland Power migrated to the NT Power cohort 2 after amalgamation, the annual rate-setting mechanism would be $IPI - 0.15\%$. All else being equal, Midland Power customers would face higher increases after amalgamation with NT Power than it would as a stand-alone utility. This ignores cost or operational pressures that Midland Power might

have to address if it continued as a stand-alone utility.

- i. Please provide further explanation and support for how the “no harm” test is satisfied for MPUC’s customers under the rate-setting proposal described on page 9.

1- Staff-18
Ref: Exh B/p. 30

The application states that NT Power plans to implement an earnings sharing mechanism (ESM) starting in year 6 of the deferred rebasing period. It is also stated that the proposed ESM is not identical to that set out by the OEB and that approval is sought of the proposed ESM.

- a) Please provide a detailed explanation of how the proposed ESM plan is different from that set out by the OEB in the OEB’s *Handbook to Electricity Distributor and Transmitter Consolidations* (Handbook), issued on January 19, 2016, identifying the specific differences for which approval is sought.

1- Staff-19
Ref: Exh B/pp. 11, 30, 31

The application requests the approval of a deferral and variance account to track excess earnings in years six to ten of the deferred rebasing period.

- a) Please explain why the account is requested to be established in this application instead of at the time the account is needed in year six?
- b) Please explain when ratepayer share of earnings will be credited to this new proposed deferral account and describe the plans NT Power has for clearance of these amounts.
- c) Please provide details of NT Power’s plan to share the ESM benefit amongst ratepayers of both rate zones.
- d) Please provide a draft accounting order for the requested account.
- e) Please explain how the allowed ROE and the actual ROE of the Combined Utility is proposed to be calculated.
- f) Please confirm whether the applicants will commence the reimbursement of the ESM benefit with customers only in year 11. If so, please explain why an earlier sharing of the ESM benefit with customers has not been considered or cannot be implemented.

1- Staff-20

Ref: Exh B/p. 30

NT Power proposes that any amounts in the ESM Account will be used in regards to any rate mitigation required at the time of rebasing of the Combined Utility. NT Power further states that rate mitigation and reimbursement measures apply to all customers of the Combined Utility. The Handbook states if an applicant's proposed ESM is different from the ESM set out in the 2015 Report, the applicant must provide evidence to demonstrate the benefit to the customers of the acquired distributor.

- a) Please explain why NT Power proposes that the ESM apply to all the customers of the Combined Utility from the perspective of consumer protection.
- b) Please provide any additional information to demonstrate the benefit to the customers of Midland Power.

1- Staff-21

Ref: Exh B/p. 33

NT Power requests the OEB's approval to extend the application of the rate riders currently granted to NT Power and Midland Power pursuant to NT Power and Midland Power's current rate tariffs.

- a) Please confirm whether NT Power is seeking a continuation of the existing rate riders until the current expiration date of these rate riders or whether NT Power is seeking an extension of the existing rate riders beyond the expiration date.
- b) If the latter, please confirm the date until when the extension of the existing rate riders is being requested and provide an explanation for why the extension is being sought for each of these rate riders.

1- Staff-22

Ref: Exh B/p. 33

NT Power requests to continue tracking costs in the deferral and variance accounts currently approved by the OEB for both NT Power and Midland Power.

- a) Please provide a listing of the existing deferral and variance accounts.

- b) Please explain when NT Power expects to consolidate NT Power and Midland Power's deferral and variance accounts.
- i. Please explain whether the consolidation of the IESO bill for the different rate zones will affect the timing of the consolidation of deferral and variance accounts.
 - ii. If so, please explain NT Power's consolidation proposal if the IESO bill is combined mid-year instead of at year end.

1- Staff-23

Ref: Schedule G, Midland Power Financial Statements

In Midland Power's 2016 financial statements, note 12 states that Midland Power did not meet its current ratio covenant. However, the covenant was waived and removed from the current financing agreement.

- a) Please explain if there are any further implications from the breach of this covenant to Midland Power's liquidity after the acquisition by NT Power.

1- Staff-24

Ref: Schedule G, 2018 Pro-forma Statements

- a) Please confirm that the pro-forma statements reflect the transition costs and savings projected for 2018. If not, please include the transition costs and savings in the pro-forma.
- b) Please explain how the projections in the pro-forma statements are derived.

1- Staff-25

Ref: Schedule H, Tariffs of Rates and Charges for Midland Power and NT Power

OEB staff has reviewed the approved Tariffs of Rates and Charges for the 2017 rate year for each of Midland Power and NT Power as provided in Appendix "H". Regarding Specific Service Charges, OEB staff has prepared the following table that compares the Specific Service Charges for the two applicants:

Specific Service Charge	Current Approved Charge	
	Midland	Newmarket-

	Power Utilities Commission (EB-2016- 0092)	Tay Power Distribution Ltd. (EB-2016- 0275)
Customer Administration		
Arrears Certificate		\$15.00
Statement of Account		\$15.00
Duplicate invoices for previous billing		\$15.00
Request for other billing information		\$15.00
Easement letter		\$15.00
Notification charge	\$15.00	
Account history	\$15.00	\$15.00
Credit reference letter		\$15.00
Credit check (plus credit agency costs)		\$15.00
Returned cheque (plus bank charges)	\$15.00	\$15.00
Legal letter charge	\$15.00	\$15.00
Special meter reads		\$30.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable) - residential	\$30.00	\$26.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)		\$30.00
Non-payment of Account		
Late payment – per month	1.50%	1.50%
Late payment – per annum	19.56%	19.56%
Collection of account charge – no disconnection		\$23.00
Disconnect/reconnect at meter – during regular hours	\$65.00	\$50.00
Disconnect/reconnect at meter – after regular hours	\$185.00	\$185.00
Disconnect/reconnect at pole – during regular hours	\$185.00	\$185.00
Disconnect/reconnect at pole – after regular hours	\$415.00	\$415.00
Install/remove load control device – during regular hours	\$65.00	\$50.00
Install/remove load control device – after regular hours	\$185.00	\$185.00
Other		
Service call – customer owned equipment		\$30.00
Service call – after regular hours		\$165.00
Temporary service – install &	\$300.00	\$500.00

remove – underground – no transformer		
Temporary service install and remove – overhead – no transformer	\$500.00	\$300,00
Temporary service install and remove – overhead – with transformer		\$1,000.00
Specific charge for access to power poles – per pole/year (with the exception of wireless attachments)	\$22.35	\$22.35
Interval meter load management tool charge \$/month	\$25.00	

- a) Please confirm or correct the above table.
- b) Where Midland Power and NT Power currently both offer the same specific service, the rates are equivalent in most circumstances. However, there are a number of specific service charges that are currently charged by one, but not both, of the applicants. The applicants propose that the amalgamated entity would only rebase rates after 10 years.
- i. Please explain how does NT Power proposes to handle a customer request (or a company-initiated request such as disconnect/reconnect due to non-payment) for which an approved charge is applicable in one of the legacy service territories but not in the other.
 - ii. Please explain how NT Power intends to communicate with customers, and how it proposes to handle customer issues or complaints regarding differences in rates for the following specific service charges:
 - a. Account set-up charge/change of occupancy charge (plus credit credit agency costs if applicable) - \$30.00 for Midland Power, \$26.00 for NT Power
 - b. Disconnect/reconnect at meter – during regular hours - \$65.00 for Midland Power, \$50.00 for NT Power
 - c. Install/remove load control device – during regular hours - \$65.00 for Midland Power, \$50.00 for NT Power
 - d. Temporary service – install & remove – underground - no transformer - \$300.00 for Midland Power, \$500.00 for NT Power
 - e. Temporary service – install & remove – overhead – no transformer - \$500.00 for Midland Power, \$300.00 for NT Power.

1-Staff-26

Ref: Conditions of Service

- a) Please identify any material differences in the current Conditions of Service of Midland Power and NT Power.

- b) Please confirm that these current Conditions of Service are available on each of the applicants' websites and available at their business offices for viewing by customers.
- c) If there are any material differences, please identify how NT Power intends to communicate and resolve these in dealing with customers if the application is approved.
- d) Please identify what steps NT Power intends to take, and the timing for such efforts, to consolidate Conditions of Service between Midland Power's and NT Power's service territories.