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BY E-MAIL

April 19, 2018

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

Dear Ms. Walli:

Re: Ontario Energy Board File Numbers: EB-2017-0373 and EB-2017-0374

Share Purchase Applications and related approvals - The Corporation of the Town of Collingwood (Town) and EPCOR Collingwood Distribution Corp. (EPCOR)

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

The Corporation of the Town of Collingwood
EPCOR Collingwood Distribution Corp.

Share Purchase Applications and related approvals

EB-2017-0373 and EB-2017-0374

April 19, 2018

1-Staff-1
Ref: Application, p. 31

The proposed transaction is expected to result in reductions in operating, maintenance and administration (OM&A) costs. Table 3 sets out the EPCOR Collingwood Distribution Corp.'s (EPCOR) projected cost savings on a yearly basis for the five years following the closing of the transaction. The projected savings are shown as the difference in costs between the status quo forecast, i.e., in the absence of the transaction and EPCOR's forecast, post transaction.

a) Please identify the specific areas of the distribution business where the projected cost savings are expected to be generated as a result of the proposed transaction.
b) Please provide a breakdown of the costs by the identified business areas in a) which explains the difference between the status quo forecast and EPCOR's forecast.
c) Please explain what assumptions have been made by the applicants with respect to the expected cost savings.
d) Please identify risks that could negatively impact the projected cost savings, setting out the projected savings if those risks materialize.

1-Staff-2
Ref: Application, pp. 35,36

It is stated that EPCOR has committed to retain all current Collus PowerStream Corp.(Collus) staff for a period of two years. EPCOR has also stated that it has no plans to lay off any staff and that following the close of the proposed transaction, EPCOR intends to re-organize the management structure of Collus PowerStream Corp. to align with that of EPCOR Utilities Inc. (EUI) (the parent company of EPCOR).

a) Please describe EPCOR's plans for the existing Collus staff after the two year period.
b) Please comment on how the proposed re-organization is expected to impact the roles and functions of the existing Collus staff, and in particular all of the positions directly responsible for the maintenance of service quality and reliability of the distribution system

1-Staff-3

Ref: Application, pp. 19, 20

EUI's business activities and operations are described.

a) Please state whether EUI is considered an Energy Service Provider as defined under the ARC.
b) If EUI is not considered an Energy Service Provider, please explain why.

1-Staff-4

Ref: Application, pp. 37

EPCOR has stated that efficiencies will be gained by having the CEO of Collus also have responsibilities that will include all of EUI's Ontario operations. Collus finance staff will have free time to provide similar services to other EUI Ontario based affiliates. Also Colllus regulatory staff will become responsible for assisting affiliates of EUI with similar services. EPCOR states that this sharing of staff will reduce the overall OM&A costs of Collus.

a) Please describe what safeguards are in place to ensure Collus staff will be able to devote the time and effort necessary to effectively operate Collus.
b) Please report if the expected efficiencies will still be gained if these Collus staff are not able to devote time to providing service to the other EUI Ontario based affiliates, in order to maintain their obligations to Collus.
c) Please explain how EPCOR plans to apportion costs between the various entities.

1-Staff-5
Ref: Application, pp. 36, 37

EPCOR has stated that it plans to re-organize the reporting structure of leadership and administrative functions such that the employees undertaking certain functions (finance, regulatory, human resources, information technology) within Collus will become integrated with EUI groups responsible for those functions. It is stated that these relationships will be formalized by service level agreements that will be in compliance with the OEB's *Affiliate Relationships Code for Electricity Distributors and Transmitters* (ARC).

Please provide the following information:

a) Please provide a copy of the service level agreements contemplated by EPCOR in the application.
b) Please confirm the length of the term of service level agreement.
c) Please explain how EPCOR's plans are compliant with section 2.1.1 of the ARC, which requires that a utility ensure accounting and financial separation from all affiliates and the maintenance of separate financial records and books of account.
d) With section 2.2.3 of the ARC,
    a. Please confirm whether EPCOR plans involve the sharing of employees who are directly involved in collecting, or have access to, confidential information with an energy service provider.
    b. If so, please explain how EPCOR plans to meet the requirements of the OEB as set out in section 2.2.3 of the ARC.
e) Please explain how EPCOR's plans are compliant with section 2.3.2.1 of the ARC, which requires that a utility first undertake a business case analysis, before entering into an affiliate contract for the receipt of a service, product, resource, or use of asset that it currently provides to itself.
f) Please explain how EPCOR's plans are compliant with sections 2.3.3.1, 2.3.3.6, 2.3.4.1 and 2.3.4.2 of the ARC.
g) Please confirm whether section 2.3.5.1 applies to the shared services arrangement contemplated by EPCOR. If so,
    a. Please explain why EPCOR considers this section applies to its arrangement.
    b. Please explain how EPCOR's plans are compliant with this section.

1-Staff-6
Ref: Application, p. 39

The application states that EUI's incremental transaction and integration costs are estimated to be $760,000. EUI expects to finance these costs during the five year rate rebasing deferral period through productivity gains associated with the transaction.

According to the evidence, the incremental transaction costs and the premium will not be included in Collus' future revenue requirement, and will not be funded by ratepayers.

a) Please state how EPCOR will ensure that these costs will not be included in its ratepayer funded revenue requirement.
b) Please identify any factors that may affect the recovery of costs associated with the proposed transaction.
c) Please confirm how these costs will be financed if they are not fully recovered from the anticipated productivity gains

1-Staff-7
Application, p. 39 and Schedules F and H

It is stated that EPCOR will be assuming outstanding debt and working capital of Collus at the close of the proposed transaction.

a) Please provide a listing of liabilities EPCOR will assume and for each debt item, please provide the date, amounts and interest rates. Please describe the impact, if any, on EPCOR's financial viability after the proposed share purchase transaction, if approved.
b) Please explain what EPCOR's plans are with regards to the assumed debt (i.e. maintain or pay off the debt). If EPCOR plans to settle the debt, please explain the flow of transactions to settle the debt, including where the funds to settle the debt are from and how the funds will flow through the relevant parties to settle the debt.
c) Please show the calculation of the "premium" EPCOR is paying above the book value of Collus' assets, factoring in Collus'debt assumption.
d) Please confirm that the debt (including the interest expense) related to the premium being paid will **not** be included in the regulated entity's financial statements, either in Collus' existing financial statements or in the future in EPCOR Collingwood Local Distribution Corp. financial statements.
e) Please confirm that EPCOR will continue to maintain separate audited financial statements for Collus or for EPCOR Collingwood Local Distribution Corp., going forward.

1- Staff-8
Ref: Application, pp. 38 and 39 and Schedules F and H

Collus' 2016 financial statements reflect that total liabilities amount to approximately $24 million. The 2019 pro-forma statement shows that total liabilities are expected to be approximately $40 million.

a) Please provide a detailed explanation, setting out reasons for the increase from $24 million to $40 million.

Collus' 2015 and 2016 financial statements reflect positive net income for Collus for both years, of $988K and $864K, respectively. The 2019 pro-forma statement reflects a loss of $438K. In the pro-forma statement, it is stated that operating expenses include one-time transaction costs. The interest expense in the pro-forma is $1.1 million as compared to $507K in the 2016 financial statement.

b) Please explain what the loss in the 2019 pro-forma statement represents, including an explanation for the discrepancy between the net income stated in the 2015 and 2016 financial statements and the loss shown in the pro-forma statement. In addition, please include in the explanation all assumptions that have been made with respect to interest expenses, financing costs, etc.
c) Please identify how much of the transaction costs referred to on pages 38 and 39 of the application are included in the pro-forma statement.
d) Please provide a detailed explanation, setting out reasons for the increase in the interest expense from $507K in the 2016 financial statement to $1.1 million in the pro-forma statement.

1- Staff-9
Ref: Application, pp. 39,40

It is stated that EUI confirms it will provide all funding required to complete the share purchase.

a) It is indicated that EPCOR has the financial capacity to fund the purchase price, other payments included in the share purchase agreement and any capital projects in the future to ensure system reliability and service quality is maintained across Collus' system. Please confirm whether EUI will provide funding for future capital projects as well.

b) Please explain what financial capacity EPCOR has to fund the purchase transaction and any future capital projects on its own, and without EUI.
c) Please confirm whether EPCOR has separate audited financial statements from EUI. If yes, please provide the most recent audited financial statements.

1-Staff-10
Ref: Application, p. 41, 42

It is stated that EPCOR will fund the purchase from a combination of its partner's equity and long term note payable to EUI.

a) Please confirm whether the terms of the note payable have been established. If so, please provide the details of the terms.
b) If not, please explain when EPCOR will be expected to repay the note payable. Please provide a repayment schedule and the source of funding to repay the note payable.
c) Please explain how EPCOR will ensure that it has sufficient funds to repay the note payable at that time.

1-Staff-11
Ref: Application, p. 43

Approval is requested to continue to track costs to the regulatory asset accounts currently approved by the OEB for Collus and to seek disposition of the balances at a future date.

Regarding the EPCOR's plans for deferral and variance accounts:

> *The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report* provides that under the Price Cap IR, the distributor's Group 1 audited account balances will be reviewed and disposed if the pre-set disposition threshold is met. In the letter *Update to EDDVAR Report, released July 2009,* dated July 25, 2014, distributors may seek to dispose Group 1 balances that do not exceed the threshold.

a) Please confirm that EPCOR's plan to request their deferral and variance accounts for disposition is consistent with this policy.

1-Staff-12
Ref: Schedule E

It is stated that the purchase price is subject to adjustment, within 90 days following closing.

a) Based on the most current information available, please provide an estimate of the final purchase price after these adjustments.

1-Staff-13
Ref: Application, p. 31, 42

Approval is requested to implement a negative rate rider for residential customers, the effect of which would be an immediate 1% reduction of residential customers' base distribution delivery rates as approved by the OEB in EB-2016-0064. This rate rider would be effective for five years from the closing of the transaction. The cost of providing this rate rider is $50,000 per year and EPCOR has stated that it will not seek to recover this in future rates.

The application requests that the proposed rate rider apply to the OEB-approved residential customers' base distribution delivery rates in EB-2016-0064. However, the OEB issued a decision approving rates for 2018 in Collus' IRM application (EB-2017-0034).

a) Please confirm whether EPCOR intends to forego the rate increase approved in EB-2017-0034. If so, EPCOR is required to confirm **prior to May 1, 2018** that this is what it is seeking. If not, please confirm that EPCOR intends the proposed rate rider to apply to the OEB-approved residential customers' base distribution delivery rates in EB-2017-0034.
b) Please confirm whether the costs of the negative rate rider have been included in Table 3. If so, please confirm the quantum included per year. If not, please provide an updated Table reflecting the projected savings, taking into account the costs of the negative rate rider.

1-Staff-14
Ref: Application, p. 10, 31

The application refers to Collus' existing Distribution System Plan (DSP) for 2017-2022. It is stated that EPCOR has reviewed this plan and finds it reasonable and that EPCOR is not expecting to generate any substantial savings relative to that of the current DSP. It is also stated that EPCOR intends to use an Incremental Capital Module (ICM) during the five year deferred rebasing period.

a) Please confirm whether Collus' DSP has been filed with the OEB and whether the DSP has been accepted by the OEB.
b) Please provide a detailed explanation for why EPCOR considers that it will require an ICM during the deferred rebasing period, providing a list of known or potential capital projects for which EPCOR intends to use an ICM
c) Please comment on how the intended use of an ICM is consistent with OEB policy as set out in the *Handbook to Electricity Distributor and Transmitter Consolidations*[1] and as described in the *Report of Board: New Policy Options for the Funding of Capital Investments*[2].

1-Staff-15
Ref: Exh A/T2/Sch1/p.15

The Handbook for Utility Rate Applications, dated October 13, 2016 indicates that in the first cost of service or custom IR application following consolidation, the OEB will consider the savings that have been generated through a consolidation.

a) Please confirm if EPCOR is planning to track any costs or savings associated with the acquisition. If so, please explain how EPCOR will present information on the savings.
b) Please explain how EPCOR will ensure that the transaction and integration costs are not included in Collus' revenue requirement.

[1] Issued January 19, 2016
[2] Issued September 18, 2014 and Supplemental Report issued January 22, 2016