

Ontario Energy Board

IN THE MATTER OF an application made by Hydro One Inc. for leave to purchase all of the issued and outstanding shares of Orillia Power Distribution Corporation, made pursuant to section 86(2)(b) of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application made by Orillia Power Distribution Corporation seeking to include a rate rider in the current Board-approved rate schedules of Orillia Power Distribution Corporation to give effect to a 1% reduction relative to their Base Distribution Delivery Rates (exclusive of rate riders), made pursuant to section 78 of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application made by Orillia Power Distribution Corporation for leave to transfer its distribution system to Hydro One Networks Inc., made pursuant to section 86(1)(a) of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application made by Orillia Power Distribution Corporation seeking cancellation of its distribution licence, made pursuant to section 77(5) of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application made by Hydro One Networks Inc. seeking an order to amend its distribution licence, made pursuant to section 74 of the Ontario Energy Board Act, 1998, to serve the customers of the former Orillia Power Distribution Corporation.

AND IN THE MATTER OF an application made by Orillia Power Distribution Corporation for leave to transfer its rate order to Hydro One Networks Inc., made pursuant to section 18 of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application made by Hydro One Networks Inc., seeking an order to amend the Specific Service Charges in Orillia Power Distribution Corporation's transferred rate order made pursuant to section 78 of the Ontario Energy Board Act.

Energy Probe Interrogatories to the Applicants

May 28, 2019

EP-1

Reference: Exhibit A, Tab 1, Schedule 1, page 4, and Exhibit A, Tab 4, Schedule 1, Page 11

Preamble: “The Purchaser shall establish an advisory committee (the “Advisory Committee”) to provide a forum for communication between the Purchaser and the community;”

Question:

- a) Has the advisory committee been established? If the answer is yes, please provide the date of its establishment and the names of the committee members. If the answer is no please explain why not.
- b) How was the public informed of the proposed merger?
- c) Please file copies of documents that were sent to ratepayers informing them of the proposed merger.
- d) How was public input solicited?
- e) Were any public meetings held? If the answer is yes please provide information on the meeting(s), including date, location, attendance, and meeting summaries prepared by staff employed by Applicants or their representatives.
- f) How was the public informed of the EB-2016-0276 and the EB-2017-0320 decisions? Please file copies of any documents that may have been sent to ratepayers informing them of the decisions.
- g) It appears from public comments on the record in this proceeding that there is significant opposition to the merger. Please explain the reasons for this opposition as Hydro One understands them.

EP-2

Reference: Exhibit A, Tab 1, Schedule 1, Page 8

Preamble: “The implementation of Hydro One’s ESM benefits and protects OPDC customers during the extended deferred rebasing period by guaranteeing \$3.2 million, established on an estimate of savings from the transaction.”

Question:

- a) What will be the impact on Hydro One ratepayers (excluding OPDC ratepayers) if actual earnings are higher or lower than expected?
- b) If the earnings are not adequate to support the \$3.2 ESM million credit to ratepayers, how will the credit be financed?

EP-3

References: Exhibit A, Tab 2, Schedule 1, Page 2, Table 1; Exhibit A, Tab 2, Schedule 1, Page 23

Question:

- a) Please provide the supporting calculations for each OM&A and Capital number shown in Table 1.
- b) Are the numbers shown in Table 1 based on USGAAP or MIFRS? Please explain your answer.
- c) As USGAAP allows for capitalization of certain costs that are treated as OM&A by MIFRS please provide the amounts for each year that will be transferred from OM&A to Capital as the result of adoption of USGAAP after the merger.

EP-4

Reference: Exhibit A, Tab 2, Schedule 1, Page 3

Preamble: “OPDC’s current Base Distribution Delivery Rates will be reduced by 1%, for residential and general service customers of OPDC, and frozen for a period of five years from closing of this transaction.”

Question:

- a) Please explain the purpose of the 1% reduction.
- b) Please explain how the 1% reduction was determined and show all calculations.
- c) Please explain the relationship between the 1% reduction in delivery rates and the \$3.2 million ESM credit.

EP-5

Reference: Exhibit A, Tab 2, Schedule 1, Page 13

Preamble: “In addition, Hydro One will eliminate all 19 indirect positions solely focused on the OPDC territory in the management, back office, and indirect trades and technical areas. “

Question:

- a) What is the cost that Hydro One will allocate to customers of OPDC for the provision of management, back office, and indirect trades services that were provided by the staff in 19 positions prior to amalgamation?

- b) Please explain the cost allocation methodology Hydro One uses for allocating such costs to acquired utilities and explain how it will be applied to OPDC during the 10 year period after amalgamation and following the 10 year period. If the allocation methodology is different for OPDC than for other acquired utilities please explain why that is the case.

EP-6

Reference: Exhibit A, Tab 2, Schedule 1, Page 20

Question:

- a) What is the latest estimate of the transaction and integration costs for Hydro One and for OPDC?
- b) How much has been spent to date on transaction and integration costs by Hydro One and OPDC and which accounts are being used by Hydro One and OPDC to record these costs?
- c) The evidence claims that all incremental costs will be financed through productivity gains. How will Hydro One keep track of actual productivity gains during the 10 year period to ensure that they are adequate to cover the incremental costs?

EP-7

Reference: Exhibit A, Tab 3, Schedule 1, Page 4

Preamble: “A significant benefit to OPDC customers is that the OM&A costs used in the model are incremental costs only, which do not include corporate overheads. Including corporate overheads would reduce net income, thereby reducing shared earnings. Hydro One’s Year-10 forecast OM&A costs are approximately 70% less compared to OPDC’s status quo Year-10 OM&A forecast.”

Question:

Please provide the amount of corporate overheads excluded in the model for each year of the 10 year period.

EP-8

Reference: Exhibit A, Tab 3, Schedule 1, Page 6

Preamble: “Hydro One will have a strong incentive to ensure that these savings are achieved so that its ability to recover acquisition costs will not be eroded.”

Question:

- a) Please reconcile this statement with the claim at Exhibit A, Tab 2, Schedule 1, Page 20 that all incremental costs will be financed through productivity gains
- b) How will Hydro One track actual savings during the 10 year period?

- c) What will Hydro One do if the savings are not as great as expected and Hydro One's ability to recover acquisition costs is eroded?

EP-9

Reference: Exhibit A, Tab 4, Schedule 1, Page 4, Table 2

Question:

Please provide the calculation that supports the estimate of the \$1,005 thousand LV charges for Year 11.

EP-10

Reference: Exhibit A, Tab 4 Schedule 1, Page 6

Preamble: "The \$6.9 M Residual revenue requirement does not reflect OPDC customers paying their full share of the costs for services that Hydro One would be providing to OPDC customers."

Question:

- a) What would be Residual Revenue Requirement in Year 11 if OPDC customers were paying their full share of costs of services that Hydro One would be providing to OPDC?
- b) Please confirm that if party A to a shared services agreement does not pay their full share of costs than party B is paying an amount that is greater than its full share which means that party B is subsidizing party A.

EP-11

Reference: Exhibit A, Tab 4, Schedule 1, Pages 4 and 5, Table 3

Preamble: Tax expense shown in Table 3 in the evidence filed 2018-09-26 was \$687 thousand and in the evidence filed on 2019-04-26 is \$227 thousand.

Please provide a detailed reconciliation that explains the change in the tax expense.

EP-12

Reference: Exhibit A, Tab 4, Schedule 1, Page 8, Table 4

Question:

- a) Please confirm that according to Hydro One is the net benefit of the merger is \$6.584 million, the difference between the \$14.448 million Total Cost to Serve - OPDC Status Quo and the \$7.864 million Total Residual Cost to Serve. If the answer is no, please give explain your answer.

- b) Is the \$6.584 million difference composed of three components: the less than full share of shared services costs, the difference in capitalization between USGAAP and MIFRS, and assumed savings from staff reductions? If the answer is yes, please provide the amount of each component in Year 11. If the answer is no please provide the reasons for your answer and the list of Hydro One's components that total \$6.584 million, giving the amount of each component.

EP-13

Reference: Exhibit A, Tab 5, Schedule 1, Page 1

Please explain the mechanism that Hydro One will use to track capital costs and incremental OM&A costs to serve OPDC customers after the rebasing period. Please provide a numerical example with illustrative numbers.

EP-14

Reference: Exhibit A, Tab 5, Schedule 1, Pages 6 and 7

Please provide more information on Hydro One's proposed adjustment factors by providing the following information.

- a) Please list the proposed adjustment factors.
- b) Please explain how each adjustment factor will be calculated.
- c) Please provide a numerical example of each adjustment factor.

EP-15

Reference: Exhibit A, Tab 5, Schedule 1, Page 9

- a) Why did Hydro One find it necessary to engage Navigant Consulting to evaluate its cost allocation approach?
- b) Did Hydro One issue an RFP for this work? If the answer is yes, please provide the RFP. If the answer is no, please explain why not.
- c) Please file the statement of work or any similar document that Hydro One used to communicate to Navigant the consulting assignment.

EP-16

Reference: Exhibit A, Appendix A, Navigant Report, Page 1

Are the documents listed on Page 1 a complete list of all documents that were provided to Navigant by Hydro One? If the answer is no, please list the documents that were provided by Hydro One to Navigant but are not listed on Page 1.

EP-17

Reference: Exhibit A, Appendix A, Navigant Report, Page 6

- a) Please discuss Navigant's experience with adjustment factors in other jurisdictions.

- b) Did Hydro One provide Navigant with any adjustment factor alternatives? If the answer is yes, please list and explain the alternatives. If the answer is no, please explain how Navigant was able to reach its conclusions in absence of alternatives

Respectfully submitted on behalf of Energy Probe, May 28, 2019.

Tom Ladanyi
Consultant to Energy Probe