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BY EMAIL

September 3, 2019

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

Dear Ms. Walli:

**Re: Hydro One Networks Inc. and Orillia Power Distribution Corporation
Application under sections 86(2)(b), 86(1)(a), 78, 18, 77(5), and 74 of the
Ontario Energy Board Act, 1998 for the relief necessary to effect Hydro One
Networks Inc.'s purchase of all issued and outstanding shares of Orillia
Power Distribution Corporation.**

OEB Staff Letter Regarding Topics for Technical Conference

Ontario Energy Board File Number: EB-2018-0270

In accordance with Procedural Order No. 7, please find below the list of interrogatory responses Ontario Energy Board (OEB) staff intends to seek clarification on during the Technical Conference scheduled for October 3 and 4, 2019.

OEB staff advises that the following does not represent a comprehensive list of questions that will be asked during the Technical Conference.

Yours truly,

Original Signed By

Andrew Bishop
Project Advisor, Supply & Infrastructure

1 INTRODUCTION

1.1 Overview of Submission

Hydro One Networks Inc. (Hydro One) filed an application on September 26, 2018, requesting approval for Hydro One Inc. to purchase all of the shares of Orillia Power Distribution Corporation (Orillia Power) (Application). As part of the share purchase, Orillia Power and Hydro One (collectively, the Applicants) also requested the OEB's approval for certain licence amendments and rate proposals. Additionally, following the issuance of the OEB's Decision and Order on Hydro One's related application for approval of its electricity distribution rates for January 1, 2018 to December 31, 2022¹ (Hydro One Dx), Hydro One filed supplemental evidence to the Application on April 26, 2019.

OEB staff and intervenors were given the opportunity to ask written interrogatories on the original Application as well as the Applicant's supplemental evidence. The process concluded on June 14, 2019 with the Applicants' filing of responses to interrogatories.

This letter identifies the specific interrogatories that OEB staff intends to further examine during the Technical Conference scheduled for October 3 and 4, 2019. OEB staff has provided context on each identified interrogatory in order to aid the Applicants' preparation. The context provided is general and meant to identify the broad themes OEB staff will pursue during the Technical Conference only. As stated on the covering page of this letter, the following does not represent a comprehensive list of questions that will be asked during the Technical Conference.

For ease of reference, OEB staff has organized this letter by interrogatory.

¹ EB-2017-0049

2 CLARIFICATIONS

2.1 OEB Staff IR #4

The intent of OEB staff IR #4 was to gain insight into the Applicants' most recent estimates of the Operational, Maintenance & Administrative (OM&A) costs to serve their respective residential rate classes. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #4:

- A greater understanding of the values shown in the three tables provided in response to the interrogatory, their source, as well as the underlying assumptions used to calculate these values.

2.2 OEB Staff IR #6

OEB staff IR #6 sought clarification on the Applicants' projected Year 11 savings of \$6.5 million. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #6:

- Confirmation of the accounting standard and policies underpinning the Applicants' projected Year 11 ratepayer savings of \$6.5 million (i.e., have the line items shown in Table 1 labelled "*OPDC Status Quo Total Cost to Serve*" and "*Total Residual Cost to Serve*" been calculated using the same accounting standards [US GAAP or IFRS] and the same accounting policies [with respect to depreciation, capitalization, etc.]?).
- If the line items shown in Table 1 labelled "*OPDC Status Quo Total Cost to Serve*" and "*Total Residual Cost to Serve*" were calculated under different accounting standards or policies, OEB staff will request that a new calculation using consistent accounting standards and policies be provided. In addition to Table 1 of the above referenced response to OEB Staff IR #6, OEB staff may request that any other evidence on the record that quantifies synergies or ratepayer savings be recalculated under consistent accounting standards and policies.

2.3 OEB Staff IR #7 parts b), c), and d)

OEB staff IR #7 sought additional evidence that supported the Applicants' proposal to track only incremental OM&A and capital costs to service current Orillia Power customers during the rebasing deferral period. OEB staff will ask questions that, at a

minimum, seek the following additional clarifications related to the Applicants' response to IR #7:

- A detailed explanation of how incremental and capital costs will be tracked and accurately assigned to the correct utility service area.
- Additional understanding as to why an accurate tracking of shared costs during the rebasing deferral period is not feasible.
- In the Hydro One Dx decision², the OEB indicated that Hydro One had failed to maintain records of the costs to serve acquired utilities as directed. In light of the Hydro One Dx decision, OEB staff will pursue a line of questioning that seeks to clarify why the Applicants' proposal to only track incremental OM&A and capital costs is reasonable.

2.4 OEB Staff IR #8 all parts

OEB staff IR #8 sought additional evidence that supported the Applicants' proposal to create new rate classes for current Orillia Power customers following the rebasing deferral period. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #8:

- The number and type of acquired rate classes Hydro One proposes to create following the rebasing deferral periods of various recent/proposed acquisitions (e.g., Orillia Power, PDI, Woodstock, Haldimand, and Norfolk).
- The rationale underpinning Hydro One's creation of acquired rate classes following its first cost of service after the deferred rebasing period:
 - In the Hydro One Dx decision³, the OEB denied Hydro One's rates proposals with respect to the acquired rate classes. In light of this decision, OEB staff will pursue a line of questioning that seeks to understand the Applicants' proposal to create acquired rate classes and assesses the reasonableness of this proposal.
- An explanation of what will happen if the OEB does not approve separate acquired rate classes (i.e., will current Orillia Power customers still suffer no harm?).

² EB-2017-0049

³ EB-2017-0049

2.5 OEB Staff IR #9 parts a), b), and e)

OEB staff IR #9 sought additional evidence that supported the Applicants' proposed post-acquisition approach to cost allocation as well as the effect of the approach on the underlying cost structures to serve former Orillia Power customers. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #9:

- The Applicants will be asked to walk OEB staff through the Excel spreadsheets provided in response to this IR. During the walkthrough, OEB staff will request that the Applicants explain the specific assumptions embedded in the spreadsheets, as well as the methodological approach used to create them.
- With respect to the OEB's cost allocation model (CAM), the Applicants will be asked to fully describe the issues that exist in the CAM that, in the Applicants' view, drive the significant over-allocation of costs to the acquired rate classes.

2.6 OEB Staff IR #10

OEB staff IR #10 requested that the Applicants demonstrate the bill impacts on Orillia Power customers if Orillia Power customers were brought into Hydro One's existing rate classes **today** (i.e., September 3, 2019), but taking into account any savings expected over the deferred rebasing period (i.e., pretending that all expected savings had already occurred). In other words, OEB staff was looking for a calculation that would avoid assumptions regarding Orillia Power's status quo rates or Hydro One's post deferral period rates, but that still allows for expected savings to be reflected. In response to IR #10, the Applicants' demonstrated the bill impacts of the acquisition at 2030.

OEB staff will request that the Applicants provide a complete response to OEB staff's original IR.