

IMPACT OF THE PROPOSED TRANSACTION

1.0 INTRODUCTION

This exhibit provides HOI's impact assessment of the proposed transaction and also provides a discussion of the impact of the transaction on OPDC's and Hydro One's future operations in relation to the OEB's statutory objectives. It elaborates on how the transaction promotes economic efficiency and cost-effectiveness in the distribution sector and also discusses other related matters pertaining to this transaction.

2.0 IMPACT OF THE PROPOSED TRANSACTION

The *Handbook to Electricity Distributor and Transmitter Consolidations* (the "Handbook"), Schedule 2 Filing Requirements requires applicants to provide evidence to demonstrate the impact of the proposed transaction with respect to the OEB's first two statutory objectives. The Handbook recognizes that there are other instruments and tools that will ensure that the OEB's remaining statutory objectives, relating to conservation and demand management, implementation of smart grid and the use and generation of electricity from renewable resources, will not be adversely impacted by a consolidation. Therefore, the Board has determined that there is no need or merit in further review of these statutory objectives as part of a consolidation transaction¹.

SECTION 2.1: OBJECTIVE 1 – PROTECT CONSUMERS WITH RESPECT TO PRICE AND ADEQUACY, RELIABILITY AND QUALITY OF ELECTRICITY SERVICE

This Application demonstrates that the ongoing cost structures following the closing of the transaction will result in expected ongoing operations, maintenance and administrative

¹ Handbook, Page 6

(“OM&A”) savings of approximately \$4.7 million per year and reductions in capital expenditures of approximately \$0.2 million per year (based on the level of savings achieved by Year 10). These efficiencies represent an ongoing OM&A reduction of approximately 70% of OPDC’s Year 10 status quo forecast. This will result in downward pressure on OPDC’s cost structures relative to the status quo and will be realized while maintaining adequacy, reliability and quality of electricity service. These savings are expected to continue beyond the 10-year deferred rebasing period. Table 1 illustrates the projected cost savings from this transaction. How these savings will be attained is further discussed in Section 2.2.

Table 1 savings, illustrated below, are based on a comparison of OPDC’s operations as a stand-alone distribution company relative to the costs of operating OPDC’s service territory once it is integrated within Hydro One. Year 1 in the table represents a 12 month period post-closing of the transaction. This period is assumed to most closely align with calendar year 2020.

Table 1: Projected Cost Savings - \$M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
OM&A										
Status Quo Forecast	5.5	5.7	5.8	5.9	6.1	6.2	6.4		6.5	6.6
Hydro One Forecast	4.1	2.0	2.1	1.7	1.7	1.8			1.8	1.9
Projected Savings	1.4	3.7	3.7	4.2	4.3	4.4	4.4	4.6	4.7	4.7
Capital										
Status Quo Forecast	3.2	4.3	1.5	1.8	2.8	2.9	3.0		11.1	3.2
Hydro One Forecast	3.4	2.4	2.4	2.5	2.8	2.8	2.9		2.9	3.0
Projected Savings	(0.2)	1.9	(0.9)	(0.7)	0.2	0.0	0.1	0.1	8.2	0.2

1 Hydro One's 2017 OM&A cost to serve customers in its high density residential rate class (UR)
2 is \$179/customer², compared to OPDC's cost of \$352/customer³. Hydro One's urban rate class
3 covers areas containing 3,000 or more customers with line density of at least 60 customers per
4 circuit kilometre. As such, it is reasonable to believe that if this transaction proceeds, Hydro One
5 will be able to serve OPDC's service area, which has approximately 13,800 customers and a
6 density of 57 customers per km of line, at a cost that is comparable to Hydro One's UR rate
7 class.

8 9 **Price of Electricity Service**

10
11 The acquired OPDC customers will have rates adjusted in the next ten years as discussed below.

12 13 *Rate-setting in Years 1-5 of the Deferred Rebasing Period*

14
15 OPDC's current Base Distribution Delivery Rates⁴ will be reduced by 1%, for residential and
16 general service customers of OPDC, and frozen for a period of five years from closing of this
17 transaction⁵.

18
19 Table 2 shows the customer bill impact of this reduction applied to the average consumption
20 levels for residential and general service rate classes. The impacts on total bill as well as
21 distribution rates are provided. The rate reductions vary slightly from the 1% reduction as a
22 result of rounding from using two decimal places for fixed charges and four decimal places for
23 volumetric charges, as prescribed by the Board, and also due to the fact that the 1% rate

² EB-2016-0081, 2017 Draft Rate Order Filed November 18, 2016

³ Average value for all OPDC customers as shown in the 2017 OEB Yearbook. For the OPDC residential class (which comprises ~ 90% of their customers), the cost to serve is estimated to be \$208/customer.

⁴ As defined in Exhibit A, Tab 1, Schedule 1, page 3, Footnote 2.

⁵ A negative rate rider will result in a 1% reduction to OPDC's Base Distribution Delivery Rates, as approved by the OEB at the time of closing, will be implemented over that term.

1 reduction does not apply to other existing rate riders or LV rates which are also included in the
2 table below under distribution delivery rates.

3
4 **Table 2: Bill Impacts for OPDC Customers⁶**

Rate Class ⁷	Change in Distribution Delivery Rates	Change in Total Bill (%)
Residential	(0.96%)	(0.25%)
General Service less than 50 kW	(1.08%)	(0.27%)
General Service 50 to 4,999 kW	(0.97%)	(0.07%)

5
6 Detailed calculations of customer bill impacts and the determination of the rate riders can be
7 found in **Attachment 7** and **Attachment 8**. For the purpose of this application, Hydro One
8 proposes the residential variable rider, to effect the 1% reduction between years one to five of the
9 deferral period, be rounded to five decimal places. This is an exception to the OEB's general
10 rule, of four decimal places. The five decimal places will facilitate Hydro One providing a rider
11 to benefit OPDC customers. The other riders will continue to be rounded to four decimal places,
12 per OEB policy⁸. The proposed rate schedules, which include the requested rate rider for the area
13 currently served by OPDC, effective after closing, are filed as **Attachment 9**.

14
15 The cost of providing this rate rider (approximately \$80,950 per year⁹) will be recovered from
16 synergies that are generated from consolidating OPDC's operations into Hydro One. This
17 negative rate rider will be discontinued at the end of Year 5 of the deferral period.

⁶ Based on OPDC's OEB-approved 2018 rates (EB-2017-0264)

⁷ The proposed 1% rate reduction only applies to residential and GS rate classes.

⁸ Hydro One asked the Board to approve a variable rate rider to five decimal places in EB-2017-0049 Exhibit H1
Tab 1 Schedule 1

⁹ Based on the Residential, and General Service rate class revenues from the OEB 2017 Yearbook for OPD (totaling
(\$8,095k) multiplied by 1%

1 OPDC’s residential distribution rates will continue to be adjusted to move to a fully fixed
2 distribution charge, per OEB Policy “ *A New Distribution Rate Design for Residential*
3 *Customers*” (EB-2012-0410). In EB-2015-0024, the OEB approved a four-year transition period
4 for OPDC to move to fixed rates, beginning in 2016 and is expected to culminate in fully fixed
5 residential rates by the end of 2019.

6
7 All other OPDC tariffs will remain as approved in OPDC’s last rate order¹⁰; with the exception
8 of Specific Service Charges (“SSCs”) which Hydro One is seeking approval to amend to align
9 with the SSCs as approved, or will be approved¹¹, by the OEB for Hydro One Distribution. .

10
11 *Specific Service Charges*

12
13 Amending OPDC’s rate schedules to reflect Hydro One’s SSCs is the most reasonable and cost-
14 effective solution. This approach simplifies and reduces the cost of billing system modifications
15 and/or manual workarounds to accommodate different charges, reduces call centre staff training
16 and provides for a consistent customer experience.

17
18 *Rate Riders*

19
20 Table 3 below is a (i) summary of OPDC’s current Rate Riders, and (ii) Hydro One’s requests
21 for those applicable rate riders.

¹⁰ EB-2017-0264

¹¹ Hydro One has proposed updates to its SSCs in its 2018-22 distribution rate filing [EB-2017-0049], currently before the OEB.

1

Table 3: Proposed updates to Orillia’s Rate Riders

Current Rider Description	Proposed Rider Description or Amendments in Proposed OPDC 2020 Rate Schedules
Rate Rider for Smart Meter Incremental Revenue Requirement - in effect until the effective date of the next cost of service-based rate order	In effect until the effective date of the next cost of service-based rate order
Smart Metering Entity Charge ¹² - effective until December 31, 2022	Will remain in effect until December 31, 2022
Rate Rider for Application of Tax Change (2018) - effective until April 30, 2019	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.
Rate Rider for Disposition of Global Adjustment Account (2018) - effective until April 30, 2019 <i>Applicable only for Non-RPP Customers</i>	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.
Rate Rider for Disposition of Deferral/Variance Accounts (2018) - effective until April 30, 2019	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.
Rate Rider for Disposition of Deferral/Variance Accounts (2018) - effective until April 30, 2019 <i>Applicable only for Non-Wholesale Market Participants</i>	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.

2

¹² The Smart Metering Entity Charge is a component of the “Distribution Charge” on a customer’s bill, established by the OEB through a separate order. Decision and Order, EB-2017-0290, March 1, 2018

1 *Rate-setting in Years 6-10 of the Deferred Rebasing Period*

2
3 Beginning in year six through to year ten, rates for the former customers of OPDC will be set
4 using the Price Cap adjustment mechanism, as outlined in the Board's Report: "*Rate Making*
5 *Associated with Distributor Consolidation*" issued March 26, 2015 ("Amended Report"). At the
6 commencement of year six, Hydro One will apply the OEB's Price Cap Index formula utilizing
7 the former OPDC's efficiency cohort factor (0.3%). This will be anchored to then current OPDC
8 Base Distribution Delivery Rates, and applied annually.

9
10 *Rate-setting Post the Deferred Rebasing Period (Future Cost Structures)*

11
12 The OEB, as requested in Hydro One's EB- 2016-0276 application, wants information on future
13 cost structures that will underpin the rate-setting that will be applicable to the customers of
14 OPDC in the post-deferral period. As a result, Hydro One is filing evidence on potential rate
15 setting mechanisms in years 11 and beyond (see **Exhibit A, Tab 4, Schedule 1**).

16
17 *Earnings Sharing Mechanism ("ESM")*

18
19 Since Hydro One is requesting a 10-year deferred rebasing period, Hydro One will also be
20 implementing an ESM, in accordance with the Amended Report. As outlined in the Handbook,
21 the ESM as set out in the Amended Report may not achieve the intended objectives for all types
22 of consolidation proposals. Hydro One is therefore proposing an ESM that protects OPDC
23 customer interests during the extended deferred rebasing period. Further details on Hydro One's
24 proposed ESM are found in **Exhibit A, Tab 3, Schedule 1**.

1 *Hydro One Legacy Customers*

2
3 The proposed transaction also protects Hydro One's existing customers. On March 31, 2017,
4 Hydro One filed a five-year Custom Incentive Regulation (EB-2017-0049) application for rates
5 effective from 2018 through to 2022, which is currently awaiting a Board decision/approval.
6 This application did not include any costs associated with serving the customers of OPDC. Costs
7 to serve these customers will not be included in any Hydro One revenue requirement application
8 until the deferred rebasing period has expired.

9
10 **Adequacy, Reliability and Quality of Electricity Service**

11 Once the transaction is approved by the OEB, the Vendor intends to transfer OPDC's regulated
12 distribution assets so that they are owned by HOI. Transfer of the distribution system from HOI
13 to Hydro One Networks Inc. is expected to occur within 18 months after the close of the
14 Agreement. Once integration is complete, the assets will be integrated with, and form part of
15 Hydro One's existing distribution system. This change in control is expected to maintain or
16 improve adequacy, reliability and quality of service.

17
18 Hydro One endeavors to maintain or improve reliability and quality of electricity service for all
19 of its customers. Hydro One currently has existing assets serving many customers in close
20 proximity to the current OPDC service territory (please see map filed as **Attachment 10**),
21 making Hydro One a natural consolidator for OPDC. As part of the proposed consolidation,
22 Hydro One will retain local knowledge from existing OPDC staff. This local knowledge, in
23 coordination with Hydro One's regional operations and staff, will allow Hydro One to maintain
24 or improve reliability.

1 The existing reliability metrics for OPDC and Hydro One’s local metrics are provided in Table 4
 2 below. Hydro One has used distribution stations (Bass Lake D.S, Rugby D.S & Silver Lake DS)
 3 in the vicinity of OPDC to compare with OPDC’s metrics provided in the OEB Yearbook.

4
 5

Table 4: Reliability Metrics*

	2013	2013	2014	2014	2015	2015	2016	2016	2017	2017	2018	2018
	Hydro One	Orillia Power ¹³	Hydro One	Orillia Power	Hydro One	Orillia Power	Hydro One	Orillia Power	Hydro One	Orillia Power	Hydro One	Orillia Power
Duration (SAIDI)	3.06	1.13	0.76	2.15	4.08	1.06	2.77	0.52	5.73	3.63	2.07	1.43
Frequency (SAIFI)	1.37	1.03	0.39	1.28	1.33	2.44	0.84	1.10	1.59	0.92	0.81	1.50

6 *Excluding LOS¹⁴

7

8 Based on reliability statistics for 2013 to 2017, Hydro One customers in the vicinity of the City
 9 of Orillia experienced a level of service in terms of duration and frequency of interruptions
 10 similar to the level experienced by OPDC customers. For 2014, Hydro One performed better
 11 than OPDC in terms of duration of outages, whereas OPDC performed better in the other years;
 12 for 2014, 2015 and 2016, Hydro One performed better than OPDC in terms of frequency of
 13 outages.

14

15 Hydro One’s 2016 and 2017 SAIDI statistic is higher than OPDC. In 2016, two separate
 16 incidents caused by tree contact resulted in 302 customers having service interruptions – one
 17 lasted approximately 4.3 hours and the second approximately 3 hours. Both of the 2016 tree
 18 contacts occurred in the winter season. The first, resulting in a 4.3 hour outage occurred on
 19 November 20, 2016 at approximately 9:00 P M, during heavy storm cell activity across the
 20 province. A tree had fallen on one of the conductors of that feeder resulting in a need to replace
 21 the line conductor section of the circuit between the closest two poles. On that day, there was

¹³ Data-sources for OPDC reliability metrics are the applicable OEB Yearbooks

¹⁴ Loss of Supply (“LOS”) interruptions attributable to assets that are not part of the Hydro One distribution System or the OPDC Distribution System

1 wide spread freezing rain, heavy snow and high winds through Ontario. Hydro One's Ontario
2 Grid Control Centre ("OGCC") activated a 'Level 1'¹⁵ emergency response. During that time
3 Hydro One had approximately 50,000 customers interrupted throughout the province. Hydro
4 One's current service territory in the vicinity of Orillia (non-OPDC territory) is the Central
5 Region, and was heavily hit. The second 2016 interruption occurred on December 6th at
6 approximately 7:00 PM in middle of winter conditions after dark. The winter condition and night
7 interruption in rural areas normally are more challenging for Hydro One line crews to arrive,
8 locate and restore power safely. This interruption was due to tree growth into lines and Hydro
9 One Forestry needed to be routed to the location to trim the trees. This interruption was restored
10 in 3 hours.

11
12 In 2017, Hydro One's SAIDI was again slightly higher than OPDC's. Both the OPDC and Hydro
13 One SAIFI for 2017 reflect durations of heavy storm activity that occurred in this area of
14 Ontario. One notable common storm cell occurred between the 2nd and 5th of August impacting
15 approximately 91,000 Hydro One customers throughout the province. The OGCC activated a
16 'Level 1' emergency response during this time. Again, Hydro One's Central Region (Hydro
17 One's service territory adjacent to OPDC's service territory is in the Central Region) was
18 impacted heavily.

19
20 Hydro One has recently changed its Vegetation Management Strategy, moving from an 8-year
21 maintenance schedule, which focused on clearing corridors completely and maintaining hazard
22 trees, to a 3-year vegetation cycle that focuses on defects versus complete clearances. Hydro One
23 expects this approach will reduce system interruption and/or equipment damage resulting from
24 tree contact and other vegetation¹⁶.

¹⁵ A Hydro One OGCC 'Level 1' event is triggered by either; an outage that results in more than 10,000 customers being interrupted, an outage duration that is estimated to exceed 24-hours, or there are 100 active incidents in the Hydro One Outage Management system.

¹⁶ For further information on the new Vegetation Strategy see EB-2017-0049 Exhibit Q, Tab 1, Schedule 1

1 Hydro One anticipates that reliability for OPDC customers may in fact improve with the
2 combination of pre-existing Hydro One and former OPDC resources optimized for the broader
3 Orillia area, and the implementation of Hydro One's new vegetation strategy.

4
5 In the long term, OPDC customers are expected to benefit from operational efficiencies expected
6 by having the OPDC assets integrated into Hydro One's larger distribution system. Scale
7 efficiencies are expected in the areas of operating and maintaining the distribution system,
8 planning capital replacement and the overhead and management functions. The foregoing is
9 discussed further in Section 2.2. Hydro One is committed to ensuring that quality and reliability
10 of the former OPDC's customers' electricity service will not be adversely impacted as a result of
11 this transaction. As the Board indicated in the EB-2016-0272 Board Decision, Hydro One will
12 be required to report on reliability and quality of service metrics, thus if there is a risk of harm to
13 Hydro One's customers, the OEB's reporting requirements will make this apparent and will need
14 to be addressed.

15
16 **Other Items**

17 There are no net metering customers in the current OPDC service area. Therefore, the net
18 metering thresholds as a result of this consolidation will remain unchanged.

19
20 Hydro One has agreed to establish an Advisory Committee to provide a forum for
21 communication between Hydro One and the community. Under the terms of the Agreement, the
22 Vendor may appoint three representatives to the committee, and Hydro One will include both
23 senior management and local staff representation.

24
25 The City of Orillia will retain the current OPDC Operating Centre on West Street for future
26 redevelopment. Hydro One has agreed to enter into a five-year lease agreement with the City to
27 lease this centre. Conditional on the completion of the sale, Hydro One intends to commence
28 construction, during the lease period, of a permanent operations and administration building

1 within the City of Orillia. This new centre will consolidate operations between Hydro One's pre-
2 existing Orillia Operating Centre and OPDC's Operating Centre on West Street.

3
4 **SECTION 2.2: OBJECTIVE 2 – PROMOTE ECONOMIC EFFICIENCY AND COST EFFECTIVENESS**
5 **AND FACILITATE THE MAINTENANCE OF A FINANCIALLY VIABLE ELECTRICITY INDUSTRY**

6
7 Hydro One submits that this transaction will promote economic efficiency and cost effectiveness
8 which will result in lower ongoing cost structures.

9
10 Economic efficiency is attained through sector consolidation, which ultimately eliminates
11 redundant activities. Cost effectiveness reduces OM&A and capital expenditures and is achieved
12 by leveraging Hydro One's economies of scale. These together result in sustained operational
13 efficiencies, both quantitative and qualitative.

14
15 With the integration of OPDC's staff and operations with Hydro One's existing operations,
16 Hydro One expects sustained operational efficiencies to be realized in distribution operations,
17 administration, information technology and customer service.

18
19 *Staff Integration*

20 As Hydro One already has an operating organization in place that provides many of the same
21 functions as OPDC, certain redundant positions will no longer be required. Table 5 shows the
22 2017 actual OPDC labour split between staff occupying direct and indirect positions. Direct
23 staff, such as line and forestry employees, work directly on the distribution assets. Indirect staff
24 are considered support staff such as back-office, customer service, finance, etc.

Table 5: Current OPDC Staff

	Direct	Indirect
Management	-	8
Back Office	-	7
Trades & Technical	15	4
Total	15	19

OPDC's direct staff will be integrated into Hydro One's local operations and will become part of the area's pool of resources working within the larger Hydro One service area, which encompasses OPDC's current service territory. Hydro One will expand its current Central region to include the OPDC service territory. The 15 direct OPDC positions, currently focused solely on servicing the OPDC service area, will be eliminated. However, as a result of this transaction, 9 new local Hydro One positions will be required and are anticipated to be sourced from the existing 15 OPDC staff complement. Therefore, the result is a net reduction of 6 local trades and technical positions to serve the same territory. 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. The remaining 25 personnel will be absorbed into vacancies within Hydro One Networks.

Although certain functions and positions will be eliminated as part of the integration process leading to efficiency gains, Hydro One, due to its size and current staff retirement profile, is able to offer continued employment to existing OPDC staff. OPDC personnel currently in these roles will have the opportunity to transition to existing positions within the Hydro One organization. This will allow Hydro One to leverage the industry knowledge of existing OPDC staff to meet customer needs. As Hydro One will now be planning the electricity requirements for the entire Orillia area, it will be able to more efficiently manage both the operating and capital costs associated with serving customers across the area.

1 *Distribution Operations*

2 Local area operating and capital savings will result in a more efficient distribution system due to
3 the elimination of an artificial electrical boundary and thereby realizing benefits from contiguity.

4
5 Hydro One's existing service territory is situated immediately adjacent to the territory served by
6 OPDC. The geographic advantage of contiguity allows for economies of scale to be realized at
7 the field and operational levels through the eventual integration of OPDC's and Hydro One's
8 local systems.

9
10 The elimination of the artificial electrical boundary between these contiguous distributors will
11 result in operational efficiencies in various areas. Hydro One will be able to rationalize local
12 space needs through the elimination or repurposing of duplicate facilities such as service and
13 operating centres; more efficiently schedule operating and maintenance work and dispatch crews
14 over a larger service area; and, more efficiently utilize work equipment (e.g., trucks and other
15 tools), leading to lower capital replacement needs over time. The elimination of the service area
16 boundary allows for more rational and efficient planning and development of the distribution
17 system. All of the above provide the potential to result in operating and capital savings, both
18 immediate and over time, which will provide long-term benefits to ratepayers relative to the
19 status quo.

20
21 This situation is common throughout the Province and is shown in the attached map (see
22 **Attachment 11**) depicting the current fragmented pattern of the local distribution system, with
23 small- and medium-sized LDCs contiguous to or surrounded by Hydro One.

24
25 Hydro One's Asset Risk Assessment ("ARA") process will also assist in achieving ongoing
26 distribution operational efficiencies. Hydro One's ARA process determines the state of Hydro
27 One's distribution system, identifies current asset needs, and creates a line of sight to future
28 needs, which enables an in-depth view of asset risk, and improved decision-making. The ARA

1 incorporates field asset assessment including visual inspections and evaluation. This process
2 allows Hydro One to assess the state of its assets, assess the risks that those assets pose and to
3 develop appropriate plans in order to ensure reliability and service quality are met. This
4 assessment will allow Hydro One to consider the state of the OPDC distribution system, identify
5 current asset needs, and create a line of sight to future asset needs.

6
7 *Administration*

8 Sustained administrative efficiencies will result due to (a) the elimination of redundant activities
9 and (b) efficiencies resulting from economies of scale.

10
11 The following stand-alone OPDC activities provide examples of what will be consolidated into
12 Hydro One's portfolio of activities.

- 13 • Financial: financial accounting, planning, forecasting, management reporting,
14 procurement, treasury, tax, and audit functions.
- 15 • Regulatory and legal: rate -setting applications, OEB initiatives, compliance, RRR
16 reporting, and other regulatory reporting (e.g., CDM program administration costs, IESO
17 Market Rules).
- 18 • Executive and governance: duplicative functions performed by OPDC's senior
19 management would be eliminated, and OPDC's Board of Directors would no longer be
20 required.
- 21 • Human Resources: Hydro One will have savings in recruitment, training, and staff
22 development costs, as trained and experienced OPDC staff will be available to Hydro
23 One to replace expected retirements and other attrition. As well, there will be a reduction
24 in external consultants and contractor engagement between the two companies.

25
26 Hydro One's cost of borrowing is typically lower than that of local LDCs, leading to savings in
27 financing costs over time. For example, in June 2018, Hydro One Inc. issued \$250 million of 7-
28 year debt with a 2.97% coupon rate, and \$700 million of 31-year debt with a 3.63% coupon rate.

1 The cost of long-term debt included in OPDC's rates is 6.25% compared to the 4.47% submitted
2 by Hydro One Distribution in its recent 2018 rate application (EB-2017-0049, Exhibit Q, Tab 1,
3 Schedule 1). OPDC's current debt will be refinanced prior to closing of this acquisition.
4 Consequently, the savings that arise from Hydro One's ability to refinance OPDC's debt upon
5 maturation at a lower rate will lead to lower debt return on rate base, relative to the status quo.

6
7 Benefits are also expected to accrue to various agencies within the Ontario energy industry. For
8 example, the costs to regulate and administer the sector may be reduced as this and further
9 acquisitions are completed. The IESO, the OEB, and Ministry of Energy can achieve potential
10 savings through reduced regulatory burden and industry oversight. Further, enhanced regional
11 planning efficiencies may also be achieved by having fewer distribution companies planning for
12 larger areas. For instance, capital can be deployed more efficiently than with the current
13 fragmented approach.

14 15 *Information Technology*

16 A larger customer base resulting from the creation of a larger regional distributor leads to costs
17 for processing systems, such as billing, customer care, human resources and financial, being
18 spread over a larger group of customers. Consolidation of these functions is expected to result in
19 efficiency benefits as duplicate systems are eliminated, leading to lower capital, operating and
20 maintenance costs over time.

21
22 The integration of Hydro One and OPDC will allow for efficiency gains to be realized through
23 eliminating duplication in transaction-processing functions. For example, Hydro One currently
24 processes financial, human resource, information technology, and work management transactions
25 for its existing customers and staff. OPDC processes very similar transactions for its own
26 service area. This means that if the transaction proceeds, Hydro One has the opportunity to
27 eliminate these sources of duplication.

1 OPDC utilizes a Surveillance Supervisory Control and Data Acquisition System (“SCADA”) which
2 monitors and controls the distribution network. Integration of OPDC into Hydro One will result
3 in the OPDC SCADA being integrated onto Hydro One’s SCADA system and eliminating the
4 need for the master stations. This represents a savings of IT capital and ongoing upgrades.

5
6 *Customer Service*

7 Hydro One is undergoing a historic customer service transformation. From front line service
8 repairs to operational planning to Board of Directors meetings, Hydro One is today more sharply
9 focused on what’s best for the customer. The following describes some of the initiatives and
10 ongoing customer services that Hydro One provides its customers, and which would be offered
11 to the customers of OPDC.

12
13 *Call Centre*

14 Responding to requests for more convenient hours that fit customer schedules, Hydro One has
15 Contact Centres open on Saturdays from 9:00 a.m. to 3:00 p.m. and extended weekday hours
16 from 7:30 a.m. to 8:00 p.m. – making Hydro One the first electricity service provider in Ontario
17 to do so. For power outages and other emergencies, Hydro One provides 24 hour assistance. The
18 Hydro One Call Centre is open 4½ hours per day longer on Monday to Friday than OPDC’s call
19 centre and is supported by an award-winning 24/7 Interactive Voice Response (“IVR”) system in
20 addition to customer service staff. This IVR provides customers the ability to self-serve, for
21 many of their most common account and service needs, such as reporting a power outage and
22 obtaining their current account balance. This allows the customer to quickly and accurately get
23 responses to many of their inquiries and allows call centre agents to focus on the more complex
24 questions. Hydro One also insourced its Contact Centre representatives back from a third-party
25 provider, allowing Hydro One employees to better serve customers, by providing a more
26 seamless experience. This transition has also delivered improved service quality. By coming
27 back into the organization, the customer representatives will play a large part in advancing

1 Hydro One’s renewed service culture, assuring customers they are now connecting directly with
2 Hydro One service leaders and decision makers who will be better equipped to serve them.

3
4 *Increased Community Service and Presence:*

5 Hydro One continues to increase its presence in local communities through drop-in sessions, its
6 mobile Electricity Discovery Centre and by opening regional customer service desks at the
7 Sudbury Field Business Centre and piloting customer service offices at the London and
8 Markham Contact Centres. Hydro One also has a traveling customer service team that visited
9 over 20 cities, towns and Indigenous communities throughout the year, meeting customers face-
10 to-face to help answer questions about their bills, provide information about smart meters and
11 help them learn more about conserving energy and reducing their usage.

12
13 *Outages*

14 When an outage occurs, Hydro One customers can use other channels, such as online access via
15 smart-phone or other battery-charged laptops and devices, for information about outage details,
16 including estimated restoration time. Customers have the option to sign up for e-mail or text
17 outage notifications. OPDC customers currently do not have these outage notifications, but upon
18 integration, these channels will become available to OPDC customers as well.

19
20 *Initiatives to Help Customers Manage their Bills*

21 Hydro One helps customers reduce their monthly bills through electricity conservation programs.
22 Hydro One is committed to delivering industry leading Conservation and Demand Management
23 (“CDM”) initiatives that help customers save on their electricity usage and bills. In addition to
24 CDM programs, Hydro One typically tops-up Low Income Energy Assistance Program
25 (“LEAP”) funding to help those least able to afford their electricity bills. This is not done by
26 OPDC today. Hydro One also eliminated security deposits for residential customers and
27 significantly reduced deposit requirements for business customers and expanded relief measures
28 to help customers who accumulated balances on their accounts over the winter. Customers can

1 sign up for digital notices that include notifications that their eBill is ready, how much electricity
2 they are consuming mid-month, and payment receipt alerts. All of these alerts provide Hydro
3 One customers with the information they need to effectively manage their energy consumption
4 and their finances. Additionally, Hydro One provides a range of support to Indigenous
5 customers through the First Nations Delivery Credit, First Nations Conservation program and
6 Hydro One's Get Local program.

7
8 *New Services*

9 Hydro One has redesigned the *HydroOne.com* website and *myAccount* self-service portal to
10 make them more intuitive, providing an array of information and tools, such as *Predict My Bill*.
11 The format of Hydro One's electricity bills were also completely redesigned following extensive
12 research and substantial direct feedback from thousands of customers. The new, easy to
13 understand electricity statements began in December 2017. The new version of the bill also
14 translates well digitally as an e-bill on both web and mobile applications. The new bill changes
15 have seen improvements to our customers understanding of their bills.

16
17 OPDC's LEAP funds provided annually between 2015 and 2018, were fully utilized, and in each
18 year were depleted by mid-year, with no additional funding available to assist with remaining
19 potentially eligible customers. If this transaction is approved, OPDC's customers would benefit
20 from Hydro One's top-up of LEAP funding.

21
22 *Service Guarantees*

23 Hydro One was the first of its kind for any electric utility in Ontario to offer Service Guarantees.
24 These guarantees provide tangible evidence Hydro One is prepared to stand behind the service
25 provided to its customers. If Hydro One fails to meet commitments (e.g., misses an appointment,
26 takes longer than 5 business days to connect a new service once all connection requirements are

1 met, does not return a phone call within one business day)¹⁷, the residential customer's account is
2 proactively credited \$75.

3
4 *Incremental Transaction and Integration Costs*

5 Both parties to the transaction will have incurred some incremental costs associated with the
6 transaction.

7
8 Hydro One's incremental transaction costs are estimated to be approximately \$3 million. These
9 include legal, and tax costs relating to completion of the transaction, and costs associated with
10 the necessary regulatory approvals.

11
12 Integration costs include incremental up-front costs to transfer the customers into Hydro One's
13 customer and outage management. These costs are estimated to be approximately \$6 million.
14 Hydro One is not expecting to incur any ongoing integration costs.

15
16 All of the above incremental costs will be financed through productivity gains associated with
17 the transaction, will not be included in Hydro One's revenue requirement, and thus will not be
18 funded by ratepayers.

19
20 *Financial Viability/Premium/Financing*

21 | As contemplated in the share purchase agreement, Hydro One Inc. will pay \$41.3 million for the
22 | acquisition of OPDC. This comprises a cash payment of approximately \$26.4 million for the
23 | shares and the assumption of short and long-term debt of approximately \$14.9 million¹⁸. The

¹⁷ The terms and conditions for these Service Guarantees can be found at:
<https://www.hydroone.com/about/corporate-information/our-service-guarantees>

¹⁸ As contemplated in the Agreement, the final purchase price is subject to closing adjustments. A separate Hydro One Inc. commitment of \$0.25 million to fund local community investment in Orillia will be treated as contingent consideration for accounting purposes in addition to the Agreement's \$41.3 million purchase price.

1 purchase price represents the commercial value of the underlying assets established through
2 negotiations with an arms length third party.

3 The premium paid over the asset's book value will not have a material impact on Hydro One
4 Inc.'s financial viability. This transaction price accounts for less than 1% of Hydro One
5 Distribution's net fixed assets. In addition, the premium paid will not be included in Hydro
6 One's revenue requirement and thus will not be funded by ratepayers. Copies of OPDC's, Hydro
7 One Distribution's and Hydro One Inc.'s Financial Statements for 2016 and 2017 are provided in
8 **Attachments 12 to 17.**

9
10 HOI will initially finance the proposed transaction through cash or its short-term commercial
11 paper program, which is operational and fully backed by a syndicated bank line of credit
12 maturing June, 2022. Long-term financing will be through its Medium -Term Note program ,
13 which is fully operational and valid until April 2020, and planned to be renewed thereafter.

14 15 **3.0 OTHER RELATED MATTERS**

16 17 *Regulatory Assets and Rate Riders*

18
19 OPDC's deferral and variance accounts will be held separately from Hydro One Network's
20 deferral and variance accounts. The Report of the Board on Electricity Distributors' Deferral
21 and Variance Account Review Report ("EDDVAR") provides that under the Price Cap IR, the
22 distributor's Group 1 audited account balances will be reviewed and disposed if the pre-set
23 disposition threshold is met. In the letter Update to EDDVAR Report, released July 2009, dated
24 July 25, 2014, distributors may seek to dispose Group 1 balances that do not exceed the
25 threshold. Hydro One will comply with this policy during the deferred rebasing period and will
26 propose disposition of the former OPDC Group 1 balances once they meet the threshold
27 established by the Board, consistent with this policy.

1 OPDC is requesting a rate rider to reduce the residential and general service rate classes' Base
2 Distribution Delivery Rates that are in effect at the time this transaction closes, by 1% for years
3 one through five of the deferral period. All other OPDC rate riders will continue as per their
4 existing rate schedules until expiry.

5
6 The OPDC regulatory assets currently approved by the OEB will continue to be tracked in their
7 respective accounts, and disposition will be sought at a future date.

8
9 Also, Hydro One requests approval to establish and use a regulatory account to track costs
10 associated with the proposed ESM, which is proposed to be active in the deferral period years six
11 through ten as part of this Application. If approval is granted, Hydro One will submit a Draft
12 Accounting Order for the Board's approval either as a condition of this Application's approval,
13 or as a subsequent filing. More detail on Hydro One's proposed ESM is at **Exhibit A, Tab 3,**
14 **Schedule 1.**

15
16 *Incremental Capital Module*

17
18 To encourage consolidation, the Handbook has now explicitly extended the availability of an
19 ICM, for any prudent discrete capital projects, for consolidating distributors that are on either
20 Price Cap Incentive Regulation ("PCIR") or Annual IR Index. Currently, OPDC rates are set in
21 accordance with PCIR.

22
23 Hydro One understands, from the Handbook, that an ICM will be made available for the former
24 OPDC service territory should the need arise. Hydro One currently has no plan to apply for ICM
25 relief during the deferred rebasing period, however if circumstances prevail where Hydro One
26 does require an ICM, the details pertaining to the ICM will be provided in that future application.

1 *US GAAP*

2
3 OPDC's financial statements are currently prepared under IFRS. Hydro One Distribution
4 received OEB approval to utilize US Generally Accepted Accounting Principles ("US GAAP")
5 as its approved framework for rate setting, regulatory accounting and regulatory reporting in the
6 Decision with Reasons in EB-2011-0399 (issued on March 23, 2012). In addition, in the Hydro
7 One Norfolk MAAD (EB-2013-0187/196/198) Decision and Order, the Board decided that using
8 US GAAP methodology in accounting for Norfolk Power Distribution Inc. (the acquired utility)
9 will be more efficient than continuing to use Modified IFRS. Since that Decision, the OEB has
10 also approved the use of US GAAP for Haliburton County Hydro Inc. (EB-2014-0244) and
11 Woodstock Hydro Services Inc. (EB-2014-0213) in their MAAD applications.

12
13 Hydro One requests similar approval to utilize US GAAP for accounting purposes in relation to
14 OPDC. Approval to use US GAAP for OPDC will simplify any future rate integration, will
15 avoid incremental costs or productivity losses by simplifying processes and avoiding the need for
16 workarounds, and will facilitate Hydro One Inc.'s consolidated reporting for securities filing
17 purposes (including future U.S. Securities and Exchange Commission), thus avoiding
18 incremental costs and/or reduced productivity. By using one uniform standard of reporting,
19 Hydro One seeks to achieve integration and scale efficiencies. Given the relative small size of
20 the OPDC operations (when compared to Hydro One), Hydro One believes it would be
21 inefficient and costly to maintain two different accounting regimes for divisions within Hydro
22 One.

23
24 *Compliance Matters*

25
26 Pending approval of this transaction and after notification to the Board that integration is
27 completed, OPDC's distribution system and Rate Order will be transferred to Hydro One, and
28 Hydro One's distribution licence will be amended to include the OPDC service territory. The

1 customers, assets, systems, processes and operations of OPDC will be fully integrated into Hydro
2 One's business activities.

3
4 Hydro One confirms that it is materially in compliance with its regulatory requirements, subject
5 to any approved regulatory exemptions. The list of specific code requirements from which
6 Hydro One has been exempted can be found in Schedule 3 of Hydro One's Electricity
7 Distribution Licence.

8
9 To the best of OPDC's knowledge, it is in compliance with all relevant licence and code
10 requirements per its Electricity Distribution Licence. It is expected that following the approval
11 and completion of the transaction and after integration of OPDC's distribution business activities
12 into those of Hydro One, Hydro One will continue to be materially compliant with all applicable
13 Legislation, Regulations, Market Rules, other Licence Conditions and Codes.

14
15 Hydro One's compliance policy will continue to require that confirmed instances of non-
16 compliance be disclosed and mitigated as necessary including applications for exemptions from
17 such requirements, if necessary. Any potential instances of non-compliance associated with
18 OPDC's distribution business activities will be addressed during the integration process.

19
20 During the period after closing of the transaction and prior to full integration, service level
21 agreements in compliance with the OEB's *Affiliate Relationships Code for Electricity*
22 *Distributors and Transmitters* will be drafted between OPDC and Hydro One affiliates.

23 24 **SUMMARY**

25
26 For the reasons addressed in the preceding sections, both qualitative and quantitative savings and
27 efficiencies are expected to result from this transaction. Overall, Hydro One's analysis shows
28 the ongoing synergies will accrue as a result of this transaction, benefiting ratepayers of both

1 utilities. These attributes allow Hydro One and OPDC to conclude that the transaction will not
2 cause harm to ratepayers, and indeed will provide benefits to all ratepayers in the long term .
3 Moreover, this application embodies the current regulatory policies and principles of the Board
4 in pursuing the objectives established by section 1 of the Act.