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BY E-MAIL

October 9, 2013

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

Dear Ms. Walli:

Re: Board Staff Interrogatories

Application by Hydro One Inc. for leave to purchase all of the issued and outstanding shares of Norfolk Power Inc. - EB-2013-0196

Application by Norfolk Power Distribution Inc. for leave to dispose of its distribution system to Hydro One Networks Inc. - EB-2013-0187

Application by Hydro One Networks Inc. to include a rate rider in the 2013 Ontario Energy Board-approved rate schedule of Norfolk Power Distribution Inc. to give Effect to a 1% Reduction Relative to 2012 Base Electricity Delivery Rates - EB-2013-0198

In accordance with Procedural Order No. 5, please find attached Board staff's interrogatories respecting the above referenced applications.

Yours truly,

Original signed by

Gona Jaff
Project Advisor, Applications and Regulatory Audit

Attachment

cc: All Parties to the Proceeding

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FIDELIS
Ontario

Board Staff Interrogatories

APPLICATION BY HYDRO ONE INC. FOR LEAVE TO PURCHASE ALL OF THE ISSUED AND OUTSTANDING SHARES OF NORFOLK POWER INC. - EB-2013-0196

APPLICATION BY NORFOLK POWER DISTRIBUTION INC. FOR LEAVE TO DISPOSE OF ITS DISTRIBUTION SYSTEM TO HYDRO ONE NETWORKS INC. - EB-2013-0187

APPLICATION BY HYDRO ONE NETWORKS INC. TO INCLUDE A RATE RIDER IN THE 2013 ONTARIO ENERGY BOARD-APPROVED RATE SCHEDULE OF NORFOLK POWER DISTRIBUTION INC. TO GIVE EFFECT TO A 1% REDUCTION RELATIVE TO 2012 BASE ELECTRICITY DELIVERY RATES - EB-2013-0198

October 9, 2013

INTERROGATORY NO. 1

Reference: Exhibit A, Tab 1, Schedule 1, Page 2, Lines 19-23:

> On April 2, 2013, the County (as Vendor) and HOI (as Purchaser) entered into a share purchase agreement (the "Agreement"), whereby the Vendor agreed to sell, and the Purchaser agreed to purchase, all of the issued and outstanding shares of NPI (the "Shares"). The purchase price is $93 million, comprising a cash payment of approximately $66 million for the shares and the assumption of NPI's long-term debt of approximately $27 million.

Reference: Exhibit A, Tab 1, Schedule 1, Page 4, Lines 14-15:

> The net book value of the assets that will be transferred to HONI Distribution's rate base is approximately $53.9 million.

Interrogatories:

1.1. Please confirm that the premium paid over the netbook value of the assets will not be recovered through rates. Specifically, please confirm that the premium paid will not impact any component of a future HONI or HONI NP revenue requirement. If this cannot be confirmed, please quantify the impact and the component of the revenue requirement.

1.2. Please provide information supporting that the premium paid will not affect the financial viability of HONI or its parent company and indicate whether, and if so how and by when, Hydro One Inc. expects to recover the premium paid.

1.3. Please indicate whether push down accounting[1] will be used on the acquisition of Norfolk Power Inc. If so, please provide details on the following:
   (a) impact on future HONI or HONI NP revenue requirements. Please quantify the impact and the component of the revenue requirement;
   (b) assets that are being revalued; and
   (c) tax implications and state the impact if UCC is also being increased.

1.4. If push down accounting has not been utilized and will not be utilized in the future by either HONI or HONI NP, please confirm that the regulatory values submitted to the Board for ratemaking or regulatory reporting purposes for these entities will not be affected by push down accounting.

[1] Push down accounting is a method of accounting in which the financial statements of a subsidiary are presented to reflect the costs incurred by the parent company in buying the subsidiary instead of the subsidiary's historical costs. The purchase costs of the parent company are shown in the subsidiary's statements, rather than in the parent company's statements.

INTERROGATORY NO. 2

Reference: Exhibit A, Tab 2, Schedule 1, Page 1, Lines 20-26:

> The proposed transaction protects NPDI's customers through a commitment to freeze their base electricity distribution delivery rates for a period of five years from closing of this transaction. In addition, HONI is seeking approval to implement a negative rate rider that will result in a further 1% reduction from the OEB-approved 2012 rates (EB-2011-0272), applied to the above mentioned 2013 base distribution delivery rates, for NPDI customers (see Section 2.0 below for further details). The cost of providing this rate rider will be obtained from the synergies that are generated from consolidating NPDI's operations into HONI.

Reference: Exhibit A, Tab 2, Schedule 1, Page 5, Lines 4-7:

> HONI Distribution expects to realize operating synergies once it integrates the operations of NPDI into HONI. The net savings, after considering transaction and integration costs will more than offset the impact of offering a 1% reduction relative to 2012 base distribution delivery rates (as set out in EB-2011-0272) for five years.

Interrogatories:

2.1. Please explain why HONI is proposing a 1% distribution rate reduction to NPDI's 2013 rates *based on NPDI's 2012 rates*.

2.2. Please provide the rationale/justification for the proposed rate reduction.

2.3. Please provide the cost of providing the proposed rate reduction *per year*, including the analysis, assumptions and calculations used.

2.4. Please explain whether the annual cost estimate equates to the benefit enjoyed by NPDI customers each year for the five year rate freeze period.

2.5. Please provide the projected *net savings* from the proposed transaction *per year* including the analysis, assumptions and calculations used to arrive at that number.

INTERROGATORY NO. 3

Reference: Exhibit A, Tab 1, Schedule 1, Page 4, Line 24-28 and Page 5, Lines 1&2):

> HONI Distribution requests approval to defer the rate rebasing of HONI NP (the former NPDI) for five years from the date of closing the proposed transaction, consistent with the Report of the Board titled "Rate-making Associated with Distributor Consolidation" issued July 23, 2007. At the end of the five-year period, HONI Distribution expects to apply under the Board's Incentive Regulation Mechanism ("IRM") to adjust HONI NP's rates until the earliest opportunity to rebase its rates along with HONI Distribution rates, currently expected in 2020.

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

> The proposed transaction also protects HONI Distribution customers. HONI Distribution plans to file a five-year cost of service rate application in 2014 for rates effective 2015 to 2019 under the Board's Custom Incentive Regulation regime. That application will be based on HONI Distribution's existing customer base, i.e., it will not include any capital or OM&A costs associated with serving, maintaining or operating customers within the NPDI service territory.

Reference: Report of the Board titled "Rate-making Associated with Distributor Consolidation" issued July 23, 2007 (the "Report), Page 5:

> Distributors that apply to the Board for approval of a consolidation transaction may propose to defer the rate rebasing of the consolidated entity for up to five years from the date of closing of the transaction.

Reference: The Report Pages 6-7:

> Until the form and approach to 3rd Generation IRM are determined by the Board, the incentive regulation plan that a distributor will be subject to for the duration of the consolidated entity's deferral period will be 2nd Generation IRM. Afterwards, the incentive regulation plan that a distributor will be subject to for the duration of the consolidated entity's deferral period will be the plan that the distributor was subject to at the time of the MAAD application, even if this means that individual (and different) rate plans will be maintained until rebasing.

Interrogatories:

3.1. Please provide the expected closing date of the transaction.

3.2. Please confirm that HONI seeks to defer rebasing the consolidated entity's (i.e. HONI and NPDI) rates for more than five years.

3.3. If item 3.2 above is confirmed, given that the report referenced above allows deferral of rate rebasing for up to five years, please provide information justifying the need for, and benefits of a longer deferral period.

3.4. The Report clearly indicates that "the incentive regulation plan that a distributor will be subject to for the duration of the consolidated entity's deferral period will be the plan that the distributor was subject to at the time of the MAAD application". Board staff understands that HONI plans to file a five year Custom Incentive Regulation cost of service application in 2014. Please reconcile the statement above with the plan to file a Custom IR application.

INTERROGATORY NO. 4

Reference: Exhibit A, Tab 2, Schedule 1, Page 2, Lines 18-20:

> HOI has guaranteed a local presence within NPI's office on Victoria St. in the Town of Simcoe for a minimum of three years and will move its Dundas Field Business Centre functions from the City of Hamilton to the Town of Simcoe over a three-year period.

Interrogatories:

4.1. Please indicate the impact of moving the Dundas Field Business Centre from Hamilton to the Town of Simcoe on HONI's existing customers.

4.2. Please provide the cost of moving this office and indicate whether this cost is included in the Incremental Transition Costs found on page 4 of Exhibit A/Tab2/Schedule1.

INTERROGATORY NO. 5

Reference: Exhibit A, Tab 2, Schedule 1, Page 2, Lines 26-28:

> HOI has committed to a capital expenditure budget and forecast in the Share Purchase Agreement that will allow it to maintain or improve reliability from the existing performance of NPDI.

Interrogatories:

5.1. Please elaborate on the statement referenced above and provide details on the basis on which this commitment was made.

Interrogatory No. 6

Reference: Exhibit A, Tab 1, Schedule 1, Page 4, Lines 8-11:

> Immediately following the acquisition of the shares of NPI by HOI, HOI will transfer the assets and liabilities of the electricity distribution business from NPDI to HONI. If these applications are approved, the distribution system assets of NPDI will move directly from control by the County to direct ownership by HONI.

Interrogatories:

6.1. In line with the above referenced statement, if the current applications are approved, please confirm that:

(a) HONI will be assuming the responsibility of ensuring NPDI's 2011-2014 CDM Targets (15.680 GWh, 4.250 MW) are met, as outlined in the Board's November 12, 2010 Decision on CDM Targets (EB-2010-0215/EB-2010-0216); and

(b) HONI's CDM Targets should be adjusted to include NPDI's 2011-2014 CDM Targets.

INTERROGATORY NO. 7

Reference: Exhibit A, Tab 2, Schedule 1, Page 7, Lines 8-11:

> According to the Applications, HONI expects to rebase its electricity distribution rates along with NPDI's distribution rates in 2020 and to harmonize the two rates at the same time. "Until that time, HONI Distribution proposes to retain two separate rate schedules for customers in each of the service areas – that is those currently served by HONI Distribution and those currently served by NPDI."

Interrogatories:

7.1. Please indicate whether HONI is applying under section 18 of the *Ontario Energy Board Act, 1998* for leave to transfer NPDI's rate order to HONI.

7.2. Please provide HONI's plan to address the rate differentials between the two service territories at the time of the harmonization, with particular emphasis on potential rate shock for HONI NP customers.

INTERROGATORY NO. 8

Reference: Exhibit A, Tab 2, Schedule 1, Page 7, Lines 21-26:

> NPDI's current rate rider for the recovery of Lost Revenue Adjustment Mechanism ("LRAM") is effective until April 30, 2014. This rate rider will recover the lost revenue incurred in 2011 as a result of CDM programs implemented between 2005 and 2010, as well as the lost revenue from 2011 CDM activities between January 1, 2011 and December 31, 2011. HONI Distribution requests to continue to track variances in Board-approved versus actual revenue resulting from CDM initiatives from 2013 to the time of HONI NP rebasing, in the LRAM account.

Interrogatories:

8.1. Please explain how HONI will record LRAMVA amounts in Account 1568, as outlined in the Board's CDM Guidelines (EB-2012-0003) in Section 13 and Appendix B including whether HONI will be recording its LRAMVA amounts on a combined or separate basis.

8.2. Please explain when HONI anticipates seeking disposition of its LRAMVA amounts in relation to the final net savings from each of HONI's and NPDI's CDM Programs and the CDM adjustments made to both HONI and NPDI's load forecast.

8.3. Section 13.4 of the CDM Guidelines outlines the details around the disposition of the LRAMVA. Please explain how HONI will seek disposition of its LRAMVA at the time of its next cost of service application. Please discuss whether HONI will do so on a combined or separate basis.

INTERROGATORY NO. 9

Reference: Exhibit A, Tab 2, Schedule 1, Page 8, Lines 16-22:

> HONI requests approval to utilize USGAAP for accounting purposes in relation to HONI NP. Approval to use USGAAP for HONI NP will simplify the future rate integration to HONI Distribution; will avoid incremental costs or productivity losses by simplifying processes and avoiding the need for workarounds; and will facilitate HOI's consolidated reporting for securities filing purposes (possibly including future U.S. Securities and Exchange Commission), thus avoiding incremental costs and/or reduced productivity. It would be inefficient and costly to maintain different accounting regimes for divisions within HONI.

Interrogatories:

9.1. Please confirm that MIFRS was used as the basis for the calculation of NPDI's 2012 regulated revenue requirement. If this cannot be confirmed, please state which accounting standard was used and provide an explanation.

9.2. Please specify whether HONI is requesting approval to use USGAAP for HONI NP for:

(a) financial reporting purposes;
(b) regulatory purposes; or
(c) both financial reporting and regulatory purposes .

9.3. If the answer to item No. 9.2 is "(a) financial reporting purposes", please identify how this would impact HONI NP's rates and regulatory accounting and reporting that were established using MIFRS.

9.4. If the answer to item No. 9.2 is "(b) regulatory purposes or (c) financial reporting and regulatory purposes", please confirm whether the Board-prescribed MIFRS accounting for regulatory reporting and rate-making purposes will continue to be used for HONI NP, and if so,

(a) Please explain how MIFRS regulatory accounting and rate-making will be preserved under USGAAP. Please provide full particulars.
(b) Please confirm that HONI NP will maintain its regulatory accounting books under MIFRS and continue reporting to the Board using MIFRS for regulatory reporting and rate-making purposes. If this cannot be confirmed, please provide a detailed explanation.
(c) Please confirm that there would be no impact on HONI NP's current base revenue requirement, particularly with respect to HONI NP's capitalization policies under MIFRS. If this cannot be confirmed, please provide a detailed explanation.

9.5. Please confirm that HONI's plan to use USGAAP for HONI NP will not impose additional cost to HONI NP's customers. If this cannot be confirmed, please provide the details of expected costs and whether recovery of these costs will be sought from customers.