

**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 FOR  
NORFOLK POWER DISTRIBUTION INC. TO GIVE EFFECT TO A 1% REDUCTION  
RELATIVE TO 2012 BASE ELECTRICITY DELIVERY RATES  
EB-2013-0198**

**VECC INTERROGATORIES**

**OCTOBER 11, 2013**

## **INTERROGATORY #1**

**REFERENCE:** i) Exhibit A, Tab 1, Schedule 1, page 4 (line 24) to page 5 (line 2)  
ii) Exhibit A, Tab 2, Schedule 1, page 1 (line 20) to page 2 (line 3)  
iii) Exhibit A, Tab 2, Schedule 1, page 6 (lines 18-24)

**PREAMBLE:** Hydro One Networks is planning on filing a five-year cost of service rate application in 2014 for rates effective 2015 to 2019. It is also proposing to freeze (after the implementation of a 1% rate reduction) the base distribution rates for NPDI's customers. Hydro One Networks submits that this plan is consistent with the Report of the Board titled "Rate Making Associated with Distributor Consolidation" issued July 23, 2007.

### **QUESTION:**

- a) Please confirm that the referenced Report of the Board (at page 5) states that:  
*"Distributors that apply to the Board for approval of a consolidation transaction may propose to defer rate rebasing for the consolidated entity for up to five years from the date of closing of the transaction".*
- b) Please confirm that the referenced Report of the Board (page 6) states that:  
*"Where a consolidated entity's rebasing is deferred through application of the policy set out in this Report, its rates would be subject to normal annual rate adjustment under incentive regulation until that rebasing."*
- c) Please confirm that per pages 4-6 of the Board's Report, the purpose of allowing the consolidated entity to defer rebasing was to provide a reasonable opportunity for distributors to offset the costs of the transaction with efficiency savings. If not, what is Hydro One Networks' understanding as to the purpose behind permitting such rate rebasing to be deferred?
- d) Please confirm that Hydro One Networks is not proposing to defer "rate rebasing" for the consolidated entity and that Hydro One Networks is not proposing to apply the normal annual rate adjustment allowed under incentive regulation to the rates applicable to customers in NPDI's service territory prior to future rebasing.
- e) Please explain more fully why Hydro One Networks considers its proposal to freeze the rates and defer rebasing only for the acquired portion of what will be its new consolidated entity and not its legacy portion to be consistent with the Report of the Board as Hydro One Networks states in references (i) and (iii).

## **INTERROGATORY #2**

**REFERENCE:** i) Exhibit A, Tab 1, Schedule 1, page 3 (lines 5-11)  
ii) Exhibit A, Tab 2, Schedule 1, page 5 (lines 4-10)

**PREAMBLE:** Hydro One Networks is proposing to freeze (after the implementation of a 1% rate reduction) the base distribution rates for NPDI's customers. Hydro One Networks submits that 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 for five years.

### **QUESTION:**

- a) Has Hydro One Networks undertaken any analysis as to the incremental cost of serving, maintaining and operating customers in the NPDI service territory over the next five years in order to assess the overall financial implications of reducing and then freezing the rates in the NPDI service territory for 5 years given that these incremental costs will not be recovered from Hydro One Networks' legacy customers?
- If yes please provide.
  - If no, what is the basis for Hydro One Networks' claim as set out in reference (ii) and what assurance can Hydro One Networks provide that this "freeze" does not come at the expense of consumer interest regarding reliability and/or financial viability?

## **INTERROGATORY #3**

**REFERENCE:** i) Exhibit A, Tab 2, Schedule 1, page 2 (lines 6-8)  
ii) Exhibit A, Tab 2, Schedule 1, page 3 (lines 11-17)

**PREAMBLE:** The Application states that HONI Distribution will continue to report on its legacy business excluding NPDI and if applicable, any other future acquisitions. The Application also states that upon completion of the transaction HONI will leverage its existing back-office systems and processes to obtain operational and capital synergies in serving the customers of NPDI.

### **QUESTION:**

- a) Please outline more fully what existing systems, processes and corporate shared services functions within Hydro One Networks will be "leveraged" and involved in supporting the provision of service to NPDI's customers.

- b) For purposes of the Board's RRR requirements, please indicate how Hydro One Networks plans on separating out the costs for these shared systems, processes and corporate services that are associated with serving, maintaining or operating customers in the NPDI service territory.
- c) For purposes of the Board's RRR requirements, does Hydro One Networks propose to report – separately – the costs associated with serving, maintaining and operating customers within the NPDI service territory?
- If not, why not and is this consistent with the Board's reporting requirements?
  - If yes, how will the costs (and in particular the appropriate portion of the cost of services shared with HON's legacy territory) be determined?

#### **INTERROGATORY #4**

**REFERENCE:** Exhibit A, Tab 3, Schedule 1, Attachment 6, pages 8 and 17  
Exhibit A, Tab 3, Schedule 1, Attachment 11, pages 17-18

#### **QUESTION:**

- a) For each of the debt issues being assumed please indicate the effective interest rate and under what terms Hydro One can repay prior to the current due date.
- b) Please compare the interest rates applicable to the debt that Hydro One Networks is assuming as part of the transaction with i) its current average cost of debt and ii) its current borrowing rate for long-term debt.

#### **INTERROGATORY #5**

**REFERENCE:** Exhibit A, Tab 2, Schedule 1, page 7 (lines 3-10)

#### **QUESTION:**

- a) Please confirm that, at this time, Hydro One Networks is not seeking approval as to precisely how rate harmonization will be achieved.
- b) Please indicate into which of Hydro One Networks' existing customer classes would each NPDI's customer classes be assigned?

- c) Please provide a schedule that for the following customer classes and consumption levels compares the monthly bills for 2013 for NPDI customers (after the 1% rate reduction) with the 2013 monthly bills for a Hydro One Networks' legacy customer in the comparable class:
- Residential @ 800 kWh per month
  - GS<50 @ 2,500 kWh per month
- d) Please provide a second schedule that undertakes the same monthly bill comparison as requested in part (c) but exclude all rate riders (for either NPDI or Hydro One Networks) that expired prior to 2020.

### **INTERROGATORY #6**

**REFERENCE:** Exhibit A, Tab 2, Schedule 1, page 7 (lines 21-26)

### **QUESTION:**

- a) There is no reference to the tracking of 2012 lost revenues attributable to the impact of CDM programs. Is there no intention on either Norfolk Power's part or Hydro One Network's part to track such variances for 2012 in an LRAM account?