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**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs

BY COURIER

October 25, 2013

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
Suite 2700,  
2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**EB-2013-0187/0196/0198 – Hydro One Networks Inc. MAAD S86 Application to Purchase Norfolk Power Inc. – Responses to Interrogatory Questions**

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Please find attached an electronic copy of responses provided by Hydro One Networks to Interrogatory questions. Two (2) hard copies will be sent to the Board shortly.

Below is the Tab numbers for each intervenor:

Tab	Intervenor
1	Ontario Energy Board (Board Staff)
2	Vulnerable Energy Consumers Coalition (VECC)
3	School Energy Coalition (SEC)
4	Consumers Council of Canada (CCC)
5	Essex Powerlines Corporation/Bluewater Power Distribution Corporation/Niagara-on-the-Lake Hydro Inc. (EBN)

In accordance with Board Procedural Order No. 5, please find enclosed for filing responses to information requests made to the Applicants in the above noted proceedings. Where applicable, these responses take into account information provided by NPDI. The drafted responses have been reviewed by NPDI and NPDI has indicated agreement with the responses provided to the extent the responses relate to NPDI. As such, NPDI is not filing separate responses to the information requests.

HONI makes two further observations at the outset of this filing. First, responses provided have been based upon the Applicants' understanding of the "no harm test" and as this test has been found to apply in circumstances involving section 86 Applications. Responses have been declined where the information requested does not concern whether the proposed transaction gives rise to adverse effects to

rate payers relative to a status quo (i.e. no transaction) scenario. In taking this approach, HONI notes that some of the intervenors in this proceeding have commercial interests with respect to the current and possible future acquisitions. From the Applicants' perspective, several of the interrogatory requests of these intervenors appear to be designed to elicit commercially sensitive information that could be used to advance their commercial interests of these parties, and accordingly, in the view of the Applicants, such information is not appropriate to be requested, nor to be provided, in the Board's current proceeding.

Second, the Applicants have updated and clarified the specific relief sought in the application. As noted in its Response to OEB Staff 7.1, changes in circumstances have occurred since the filing of the initial application such that following the closing of the proposed transaction, NPDI will continue to operate its regulated affairs under its existing licence. This precludes the immediate need for NPDI's electric distribution system to be transferred and form part of the HONI distribution licence. The need for any subsequent changes in organizational structure that would require regulatory approvals, (e.g. cancellation/amalgamation of licences), will be considered in the future.

An electronic copy of the Interrogatories, have been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. Parties to EB-2013-0187/0196/0198 (electronic only)

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #1 LIST 1**

**INTERROGATORY**

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.

- 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 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.

**RESPONSE**

1.1 Hydro One confirms that any premium paid for the assets of Norfolk Power will not impact any future revenue requirement(s). Upon integration, only the net book value of NPDI's assets plus associated working capital will be included in rate base.

1.2 The premium paid to acquire the outstanding shares of NPI will have no material impact on HOI, whose total assets per the 2012 financial statements are \$20.8 billion. As stated in Exhibit A, Tab 3, Schedule 1, section 1.8.2, the premium paid will not be included in any future revenue requirement(s) and thus will not be funded by ratepayers

1.3 No, push down accounting will not be used on the acquisition of Norfolk Power Inc.

1.4 Confirmed.

**ONTARIO ENERGY BOARD (BOARD STAFF)**  
**INTERROGATORY #2 LIST 1**

**INTERROGATORY**

**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.

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.

**RESPONSE**

2.1 Negotiations with respect to the transaction occurred during the time in which NPDI's 2012 rates were in effect. As a result, the rate reduction negotiated was based upon the 2012 rates.

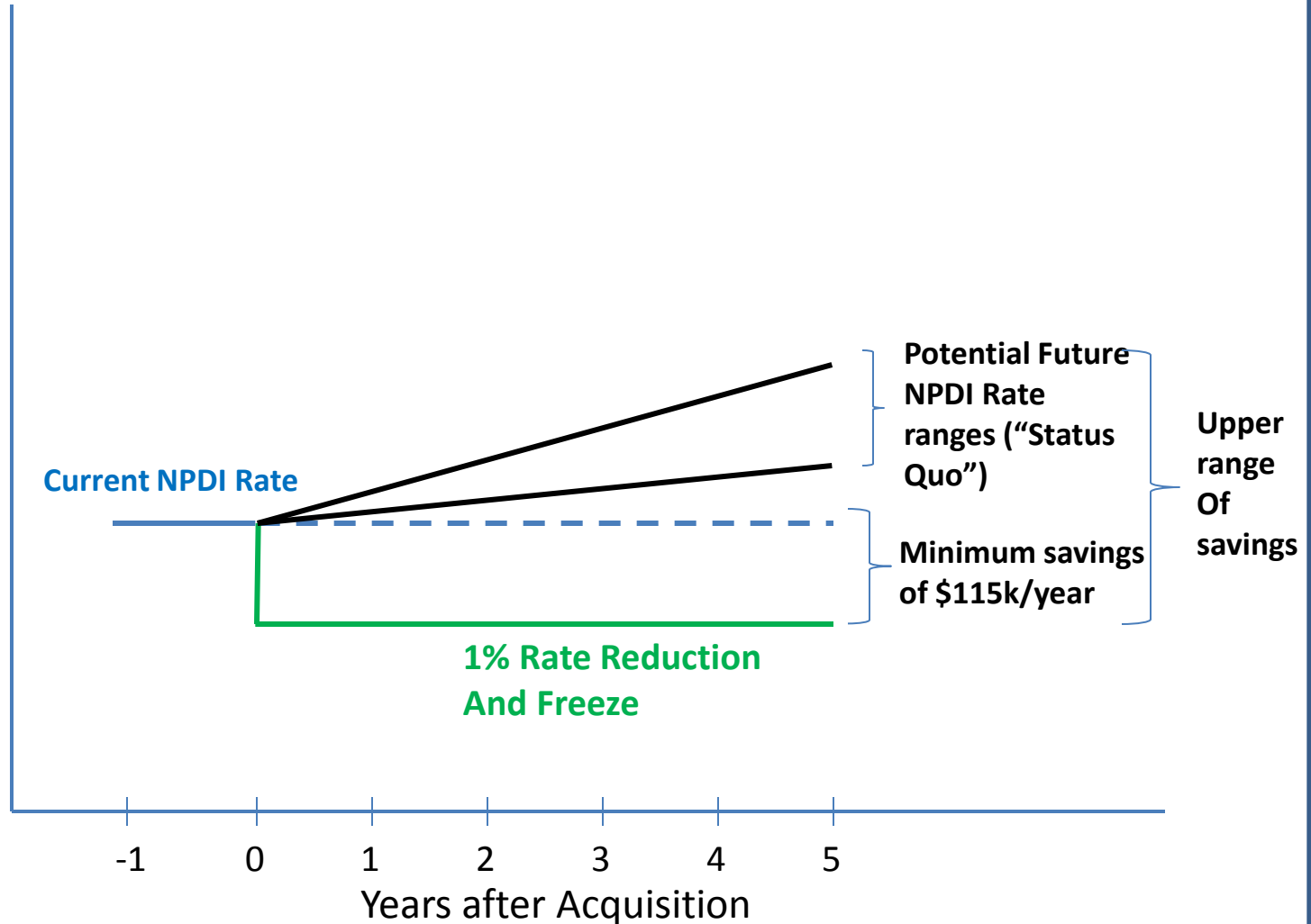
2.2 Electricity rates are a key concern to all customers. This transaction is based on synergies afforded by the integration of NPDI into Hydro One and a portion of those synergistic savings is being shared with the ratepayers of NPDI. The level of the rate reduction and the duration in which the reduced rate will remain in effect were matters of commercial negotiation.

2.3 The cost of providing the proposed rate reduction will be 1% of the distribution revenue each year. Norfolk Power has distribution revenue of approximately \$11.5M. One percent of this is approximately \$115,000 per year.

2.4 The actual benefit enjoyed by NPDI customers will depend on the level of consumption of electricity in each year and what assumptions are made with respect to comparative future rates under a status quo scenario. For clarity, the status quo scenario implies that NPDI would remain on the Board's IRM rate setting method where rates would be adjusted upwards annually and this transaction would not proceed. Under this scenario NPDI customers would not have the benefit of a 5 year rate freeze. The benefit provided to rate customers under the proposed transaction must be compared to the expected rates that would arise under a status quo scenario. Over the next five year period, HONI believes Norfolk Power distribution rates would likely increase if the utility had not been sold. For every one percent increase in approved distribution rates, the benefit would increase by approximately the same amount – that is the \$115,000. The benefit of the transaction to NPDI customers is that rates are locked-in at a level lower than the current rate. Moreover, the risk of any increase in rates over the next five years (as would be taken under the status quo scenario) is avoided by the rate payer and borne by HOI.

2.5 The net savings relevant to ratepayers is the estimated \$115,000 savings per year from the rate reduction offered in the transaction. The graphic provided in Attachment 1 to this interrogatory response illustrates the minimum savings that the ratepayers of Norfolk may experience over the 5 year rate freeze as calculated in the response to 2.4 above.

## Norfolk Rate Payer Savings



**ONTARIO ENERGY BOARD (BOARD STAFF)**  
**INTERROGATORY #3 LIST 1**

**INTERROGATORY**

**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:

**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 2<sup>nd</sup> 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



1 the time of the MAAD application, even if this means that individual (and different) rate  
2 plans will be maintained until rebasing.

3  
4 3.1 Please provide the expected closing date of the transaction.

5  
6 3.2 Please confirm that HONI seeks to defer rebasing the consolidated entity's (i.e.  
7 HONI and NPDI) rates for more than five years.

8  
9 3.3 If item 3.2 above is confirmed, given that the report referenced above allows  
10 deferral of rate rebasing for up to five years, please provide information justifying  
11 the need for, and benefits of a longer deferral period.

12  
13 3.4 The Report clearly indicates that “the incentive regulation plan that a distributor  
14 will be subject to for the duration of the consolidated entity’s deferral period will  
15 be the plan that the distributor was subject to at the time of the MAAD  
16 application”. Board staff understands that HONI plans to file a five year Custom  
17 Incentive Regulation cost of service application in 2014. Please reconcile the  
18 statement above with the plan to file a Custom IR application.

19  
20 **RESPONSE**

21  
22 3.1 The expected closing date of the transaction is described in Article 1.1(j) to the  
23 Share Purchase Agreement namely, 30 days after the transaction is approved by  
24 the Ontario Energy Board.

25  
26 3.2 HONI legacy will exclude NPDI for the five-year period of 2014-2019. Since the  
27 original application was filed Hydro One has actively been negotiating  
28 commercial transactions with other Ontario electricity distributors. The success  
29 of these future transactions will in part inform Hydro One with respect to the  
30 overall organizational structure it intends to adopt, and how newly acquired  
31 electricity distribution investments will be managed and form part of the Hydro  
32 One group of companies. As this concerns the proposed transaction, the  
33 originally contemplated rebasing of NPDI's rates with HONI remains one potential  
34 structure. This option, as well as other potential structures will be considered  
35 following the closing of the proposed transaction. Once definitive structures have  
36 been determined HONI and NPDI will make any necessary applications for  
37 license or rate order amendments.

38  
39 3.3 Not applicable.

40  
41 3.4 In October 2012, the Board issued its “Report of the Board: A Renewed  
42 Regulatory Framework for Electricity Distributors: A Performance Based

1 Approach” which allowed distributors to select the rate-setting method that best  
2 meets their needs and circumstances and apply to the Board to have their rates set  
3 on that basis beginning with 2014 rates. Hydro One Distribution has determined  
4 that for its legacy business (i.e., excluding any acquisitions such as NPDI) it will  
5 elect to follow the Board’s new Custom rate setting method for rate years 2015-  
6 2019. For NPDI, 2013 distribution rates were approved using Third Generation  
7 IRM. The proposal set forth in this application is to reduce NPDI’s 2012 rates by  
8 1% and freeze those rates for 5 years. This proposal ensures no harm to Norfolk  
9 ratepayers.

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #4 LIST 1**

**INTERROGATORY**

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.

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.

**RESPONSE**

4.1 The Dundas Field Business Centre ("FBC") provides technical, scheduling, and administrative support to all of HONI's Zone 2 operations, which includes both the Norfolk and Dundas areas. The effectiveness of the FBC is not dependent on geography as it is not a service center. As a result, there will be no negative impact to HONI's customers by relocating the Dundas FBC. HONI has been assessing the need to vacate the Dundas office for several years, due to the age of the facility. The relocation of the FBC to the Town of Simcoe will provide a viable solution.

4.2 Neither the costs nor the benefits of moving the centre are included in the Incremental Transition Costs.

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #5 LIST 1**

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.

**INTERROGATORY**

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

**RESPONSE**

5.1 Hydro One's reliability in its Simcoe Operations area, which consists of the balance of Norfolk County not served by Norfolk Power, is already equal to or better than the reliability experienced by Norfolk Power customers. By incorporating Norfolk Power into Hydro One's operating and maintenance program and asset management processes, Hydro One is confident it can maintain or exceed its current reliability performance. With the acquisition of NPDI, Hydro One will control all of the electricity distribution assets across the county. This will allow more efficient operations and will optimize the use of existing facilities and equipment resulting in the provision of equal and/or better service. One such example includes the ability to optimize supply to the Village of Delhi. Both Hydro One and Norfolk Power own separate 27.6 kV feeders in the area. There is an option to eliminate the radial feed to Delhi, thus improving on reliability.

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #6 LIST 1**

**INTERROGATORY**

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.

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.

**RESPONSE**

6.1

- a) Confirmed
- b) No, the individual CDM targets for both HONI and NPDI will remain separate.

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #7 LIST 1**

**INTERROGATORY**

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."

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.

**RESPONSE**

7.1 HONI wishes to provide an update and clarify that the relief it is now seeking in this application. .

At the present time, HONI is involved in commercial negotiations with other Ontario electricity distributors regarding transactions similar to the present one. The results of those negotiations may have a bearing on the long-term organizational structure HOI and/or HONI choose to use for newly acquired distribution investments.

These circumstances may affect the organizational structure HONI and HOI may choose to adopt in respect of the proposed transaction. This determination will not be known until the conclusion of the other commercial negotiations. In light of this, and to afford flexibility with respect to the regulated licensing aspects of the present transaction, HONI now intends to have NPDI operate its regulated affairs under its existing distribution licence in the short term. Modifications to NPDI's existing rate order, as set out in the application, are now sought by NPDI (and not HONI) to take into account the contemplated rate reduction and the five year rate freeze period. Consequently, HONI is no longer seeking in this

1 application to amend its distribution licence. nor is NPDI seeking leave to have its  
2 distribution assets transferred to and form part of HONI's distribution licence. If  
3 and when future organizational changes are determined to be appropriate, HONI  
4 and NPDI would, at that time, make the applicable applications to the Board.

5  
6 The intent of these changes is to provide HOI and HONI with organizational  
7 flexibility. None of these changes will have any adverse effects upon customer  
8 rates as again these changes all relate to how HOI and HONI intend to arrange  
9 their corporate affairs and the regulatory licensing of its investments. Based on  
10 the foregoing and as it concerns the requests for relief found at Exhibit A, Tab 1,  
11 Schedule 1 of the application, the applicants summarize the amended requested  
12 relief as follows:

- 13
- 14 • Hydro One Inc. continues to seek approval from the Board for leave to  
15 purchase all of the issued and outstanding shares of Norfolk Power Inc. made  
16 pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*;
  - 17 • Norfolk Power Distribution Inc. is no longer seeking approval from the Board,  
18 as was originally applied-for, for leave to transfer its distribution system to  
19 Hydro One Networks Inc. made pursuant to section 86(1)(a) of the *Ontario*  
20 *Energy Board Act, 1998*;
  - 21 • Norfolk Power Distribution Inc. is no longer seeking cancellation of its  
22 distribution licence as was originally applied-for pursuant to section 77(5) of  
23 the *Ontario Energy Board Act, 1998*;
  - 24 • Hydro One Networks Inc. is no longer seeking an order to amend its  
25 distribution licence made pursuant to section 74 of the Ontario Energy Board  
26 Act, 1998; and
  - 27 • Norfolk Power Distribution Inc., not Hydro One Networks Inc., is now the  
28 party now seeking to include a rate rider in the 2013 OEB-approved rate  
29 schedule of Norfolk Power Distribution Inc. to give effect to a 1% reduction  
30 relative to 2012 base electricity delivery rates (exclusive of rate riders), made  
31 pursuant to section 78 of the Ontario Energy Board Act, 1998. The rate order  
32 amendment would take effect following the successful closing of the proposed  
33 transaction.
- 34

35 7.2 Following the requested five-year rate freeze of NPDI's rates, Hydro One will  
36 file a rate application for NPDI rates for 2019. At the present time, HONI expects  
37 to file an application that may propose moving NPDI customers to an existing  
38 HONI rate class or classes, creating a new customer rate class or some other  
39 potential option. Any future proposed rate applications will satisfy the Board's  
40 "Filing Requirements for Electricity Distribution Rate Applications" and will  
41 require OEB approval.

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #8 LIST 1**

**INTERROGATORY**

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.

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.

**RESPONSE**

8.1 HONI will record LRAM amounts in Account 1568 – LRAM Variance account in accordance with the Board's CDM Guidelines (EB-2012-0003). Sub accounts will be used to record the variance by rate class as prescribed by the Board.

The variances attributable to HONI's different business units will be recorded in separate sub-accounts of 1568. In this situation, both HONI's existing Distribution business and HONI NP's business variances would be maintained in separate sub-accounts of 1568.



- 1
- 2 8.2 Application for disposition of NPDI's LRAMVA amounts is expected to be part
- 3 of a future rate application.
- 4
- 5 8.3 Section 13.4 of the CDM Guidelines will be followed for disposition of the
- 6 balance in HONI NP's and HONI's LRAMVA on a separate basis at the time of
- 7 application.

**ONTARIO ENERGY BOARD (BOARD STAFF)**

**INTERROGATORY #9 LIST 1**

**INTERROGATORY**

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.

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. 9.1 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.

- 9.5 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.

## RESPONSE

- 9.1 Confirmed.

- 9.2 Per the Board report EB-2008-0408 (Page 2; final paragraph), *"The Board does not prescribe financial reporting for regulated utilities. The accounting principles required for financial reporting in Canada are prescribed by the AcSB and other accounting standards boards. The Board does set the requirements for regulatory accounting, reporting and filing."*

As discussed in Board Staff Interrogatory Response 3.2, Hydro One is still contemplating the overall organizational structure it intends to adopt. If NPDI is integrated with HONI, USGAAP will be used for regulatory purposes.

- 9.3 Not applicable

- 9.4 Please see 9.2 above.

- 9.5 HONI confirms that the use of USGAAP will not impose additional costs to HONI NP's customers. The adoption of USGAAP, in the near term, will reduce base revenue requirement to what it would otherwise be under MIFRS due to the adoption of an overhead capitalization policy, consistent with its Distribution and Transmission businesses.

**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**INTERROGATORY #1 LIST 1**

**INTERROGATORY**

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.

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 defended 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).

**RESPONSE**

a) Confirmed

b) Confirmed

c) Confirmed. As page 4 of the report states, “the ability to retain any achieved savings for a sufficient amount of time to provide a reasonable opportunity to at least offset the costs of a transaction will be an important factor in a distributor’s consideration of the merits of consolidation”.

d) Please refer to Board Staff Interrogatory Response 3.2. HONI is not proposing to apply the normal annual rate adjustments allowed under incentive regulation to the rates applicable to customers in NPDI’s service territory during the 5-year rate freeze period.

e) HONI plans to freeze NPDI’s rates for five years and then apply to the Board for new distribution rates. This is consistent with the Report of the Board that gives Hydro One “the ability to retain any achieved savings for a sufficient amount of time to provide a reasonable opportunity to at least offset the cost of a transaction”. As discussed in Board Staff Interrogatory Response 3.2, Hydro One is still assessing its organizational structure and corresponding rate strategies.

HONI’s custom COS application will be based on HONI’s legacy business (excluding any acquisitions). As a result, HONI’s legacy customers will have no negative rate impact relative to the status quo scenario (i.e. no transaction). The cost relating to operating and maintaining the former NPDI service territory will be tracked separately and thus will not impact HONI’s legacy customers.

**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**INTERROGATORY #2 LIST 1**

**INTERROGATORY**

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.

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 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 Network's 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 customer interest regarding reliability and/or financial viability?

**RESPONSE**

a) Hydro One understands the issue in this proceeding is whether the present transaction will cause adverse effects to rate payers relative the transaction not proceeding. Hydro One does not consider the information that it has used for purposes of analyzing and exercising its business judgment to proceed forward with the transaction to be in issue. Hydro One therefore declines to provide the requested information. During the 5 year rate freeze period, Hydro One will be at risk for the incurrence/recovery of incremental costs. Hydro One does not intend to recover these types of prior period costs, if incurred, in future rate applications. Future rates will be based on then prevailing forward test year principles.

**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**INTERROGATORY #3 LIST 1**

**INTERROGATORY**

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.

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?

**RESPONSE**

a) Integration efficiencies will occur through use of HONI's existing management and administration systems, including the Enterprise Management System, asset analytics capabilities, work optimization and scheduling systems. As well, HONI's shared services functions, such as Finance, Human Resources, Tax, Regulatory Affairs and Communications, are also expected to provide integration efficiencies over the long term. These platforms are scalable such that the incremental cost to integrate is minimal. NPDI customers will benefit from access to the suite of services offered by

1 HONI but the benefit would not materialize under a status quo (i.e. the transaction  
2 does not proceed) scenario.

3  
4 b) Hydro One will set up a new ledger to record costs and/or assets and liabilities of the  
5 former Norfolk Power. If required, new service level agreements will be established  
6 to allocate costs to the appropriate ledgers. All NPDI cost will be tracked separately  
7 from HONI's legacy accounts.

8  
9 c) Yes, see part b) above.



**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**INTERROGATORY #4 LIST 1**

**INTERROGATORY**

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

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.

**RESPONSE**

a) It has not been determined if Hydro One Networks will assume the referenced debt. It is expected that a determination regarding the assumption of debt will be made closer to the time of closing of the transaction.

b) See response to part a) above

**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**INTERROGATORY #5 LIST 1**

**INTERROGATORY**

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

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.

**RESPONSE**

a) Confirmed.

b) Please refer to Board Staff Interrogatory Response 7.2.

c) and d)

A comparison of Norfolk's residential and GS <50 total monthly bill to HONI's urban density and medium density residential bills, and to HONI's urban and non-urban GS<50 bills, is provided below with and without riders. As noted in the response to OEB interrogatory 3.2, the rate classes for Norfolk customers at the end of the 5-year rate freeze has not been determined and cannot be confirmed at this time. Any analysis at this stage would be speculative and would not have bearing upon whether the transaction is likely to cause adverse effects to rate payers relative to a status quo scenario.

As mentioned in Board Staff Interrogatory Response 2.4 The status quo scenario implies that NPDI would remain on the Board's IRM rate setting method where rates would be adjusted upwards annually and this transaction would not proceed. Under this scenario NPDI customers would not have the benefit of a 5 year rate freeze.

Following year five, HONI would expect rates to trend towards what would then be the status quo level of rates. Thus it is the rate differentials arising within the 5 year rate freeze period that provide the relative benefit when comparing the present transaction to the status quo. Given this, HONI believes that a comparison of existing Norfolk and HONI bills beyond year 5 is not appropriate.

	NPDI	Hydro One Networks Inc.		NPDI	Hydro One Networks Inc.	
	Residential	Urban Residential (UR)	Residential-Medium Density (R1)	General Service <50kW	General Service Energy Billed (GSe) <50kW	Urban GSe <50kW
<b>Commodity Prices (\$/kWh)</b>						
TOU - Off-Peak	0.067	0.067	0.067	0.067	0.067	0.067
TOU - Mid-Peak	0.104	0.104	0.104	0.104	0.104	0.104
TOU - On-Peak	0.124	0.124	0.124	0.124	0.124	0.124
<b>Monthly Consumption (kWh)</b>						
TOU - Off-Peak	800	800	800	2,000	2,000	2,000
TOU - Mid-Peak	541	552	556	1,352	1,398	1,398
TOU - On-Peak	152	155	156	380	393	393
<b>Delivery</b>						
Dx Service Charge (after 1% reduction) (\$/month)	20.56	16.50	23.85	49.24	39.79	14.01
Dx Fixed Rate Rider (\$/month)	1.03	0.00	0.00	4.35	0.00	0.00
Dx Volume Charge (after 1% reduction) (\$/kWh)	0.02150	0.02529	0.03353	0.01530	0.03981	0.01666
Dx Low Voltage Rate (\$/kWh)	0.00090	0.00000	0.00000	0.00080	0.00000	0.00000
Dx Vol Rate Rider (\$/kWh)	-0.00020	-0.00001	0.00018	-0.00020	0.00020	-0.00052
Smart Metering Entity Charge (\$/month)	0.79000	0.79000	0.79000	0.79000	0.79000	0.79000
Tx network charge (\$/kWh)	0.00670	0.00696	0.00707	0.00620	0.00518	0.00535
Tx connection charge (\$/kWh)	0.00320	0.00500	0.00509	0.00280	0.00358	0.00366
<b>Regulatory</b>						
Standard Supply Service - Admin Charge (\$/month)	0.25	0.25	0.25	0.25	0.25	0.25
Rural Rate Protection Charge (\$/kWh)	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012
Wholesale Market Service Charge(\$/kWh)	0.0044	0.0044	0.0044	0.0044	0.0044	0.0044
<b>Debt Retirement (\$/kWh)</b>	0.007	0.007	0.007	0.007	0.007	0.007
<b>Loss Factor</b>	1.0564	1.0780	1.0850	1.0564	1.0920	1.0920
<b>Bill Calculations</b>						
Dx Delivery (including riders)	40.14	37.51	51.61	86.18	120.60	47.08
Dx Delivery (excluding riders)	39.27	37.52	51.46	82.23	120.20	48.12
Tx Delivery	8.37	10.31	10.55	19.02	19.13	19.68
Regulatory	10.58	10.68	10.71	26.08	26.48	26.48
Commodity	70.92	72.37	72.84	177.31	183.28	183.28
<b>Total (including riders)</b>	<b>130.01</b>	<b>130.88</b>	<b>145.72</b>	<b>308.58</b>	<b>349.49</b>	<b>276.52</b>
<b>Total+HST (including riders)</b>	<b>146.91</b>	<b>147.89</b>	<b>164.66</b>	<b>348.70</b>	<b>394.93</b>	<b>312.47</b>
<b>Total+HST-OECB (including riders)</b>	<b>132.22</b>	<b>133.11</b>	<b>148.19</b>	<b>313.83</b>	<b>355.43</b>	<b>281.22</b>
<b>Total (excluding riders)</b>	<b>129.14</b>	<b>130.89</b>	<b>145.57</b>	<b>304.63</b>	<b>349.09</b>	<b>277.56</b>
<b>Total+HST (excluding riders)</b>	<b>145.93</b>	<b>147.90</b>	<b>164.50</b>	<b>344.24</b>	<b>394.48</b>	<b>313.64</b>
<b>Total+HST-OECB (excluding riders)</b>	<b>131.34</b>	<b>133.11</b>	<b>148.05</b>	<b>309.81</b>	<b>355.03</b>	<b>282.28</b>

**VULNERABLE ENERGY CONSUMERS COALITION (VECC)**

**INTERROGATORY #6 LIST 1**

**INTERROGATORY**

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

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?

**RESPONSE**

a) Please refer to Board Staff Interrogatory Response 8.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #1 LIST 1**

**INTERROGATORY**

Please provide a table showing how many of the current Norfolk customers would be in each of the UR, R1, UGe, GSe, UGd, and GSd classes of Hydro One if they were immediately assigned to those classes for 2013. Please base the assignment of those customers on the 2012 rebasing customer numbers for Norfolk, i.e. 17,026 Residential, 1,986 GS<50, and 165 GS>50, on the assumption those customer numbers have not changed for 2013. Please provide details of all assumptions used to assign numbers of customers between urban and non-urban classes.

**RESPONSE**

HONI does not have information on the geographic dispersion of customers or kilometers of distribution line within Norfolk's service area necessary to allow the requested table to be provided. For further information on rate classification, please refer to Board Staff Interrogatory Response 7.2.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #2 LIST 1**

**INTERROGATORY**

Please provide a similar table allocating the volumetric billing determinants for Norfolk's Residential, GS<50, and GS>50 customers to the six named Hydro One rate classes, assuming those customers were assigned to those classes for 2013. Please use the billing determinants from the 2012 rebasing, i.e. 149,120,393 kwhr Residential, 61,992,882 kwhr GS<50, and 344,556 KW GS>50.

**RESPONSE**

Please refer to SEC Interrogatory Response 1.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #3 LIST 1**

**INTERROGATORY**

Attached to these Preliminary Interrogatories is a table comparing distribution bills for Norfolk customers with average volumes in each of the Residential, GS<50, and GS>50 classes at 2013 approved Norfolk rates and 2013 approved Hydro One distribution rates, assuming either that all Norfolk customers would be in the UR, UGe, and UGd classes, or all Norfolk customers would be in the RI, GSe, and GSd classes.

An Excel version of the table is also attached. With respect to this table:

- a. Please confirm that all calculations are correct, or provide corrected calculations if they are incorrect.
- b. In the event that the Applicants believe that including additional components of the bill provide a fairer comparison of bills, please provide that alternate comparison including details of all calculations.
- c. Hydro One has advised the Board and parties that it plans to file, early in 2014, a distribution rate application for the period 2015 through 2019. Based on the current state of that application, please advise the currently forecast monthly and volumetric rates for all classes for 2019. Using those forecast monthly and volumetric charges, please complete the two right hand columns of the distribution bills comparison table in the same manner as the existing two Hydro One columns.

**RESPONSE**

- a. For the Norfolk calculation, HONI notes that LV charges should be included resulting in a total Distribution charge of \$449.41, \$1,111.64 and \$11,852.34 for the residential, GS<50 and GS>50 classes, respectively. Except as noted, HONI has reviewed the table and not found errors in the calculation of distribution charges for 2013, assuming base rates that exclude distribution riders. For further information on rate classification, please refer to Board Staff Interrogatory Response 7.2.
- b. The rate classes that Norfolk customers will be transitioned to at the end of the 5-year rate freeze cannot be confirmed at this time. In order for HONI to analyze and assess a comparison of Norfolk and HONI rates, assumptions regarding rate classes after the 5 year rate freeze period would be necessary. The merits of this analysis is unclear

1 given the uncertainty involved. Certainty, however, does exist over the rate benefit  
2 provided to Norfolk customers in the 5 year rate freeze period and relative to a status  
3 quo scenario of the proposed transaction not proceeding. Please refer to Board Staff  
4 Interrogatory Response 2.  
5

- 6 c. The forecast HONI 2019 monthly and volumetric distribution charges are not  
7 currently available as the work associated with the business plan, cost allocation and  
8 rate design has not been completed or approved by Hydro One's Board of Directors.  
9 Given the rate classes that Norfolk customers will be transitioned to following the end  
10 of the 5-year rate freeze is not known, the information requested cannot be provided  
11 at this time.



**SCHOOL ENERGY COALITION (SEC)**  
**INTERROGATORY #4 LIST 1**

**INTERROGATORY**

Attached to these Preliminary Interrogatories is a table comparing distribution revenues from Norfolk customers in the Residential, GS<50, and GS>50 classes at 2013 approved Norfolk rates and 2013 approved Hydro One distribution rates, applying the 2012 rebasing billing determinants. As with the previous table, the Hydro One calculations are based on both an urban and non-urban scenario, and an Excel version of the table is attached. With respect to this table:

- a. Please confirm that all calculations are correct, or provide corrected calculations if they are incorrect.
- b. If the Applicants have a forecast of customer numbers and volumetric billing determinants, and/or rates for Norfolk (without the proposed transactions) for 2019, please complete the column third from the right for 2019 revenues from Norfolk at Norfolk rates. If the Applicants do not have such forecasts, please leave that column blank.
- c. Using the rates referred to in SEC-3(c), please calculate the 2019 forecast revenues from Norfolk customers in the urban and non-urban scenarios for the two right hand columns. If the Applicants have filled in the column third from the right using customer numbers and volumetric billing determinants different from 2012, please use those new figures for the last two columns as well, so that all three right hand columns are calculated on as comparable a basis as possible.
- d. If the Applicants believe that the comparisons referred to are inappropriate, or other comparisons would be fairer, please provide the comparisons requested, but also the alternative comparisons, with all calculations, and a full explanation as to why the alternative is preferable.

**Hydro One Norfolk Annual Distribution Bills Comparison**

<b>Norfolk Class and Average Load per Cust.</b>	<b>Billing Component</b>	<b>Norfolk 2013 Rates</b>	<b>Hydro One 2013 Urban</b>	<b>Hydro One 2013 General (R1)</b>	<b>Norfolk 2019 Rates @2%/yr.</b>	<b>Hydro One 2019 Urban</b>	<b>Hydro One 2019 General</b>
<b>Residential 730</b>	Monthly	\$250.44	\$198.00	\$286.20	\$282.04		
	Volume	\$190.97	\$221.54	\$293.72	\$215.06		
	Total	\$441.41	\$419.54	\$579.92	\$497.10		
<b>GS&lt;50KW 2601</b>	Monthly	\$599.76	\$168.12	\$477.48	\$675.43		
	Volume	\$486.91	\$519.99	\$1,242.55	\$548.34		
	Total	\$1,086.67	\$688.11	\$1,720.03	\$1,223.76		
<b>GS&gt;50KW 174</b>	Monthly	\$2,946.60	\$387.84	\$667.44	\$3,318.34		
	Volume	\$8,268.90	\$14,436.43	\$23,740.56	\$9,312.10		
	Total	\$11,215.50	\$14,824.27	\$24,408.00	\$12,630.44		

*Sources:*

*Norfolk Rate Order dated April 4, 2013 for 2013 Rates*

*Hydro One Rate Order dated December 20, 2012 for 2013 Rates*

*Escalation at 2% compounded = 1.12616 factor*

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2  
3

### Hydro One Norfolk Distribution Revenues Comparison

<b>Norfolk Class</b>	<b>Billing Component</b>	<b>Billing Determinants</b>	<b>Norfolk 2013 Rates</b>	<b>Hydro One 2013 Urban</b>	<b>Hydro One 2013 General (R1)</b>	<b>Norfolk 2019 Rates</b>	<b>Hydro One 2019 Urban</b>	<b>Hydro One 2019 General</b>
<b>Residential</b>	Monthly Volume Total	204,312 149,120,393	\$4,263,991 \$3,250,825 \$7,514,816	\$3,371,148 \$3,771,255 \$7,142,403	\$4,872,841 \$5,000,007 \$9,872,848			
<b>GS&lt;50KW</b>	Monthly Volume Total	23,832 61,992,882	\$1,191,123 \$967,089 \$2,158,212	\$333,886 \$1,032,801 \$1,366,688	\$948,275 \$2,467,937 \$3,416,212			
<b>GS&gt;50KW</b>	Monthly Volume Total	1,980 344,556	\$486,189 \$1,364,511 \$1,850,700	\$63,994 \$2,382,260 \$2,446,254	\$110,128 \$3,917,602 \$4,027,729			
<b>TOTALS</b>			\$11,523,728	\$10,955,344	\$17,316,789			

Sources:

Billing Determinants from 2012 Rebasing

**RESPONSE**

- a. HONI has reviewed the table provided and has not found any errors in the calculation of revenues for 2013. Hydro One notes the table assumes base rates only and excludes any distribution riders.
- b. The Applicants do not have a forecast of 2019 revenues at Norfolk rates.
- c. Please refer to SEC Interrogatory Response 3.
- d. As noted in the response to OEB Interrogatory 7.2, the rate classes that Norfolk customers will be transitioned to at the end of the 5-year rate freeze cannot be confirmed at this time. As such, HONI believes that a comparison of revenues for Norfolk customers at existing Norfolk and HONI rates is not appropriate.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #5 LIST 1**

**INTERROGATORY**

Please provide all memoranda, reports, analyses, valuations, business cases, or other documents in the possession of Norfolk, its shareholders, or Hydro One, that provide any analysis of the purchase price, or forecast the recovery of the purchase price over time in any way, or provide any analysis of how the purchaser will recover the purchase price. By way of example, and without limiting the generality of the foregoing, please include any calculations of payback periods, net present value or total value of incremental distribution revenues, accretion of operational savings to the purchaser and/or to the ratepayers both before and after the five year period, and any other such calculations. In the event that pro forma financial statements have been prepared for any future years, please include those documents as well.

**RESPONSE**

Please see EBN Interrogatory Response 13.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #6 LIST 1**

**INTERROGATORY**

Please provide any documents prepared by or on behalf of Hydro One in the last twenty-four months analysing the recovery or potential recovery of the purchase price of any other LDC purchased by Hydro One since 1998.

**RESPONSE**

Please refer to EBN Interrogatory Response 5.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #7 LIST 1**

**INTERROGATORY**

Please provide any calculations prepared by or on behalf of Hydro One analysing the impact of the 1% reduction in rates for Norfolk customers, as proposed in the Application. If any such analysis includes any analysis or forecast of how Hydro One will recover that reduction over time, please provide that analysis or forecast as well.

**RESPONSE**

Hydro One estimated the impact of the 1% reduction in rates for Norfolk customers based on the assumption that Distribution Revenue is equal to approximately \$11.5M per year. One per cent of this amount is equal to approximately \$115,000 per year. The present value of this stream over 5 years is approximately \$490,000 over the five year rate reduction period.

1                                   **SCHOOL ENERGY COALITION (SEC)**

2                                   **INTERROGATORY #8 LIST 1**

3  
4                   **INTERROGATORY**

5  
6                   [Letter from Norfolk counsel dated April 25, 2013]. Please provide a copy of the original  
7                   RFP documents including all attachments.

8  
9                   **RESPONSE**

10  
11                  HONI declines to provide the requested information. It does so on the grounds that the  
12                  RFP documents were provided to HONI on a confidential basis and the RFP documents  
13                  are not materials that are relevant in determining the “No Harm” test. Please refer to  
14                  CCC Interrogatory Response 6.



**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #9 LIST 1**

**INTERROGATORY**

[A/I/1, p. 3] Please confirm that the acquirer still intends to seek IRM increases annually to Norfolk rates. Please advise whether Norfolk is expected to be on 3rd or 4th Generation IRM, and whether the Applicant wishes to continue to have available the Incremental Capital Modules and Z-factors during to the period to and including 2019. If ICM and/or Z factors are to remain available, please advise how integration of Norfolk into the Applicant will be handled. Conversely, if a rate freeze is being proposed, please confirm that, after the 1% reduction is implemented, the Applicant proposes that there will be no changes to the rates for Norfolk customers until 2019. Please specify all circumstances in which the Applicant believes rates can be changed prior to 2019.

**RESPONSE**

Not confirmed. Hydro One is proposing to freeze Norfolk rates for 5 years ending in 2019 (please refer Board Staff Interrogatory Response 3.2) Under the terms of the proposed transaction, these rates will not change prior to the end of the 5 year term.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #10 LIST 1**

**INTERROGATORY**

[A/1/1, p. 4 and A/2/1, p. 2] Please advise what separate accounts, if any, will be established to record costs and/or assets and liabilities of the former Norfolk Power, separate from the Applicant, during the period until 2019 or 2020.

**RESPONSE**

Please refer to VECC Interrogatory Response 3.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #11 LIST 1**

**INTERROGATORY**

[A/2/11, p. 1] Please advise how the proposed transaction is consistent with the following objectives of the Board, and in particular the underlined components [OEB Act, section 1, #1 and #2]:

*"To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.*

*To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry. "*

**RESPONSE**

Please refer to Exhibit A, Tab 2, Schedule 1, section 1.1 of the prefiled application. Furthermore, through the Ontario Distribution Sector Review Panel, in December 2012, the Ontario Ministry of Energy issued the report *Renewing Ontario's Electricity Distribution Sector: Putting the Customer First*. The report addresses multiple factors that contribute to the promotion of economic efficiency and cost effectiveness that can be realized through consolidation. Some of the items highlighted in the report include reducing the cost of providing necessary regulation, assisting with workforce issues, and the report also addresses the additional savings that can be achieved when the boundaries themselves are erased, consolidating neighbouring utilities into one new larger LDC with one contiguous boundary.

Ultimately, the proposed transaction between the neighbouring LDCs, HONI and NPDI, and bearing in mind that NPDI, the acquired utility, is essentially embedded (i.e., surrounded by the HONI service area) which fact to a large part drives the efficiency savings associated with the transaction. This transaction will protect the interest of consumers with respect to prices, adequacy, reliability and quality of electricity service and will maintain a financially viable electricity industry by achieving operational synergies, including those highlighted above.

The proposed transaction will not cause adverse effects to rate payers relative to a status quo scenario as it is designed to freeze rates at 2012 levels for a 5 year period.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #12 LIST 1**

**INTERROGATORY**

[A/2/1, p. 2] Please explain the business reason for moving the Dundas Field Business Centre from Hamilton to Norfolk. Please provide any business case or similar documents analysing in whole or in part the costs and/or benefits of that move.

**RESPONSE**

Please refer to Board Staff Interrogatory Response 4 and EBN Interrogatory Response 13.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #13 LIST 1**

**INTERROGATORY**

[A/2/1, p. 2] Please provide the factual basis on which the Applicant claims that Hydro One can realize economies of scale.

**RESPONSE**

Please refer to VECC Interrogatory Response 3.

Furthermore, the Ontario Distribution Sector Review Panel report *Renewing Ontario's Electricity Distribution Sector: Putting the Customer First* issued in December of 2012, states that "evidence shows that [these] consolidations have resulted in significant cost savings and efficiencies... It is clear from the results of past mergers and acquisitions that further consolidation is a way to achieve added efficiencies. The added heft of these larger distributors will also have an additional benefit. It will make it easier for LDCs to attract the investment that all utilities are going to need in the future".

**SCHOOL ENERGY COALITION (SEC)**  
**INTERROGATORY #14 LIST 1**

**INTERROGATORY**

[A/2/1, p. 2 and Share Purchase Agreement, Schedule 6.6] Please provide a description of the legal or regulatory recourse that the ratepayers in Norfolk would have in the event that the Applicant fails to meet its capital spending commitments as set out in Schedule 6.6 of the Share Purchase Agreement. Please explain why the annual capital spending commitments in that Schedule, ranging from \$3.2 million to \$3.4 million per year, are significantly lower than the actual capital additions by NPDI of \$4.3 million in 2010, \$5.8 million in 2011, and \$4.7 million in 2012 (as reported in the Yearbook for each of those years). Please explain why the NPDI Financial statements show capital spending of \$7.0 million in 2012 and \$5.1 million in 2011. If the difference relates to the timing of spending vs. closing to rate base, please provide a reconciliation of the figures, and please provide the capital work in progress figure for December 31, 2012.

**RESPONSE**

HONI is not in possession of a legal opinion regarding the "legal or regulatory recourse that the ratepayers in Norfolk would have in the event that the Applicant fails to meet its capital spending commitments as set out in Schedule 6.6 of the Share Purchase Agreement." Any such recourse would presumably be determined by a court of law or the OEB.

Please refer to VECC Interrogatory Response 3 for a further discussion on efficiency gains.

The \$7.0M of capital spending indicated in the 2012 NPDI financial statements includes \$2.3M of previous years smart meter spending that had been recorded in regulatory deferral accounts and moved to fixed asset accounts in 2012, as approved in NPDI's 2012 rate application.

The amount of \$5.8M in 2011 as reported in the OEB Yearbook is an error. The amount of \$5.1M reported on NPDI's financial statements is correct. NPDI will request a correction of this error in the yearbook.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #15 LIST 1**

**INTERROGATORY**

[A/2/1, p. 4] Please provide all documents or analyses that include any details of “the productivity gains associated with the transaction”.

**RESPONSE**

HONI declines to provide the requested information. Information concerning productivity gains associated with the transaction is commercially sensitive and relates to the business judgment exercised by HONI in its decision to participate in the transaction. It is not information that may be viewed as relating to whether the transaction may adversely affect rate payers relative to the status quo (i.e. no transaction) scenario. That said, HONI has provided examples of productivity gains and operational savings that can be achieved by combining NPDI with HONI, in Section 1.2 of Exhibit A, Tab 2, Schedule of the application. Please refer to VECC Interrogatory Response 3.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #16 LIST 1**

**INTERROGATORY**

[A/2/1, p. 7] Please explain how the Applicant proposes to calculate the impact of tax changes on Norfolk ratepayers if the assets and costs of Norfolk have been integrated into the Applicant's accounts.

**RESPONSE**

Hydro One, as mentioned in VECC Interrogatory Response 3, Hydro One will track the assets and costs of NPDI in a separate ledger. Any impact from tax changes will be tracked in NPDI's regulatory account for tax rate changes which will continue to be separately maintained.



**SCHOOL ENERGY COALITION (SEC)**

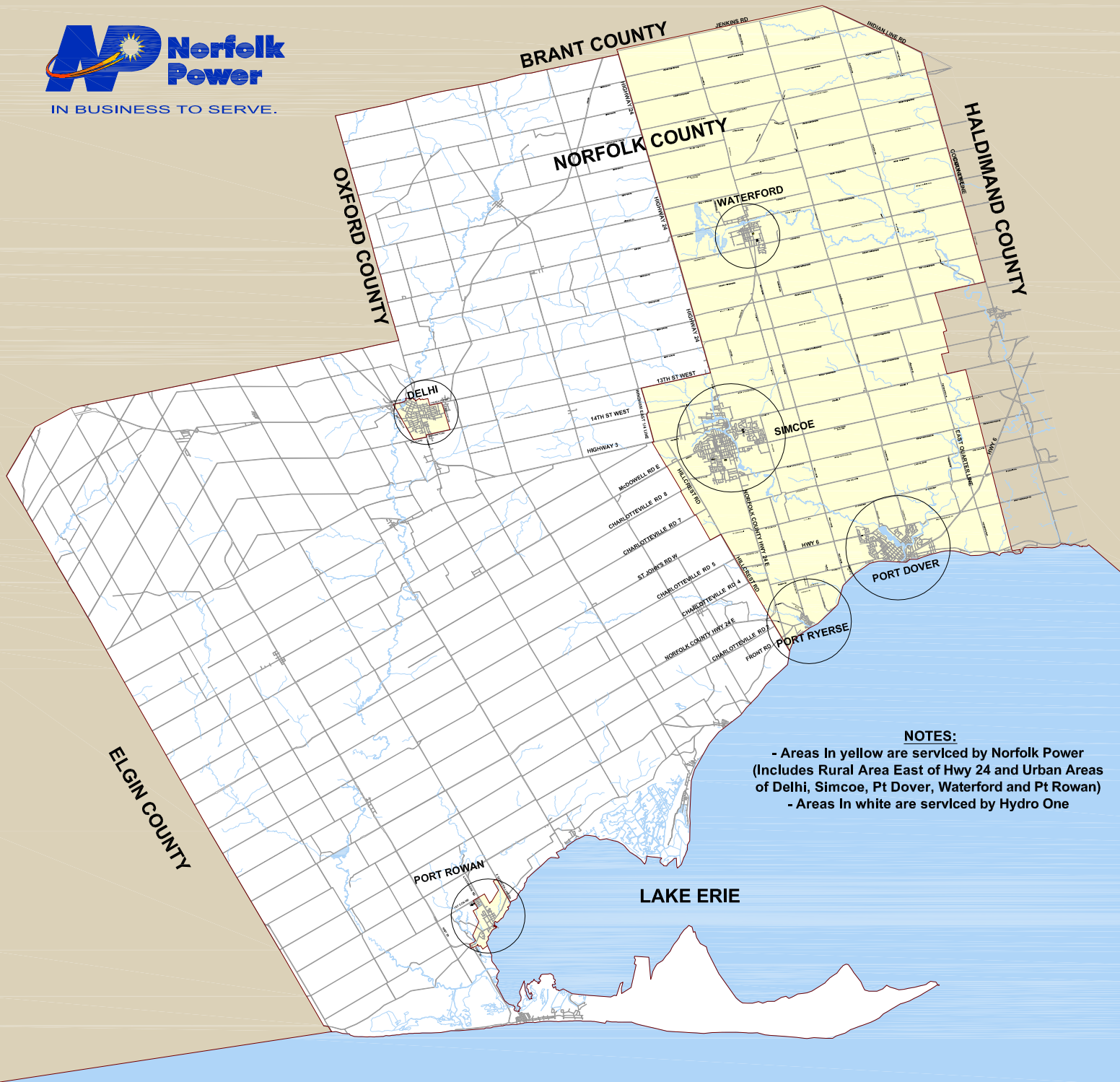
**INTERROGATORY #17 LIST 1**

**INTERROGATORY**

[A/3/1, p. 6] Please provide a map showing the current NPDI service territory and the immediately adjacent service territories of the Applicant.

**RESPONSE**

Please refer to Attachment 1.



**NOTES:**

- Areas In yellow are serviced by Norfolk Power (Includes Rural Area East of Hwy 24 and Urban Areas of Delhi, Simcoe, Pt Dover, Waterford and Pt Rowan)
- Areas In white are serviced by Hydro One

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #18 LIST 1**

**INTERROGATORY**

[A/3/1, p. 14] Please provide any valuations of any of the assets, or the business as a whole, in the possession of NPDI, the County, or the Applicant.

**RESPONSE**

Hydro One declines to provide the requested information. The requested information is commercially sensitive and used by Hydro One in the exercise of its business judgment to proceed with the transaction. It is not information that concerns whether the present transaction is likely to cause adverse effects to rate payers relative to a status quo (i.e. no transaction) scenario.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #19 LIST 1**

**INTERROGATORY**

[A/3/1, p. 17] Please advise whether the former President of NPDI, Brad Randall, is under any confidentiality restrictions with respect to the proposed transactions, the RFP, or the negotiations that have led to the Share Purchase Agreement.

**RESPONSE**

Hydro One declines to respond to the information request. The involvement of NPDI's past employees in the negotiations of the proposed transaction are not relevant to whether the transaction may cause adverse effects to rate payers relative to a status quo (i.e. no transaction) scenario.

**SCHOOL ENERGY COALITION (SEC)**

**INTERROGATORY #20 LIST 1**

**INTERROGATORY**

[ A/3/1, Attach 6, p. 21] Please provide a copy of the Shareholder Declaration. For each of the requirements, commitments or restrictions contained in the Shareholder Declaration, please advise the extent, if any, to which that requirement, commitment or restriction would continue to apply to the NPDJ business after the transaction, and if so, the legal or regulatory basis on which it would continue to apply.

**RESPONSE**

Article 5 of the Shareholder Direction and Unanimous Shareholder Declaration contains the Shareholder Declaration. The document is specific to the circumstances of the vendor and will likely be repealed on acquisition by the purchaser. A copy of the Shareholder Declaration has been attached as Attachment 1 to this interrogatory response.

## **SHAREHOLDER DIRECTION AND UNANIMOUS SHAREHOLDER DECLARATION**

**WHEREAS** Norfolk Power Inc. (the "Corporation") is a corporation established and existing under the Business Corporations Act (Ontario) (the "OBCA");

**AND WHEREAS** the Corporation of the Town of Norfolk (the "Shareholder"), pursuant to the Town of Norfolk Act, 1999 (Ontario), being Schedule "D" to the Fewer Municipal Politicians Act, 1999 (Ontario) became the beneficial owner of all of the issued shares of the Corporation (the "Shares");

**AND WHEREAS** the name of the Shareholder was changed to The Corporation of Norfolk County pursuant to By-law No. 2001-01, passed on January 23, 2001 by the Shareholder, in accordance with the provisions of section 187 of the Municipal Act, 2001 (Ontario);

**AND WHEREAS** the Corporation and the Subsidiaries (together the "Corporations") are the successors to the Norfolk Hydro-Electric Commission, the Simcoe Hydro-Electric Commission, the Delhi Hydro-Electric Commission and a portion of the Nanticoke Hydro-Electric Commission;

**AND WHEREAS** the Corporation's business and services are integral to the well-being and infrastructure of Norfolk County;

**AND WHEREAS** the Business is subject to the provisions of the Electricity Act, 1998 and the Ontario Energy Board Act, 1998 being Schedules A and B, respectively, to the Energy Competition Act, 1998, S.O., c.15, as such statutes may be amended or re-enacted from time to time;

**AND WHEREAS** the Shareholder wishes to establish certain principles of governance relating to the Corporations and to set forth those matters which may be undertaken by the Corporations or any of them only with the approval of the Shareholder;

**NOW THEREFORE THIS DIRECTION AND DECLARATION WITNESSES:**

### **ARTICLE 1 - INTERPRETATION**

#### **1.1 Definitions**

In this Direction and Declaration (the "Declaration"), in addition to any terms defined in this Declaration, the following terms will have the meanings set out below:

"Associate" means a Person that is associated with the Corporation or any Subsidiary as such relationship is defined in the OBCA;

"Board" means the board of directors of the Corporation;

"Body Corporate" means a firm, partnership, unincorporated association, joint venture, body corporate, corporation, bank, trust, pension fund, union, governmental agency, board, tribunal, ministry or commission or other legal entity of any kind whatsoever, but excludes an individual or natural person;

"Business" means the activities as described in Article 3 of this Declaration;

"Business Day" means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario;

"Business Plan" means a business plan and budget for the Corporations as prepared and approved in accordance with Section 6.1;

"Chair" means the director of the Corporation appointed as Chair of the Board by the Board upon the nomination of the Shareholder from time to time;

"Council" means the Council of the Corporation of Norfolk County;

"Distribution Company" means Norfolk Power Distribution Inc. and any other Subsidiary that carries on the business described in Section 3.1(a) and that owns any distribution system, structures, equipment or property used for that purpose;

"Financial Statements" means, for any particular period, audited or unaudited (as stipulated in this Declaration), consolidated or unconsolidated (as stipulated in this Declaration), comparative financial statements of the Corporation consisting of not less than a balance sheet, a statement of income and retained earnings, a statement of changes in financial position, a report or opinion of the Auditor (in the case of audited Financial Statements) and such other statements, reports, notes and information prepared in accordance with generally accepted accounting principles (consistently applied) and as are required in accordance with any applicable law;

"Generation Company" means Norfolk Power Generation Inc. and any other Subsidiary that carries on the business described in Section 3.1(b) hereof;

"Lien" means any mortgage, hypothec, assignment, encumbrance, lien or security interest, regardless of form, that secures the payment of any indebtedness or liability or the observance or performance of any obligation;

"OEB" means the Ontario Energy Board;

"Person" means an individual, a natural person or a Body Corporate;

"Regulator" means the Ontario Energy Board, the Independent Electricity Market Operator and any other governmental or regulatory authority having jurisdiction over the Corporations;

"Services Company" means Norfolk Energy Inc. and any other Subsidiary that carries on the business described in Section 3.1(c) hereof;

"Subsidiary" means, with respect to the Corporation, any Body Corporate of which more than 50% of the outstanding securities of any class carrying exercisable voting rights are beneficially owned, directly or indirectly, by the Corporation, and includes any Body Corporate in like relation to a Subsidiary. Initially, the Subsidiaries are Norfolk Power Distribution Inc., Norfolk Energy Inc., and Norfolk Power Generation Inc.;

"Third Party" means a Person who deals at arm's length (as interpreted by the Income Tax Act (Canada)) with any of the Corporations.

## **1.2 Calculation of Time**

In this Declaration, a period of days will be deemed to begin on the first day after the event which began the period and to end at 5:00 p.m. (local time) on the last day of the period. If, however, the last day of the period does not fall on a Business Day, the period will terminate at 5:00 p.m. (local time) on the next Business Day.

## **1.3 Paramountcy**

In the event of any inconsistency between the terms of this Declaration and the terms of the articles or the by-laws of the Corporation or any of its Subsidiaries, the terms of this Declaration shall prevail to the extent of the conflict and to the extent permitted by the OBCA.

# **ARTICLE 2 - EXPECTATIONS AND PRINCIPLES**

## **2.1 Purposes**

The purposes of this Declaration are as follows:

- (a) subject to the Board's authority to manage or supervise the management of the business and affairs of the Corporations, to provide the Board with the Shareholder's expectations relating to the principles of governance and other fundamental principles and policies regarding the Business;
- (b) to inform the residents of Norfolk County of the Shareholder's fundamental principles regarding the Business; and
- (c) to set out the principles of accountability, responsibility and relationship between the Board and the Shareholder.



Except as provided in Article 5 hereof, this Declaration is not intended to constitute a unanimous shareholder declaration or agreement under the OBCA or to formally restrict the exercise of the powers of the Board.

## **2.2 Shareholder Expectations**

The Shareholder expects that the Board will establish and implement policies to:

- (a) develop and maintain a prudent financial and capitalization structure for the Corporation consistent with OEB benchmarks and sound financial principles and established on the basis that the Corporation is intended to be self-financing with a maximum ratio of debt to equity of 60:40;
- (b) establish just and reasonable rates for the Distribution Company , or any of its Subsidiaries, which rates are:
  - (i) as approved by the OEB;
  - (ii) intended to preserve and enhance the value of the Corporation and its Subsidiaries; and
  - (iii) are consistent with the encouragement of economic development and activity within Norfolk County;
- (c) provide service with reliability consistent with Ontario electric utility standards;
- (d) provide the Shareholder with a reasonable return on equity, including an annual dividend payable in accordance with the provisions of the OBCA, that is consistent with ensuring that there is adequate capital to pay for new investment as capital is required and is consistent with maintaining just and reasonable rates and with the expectations as stated in paragraph 2.2(a) above;
- (e) manage all risks related to the business conducted by the Corporation, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms;
- (f) develop a long range strategic plan for the Corporation which is consistent with the maintenance of a viable, competitive business and preserves the value of the Business; and
- (g) annually review and recommend to the Shareholder the proposed auditor for the Corporation.

## **2.3 Principles**

The following principles will govern the operations of the Corporation:

- (a) The Business is integral to the well being and the infrastructure of Norfolk County. The Corporation recognizes that it is in the best interests of the Corporation and the community of stakeholders whom the Business affects that the Corporation conduct its affairs:
  - (i) on a commercially prudent basis;
  - (ii) in a manner consistent with the energy policies as may be established by the Shareholder from time to time; and
  - (iii) on a reasonable profit basis and in accordance with Section 2.2 above.
- (b) The Distribution Company will provide a reliable, effective and efficient electricity distribution system.
- (c) Distribution rates applicable to customers of the Distribution Company will be recommended by the Board to be fair to all classes of customers and to achieve a reasonable return as may permitted by the Regulator.
- (d) The Business is at all times subject to any licences, codes, policies, rules, orders, interim orders, approvals, consents and other actions of any Regulator as may be in force from time to time.
- (e) The Distribution Company will provide its services with an emphasis on customer satisfaction, addressing the customer service indicators and service reliability indicators accepted from time to time by the OEB.
- (f) The Corporation will operate in a safe and environmentally responsible manner.
- (g) The Distribution Company will promote energy conservation and environmental responsibility in accordance with all directions of the Regulator.
- (h) The Board is responsible for determining and implementing the appropriate balance among the foregoing principles and for causing the Corporation to conduct its affairs in accordance with such principles.

### **ARTICLE 3 - BUSINESS OF THE CORPORATIONS**

#### **3.1 Business of the Corporations**

Subject to the ongoing ability of the Corporation to meet the financial objectives of the Shareholder as set out in this Declaration and the ability of the Board to demonstrate the same, the Corporations may engage in any of the following business activities:

- (a) the Distribution Company may engage in such business activities as permitted by law, including, but not limited to the following business activities:
  - (i) selling directly, or through a Third Party or a Subsidiary, or through a combination of the foregoing, electricity to every Person connected to the distribution system of the Distribution Company;
  - (ii) other business activities, the principal purpose of which is to use more effectively the assets of the distribution system of the Distribution Company; or
  - (iii) providing accounting, human resources, information services, customer services, billing and maintenance and operation to the Generation Company, the Services Company and to other utilities, generators and municipalities;
- (b) the Generation Company may engage in the following business activities:
  - (i) owning, operating or having an ownership interest in one or more electricity generation facilities; or
  - (ii) providing services to the Corporation and its Subsidiaries.
- (c) the Services Company may, subject to approval by the Board, engage in the following business activities:
  - (i) retailing electricity;
  - (ii) renting or selling services and / or equipment;
  - (iii) providing energy efficiency and monitoring services; or
  - (iv) providing services to the Corporation and its Subsidiaries.

#### **ARTICLE 4 - OPERATION AND CONTROL**

##### **4.1 Board of Directors and Responsibilities**

Subject to any matters requiring approval of the Shareholder pursuant to this Declaration, the Board will supervise the management of the business and affairs of the Corporation, including, but not limited to, the following specific matters:

- (a) approving any dividend payment or distribution of capital to the Shareholder in accordance with the expectations and principles herein;
- (b) electing or appointing the officers of the Corporation and the Subsidiaries;
- (c) approving the remuneration of senior management of the Corporation and the Subsidiaries (for this purpose, senior management means those positions as determined from time to time by the Board); and
- (d) resolving any dispute or disagreement which may occur between any two or more of the Subsidiaries.

#### **4.2 Board of Directors**

The Corporation shall be managed by the Board, which shall consist of at least five (5) but no more than nine (9) directors, two of which shall be the Mayor of the Council or the Mayor's designate along with one other representative from Council. The directors shall be elected by the Shareholder. At least one-third of the directors of the Distribution Company are to be independent from the Corporation and the other Subsidiaries. For this purpose, *independent means an individual who is not the Mayor, any other representative from Council or an employee of the Shareholder or an officer, director or employee of the Corporation or any of the other Subsidiaries.* In selecting directors, the Shareholder shall consider candidates nominated by the nominating committee of the Board (the "Nominating Committee"), but shall not be obliged to select such candidates. It is expected that the Nominating Committee will develop a process to identify and evaluate potential Board candidates in order to recommend a slate of candidates acceptable to the Shareholder.

#### **4.3 Board of Directors of Subsidiaries**

Subject to any matters requiring approval of the Shareholder pursuant to this Declaration and subject to matters to be approved by the Board of the Corporation pursuant to Section 4.1, the business and affairs of the Subsidiaries will be managed or supervised by their respective boards of directors. The Corporation, acting by means of a majority vote of the Board, will select the directors of the Subsidiaries from those candidates approved by the Shareholder.

#### **4.4 Qualifications of Directors**

Each member of the Board and the board of directors of each Subsidiary will be residents of Canada and shall be qualified to serve in accordance with all applicable

law. In electing directors to the Board the Shareholder will give due regard to the qualifications of candidates, including, without limitation, experience or knowledge with respect to one or more of the following:

- (a) boards of corporations or other commercial enterprises;
- (b) corporate finance and financial services;
- (c) corporate governance;
- (d) market development;
- (e) large system operation and management;
- (f) urban energy industries;
- (g) information services;
- (h) engineering;
- (i) public policy issues and laws relating to the Corporations and the electricity industry; and
- (j) environmental matters, labour relations and occupational health and safety issues.

Candidates for the Board shall be residents and/or taxpayers of Norfolk County, or employees of businesses in Norfolk County, not otherwise currently serving on any local board (as that term is defined in the Municipal Act) of Norfolk County.

#### **4.5 Standards of Governance**

The Board and the board of directors of any Subsidiary shall supervise the management of the business and affairs of the Corporation and any Subsidiary respectively, and, in so doing, shall act honestly and in good faith with a view to the best interests of the Corporation or the Subsidiary respectively and shall exercise the same degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In addition, the Shareholder expects the Board and the boards of directors of the Subsidiaries to observe substantially the same standards of corporate governance as may be established from time to time by applicable law and the Regulator, or any other applicable regulatory or governmental authority for publicly traded corporations with such modifications as may be necessary to reflect the fact that the Corporation and each Subsidiary is not a publicly traded corporation.

#### 4.6 **Vacancies**

If a member of the Board ceases to be a director for any reason, the Shareholder will fill the vacancy created thereby as soon as reasonably possible. If a member of the board of directors of any Subsidiary ceases to be a director for any reason, the Corporation will cause the vacancy to be filled until the next annual meeting, by another director of the Corporation or other individual as soon as reasonably possible, in compliance with the OEB Affiliate Relationships Code

#### 4.7 **Term**

- (a) The term of office for a director who is not a member of Council will be three years or until his or her successor is elected. The term of office for a director who is a member of Council will be equal to the term of Council or until his or her successor is elected.
- (b) Any director may stand for reappointment to the Board at the expiry of his or her term until such time, in the case of a Board member who is not a member of Council, such member has served for a period of nine years in total.

#### 4.8 **President and Chief Executive Officer**

The President and Chief Executive Officer or any other employee of the Corporation or of any Subsidiary shall not be a director of the Corporation or a Subsidiary.

#### 4.9 **Committees**

The Board may establish committees of the Board in the Board's discretion. Standing Committees of the Board shall include, but not be limited to:

- (a) an Audit and Finance Committee to review the financial results of the Corporation and the Subsidiaries;
- (b) a Compensation Committee to recommend senior management and directors' compensation; and
- (c) a Nominating Committee to identify, evaluate and recommend Board **(all boards?)** candidates to the Shareholder.

#### 4.10 **Conflict of Interest Policy**

The directors and officers of the Corporation and the Subsidiaries will strictly abide by the requirements of all applicable law and regulations and of the Corporation in respect of conflicts of interest, including any requirements in respect of disclosure and abstention from voting.

#### **4.11 Confidentiality**

The Shareholder and the directors and officers of the Corporation and the Subsidiaries (each a "Receiving Party") will ensure that no confidential information of the Shareholder or the Corporation or any Subsidiary is disclosed or otherwise made available to any person, except to the extent that:

- (a) disclosure to a Receiving Party's employees or agents is necessary for the performance of any Receiving Party's duties and obligations under this Declaration;
- (b) disclosure is required in the course of judicial proceedings or pursuant to law; or
- (c) the confidential information becomes part of the public domain (other than through unauthorized disclosure by the Receiving Party).

#### **4.12 Remuneration**

The remuneration of the members of the Board and for the members of the board of directors for each Subsidiary for their respective services as directors will be as determined by the Shareholder from time to time.

#### **4.13 Annual Meeting**

- (a) Within six (6) months after the end of each fiscal year, the Board shall report to a public meeting of Council and provide such information concerning the Corporation and its Subsidiaries as the Board considers appropriate or as requested by Council.
- (b) The Shareholder shall annually, at a meeting of Council, consider candidates for election to the Board as proposed by the Nominating Committee, appoint the auditors of the Corporation and receive for approval or otherwise the audited Financial Statements of the Corporation for the last completed fiscal year.
- (c) Prior to the fiscal year end, the Shareholder by resolution in writing signed by the Shareholder Representative in accordance with Section 5.5 shall elect the members of the Board and appoint the auditors for the Corporation and complete such other business as would normally be completed at an annual meeting of shareholders under the OBCA.

## **ARTICLE 5 - SHAREHOLDER MATTERS**

### **5.1 Decisions of the Shareholder**

The following will apply to any approvals or decisions that the Shareholder must provide:

- (a) all approvals and decisions of the Shareholder will be evidenced in writing signed by the individuals authorized by applicable law to execute such documents (the "Shareholder Representative"); and
- (b) no approval will be given by the Shareholder unless the Corporation has given reasonable advance notice in writing of the need for approval and has provided such information as is reasonably necessary for the Shareholder to make an informed decision regarding the subject matter requiring approval.

### **5.2 Matters Requiring Shareholder Approval under the OBCA**

Neither the Corporation nor any Subsidiary will, without the approval of the Shareholder:

- (a) amend its articles or make, amend or repeal any by-law;
- (b) amalgamate, apply to continue as a Body Corporate under the laws of another jurisdiction, merge, consolidate or reorganize, or approve or effect any plan of arrangement, in each case whether statutory or otherwise;
- (c) take or institute proceedings for any winding up, arrangement, reorganization or dissolution;
- (d) create new classes or series of shares or reorganize, consolidate, subdivide or otherwise change its outstanding securities;
- (e) sell or otherwise dispose of, by conveyance, transfer, lease, sale and leaseback, or other transaction, all or substantially all of its assets or undertaking;
- (f) change the auditor;
- (g) make any change to the number of directors comprising the Board; or
- (h) enter into any transaction or take any action that requires shareholder approval pursuant to the OBCA.



**5.3 Other Matters Requiring Shareholder Approval**

Neither the Corporation nor any Subsidiary will, without the written approval of the Shareholder being received prior thereto:

- (a) sell assets of the Corporation or of a Subsidiary or purchase assets with an aggregate value in excess of 25% of the book value of all assets of the Corporation or the applicable Subsidiary;
- (b) issue, or enter into any agreement to issue, any shares of any class or series of shares, or any securities convertible into any shares of any class, of the Corporation or any of its Subsidiaries;
- (c) establish any requirement for capital contributions to the Corporation by the Shareholder;
- (d) take on or assume any financial obligation which would increase the debt to equity ratio of the Corporation and its Subsidiaries on a consolidated basis above the ratio of 60:40;
- (e) redeem or purchase any of its outstanding shares;
- (f) make any decision that would materially adversely affect the tax or regulatory status of the Corporation or any of its Subsidiaries;
- (g) materially alter the nature of or geographic extent of the business of the Corporation or any of its Subsidiaries in a manner which would have a financial impact equal to or greater than 25% of the book value of all assets of the Corporation or the applicable Subsidiary, as determined in the sole discretion of the Shareholder;
- (h) enter into any joint venture, partnership, strategic alliance or other venture, including ventures in respect of the generation or co-generation of electricity, which would require an investment of, or which would have a financial impact, equal to or greater than 25% of the book value of all assets of the Corporation or the applicable Subsidiary, as determined in the sole discretion of the Shareholder;
- (i) enter into any business activity not permitted under Section 3.1 hereof;
- (j) provide any financial assistance, whether by loan, guarantee or otherwise, to any director or officer of the Corporation or of any Subsidiary or Associate;
- (k) establish a new Subsidiary;

- (l) invest funds in publicly-traded securities other than in accordance with the investment policies of the Shareholder as determined from time to time;
- (m) enter into any agreement, commitment or investment that creates any Lien or recourse in favour of any Third Party to the assets of the Corporation or any Subsidiary in priority to the security given to the Shareholder by the Corporation and the Subsidiaries; or
- (n) change the remuneration for the members of the Board as provided for in Section 4.12 hereof.

For purposes of paragraph (a), (g) and (h) of this Section 5.3, the book value of all assets of the Corporation or the applicable Subsidiary shall be the values reported in the Financial Statements of the Corporation and its Subsidiaries as at the end of its most recently completed fiscal year. For the purpose of paragraph (j) of this Section 5.3, the term "financial assistance" does not include remuneration paid in the normal course of business to directors, officers or employees, including honoraria, wages, salaries or bonuses, or any reimbursement for expenses arising from such persons' duties.

#### **5.4 Decisions of the Shareholder**

Approvals or decisions of the Shareholder shall require a resolution or by-law of Council which shall be passed at a meeting of Council and shall be given in writing signed by the Shareholder Representative.

#### **5.5 Designated Representative**

The Shareholder hereby designates the Mayor or such individual as designated by the Mayor from time to time as the designated representative of the Shareholder for purposes of providing, any written evidence of consent or approval required by this Declaration or by the OBCA other than for such documents as must be executed otherwise in accordance with applicable law.

**This Article 5 shall constitute a Unanimous Shareholder Declaration pursuant to the OBCA.**

## **ARTICLE 6 - REPORTING**

### **6.1 Business Plan**

Not later than thirty (30) days prior to the end of each fiscal year, the Board will approve and submit to the Treasurer of the Shareholder (the "Treasurer") a business plan for the Corporations for the next five fiscal years (the "Business Plan"), for subsequent review and approval by the Shareholder. The Business Plan will be prepared on a consistent basis with the Business Plan then in effect. The Corporation will carry on its business and operations in accordance with the approved Business Plan which will include, in respect of the period covered by such plan:

- (a) the strategic direction and any new business initiatives which the Corporations will undertake;
- (b) an operating and capital expenditure budget for the next fiscal year and an operating and capital expenditure projection for each fiscal year thereafter, including the resources necessary to implement the draft business plan;
- (c) the projected annual revenues for each fiscal year for the Corporation and each of the Subsidiaries;
- (d) pro forma consolidated and unconsolidated financial statements;
- (e) an acquisition budget setting forth the nature and type of capital expenditures proposed to be made in the following fiscal year, supported by explanations, notes and information upon which the budget was based;
- (f) any material variances in the projected ability of any business activity to meet or continue to meet the financial objectives of the Shareholder; and
- (g) any material variances from the Business Plan then in effect.

### **6.2 Quarterly Reports**

Within 45 days after the end of each of the first three fiscal quarters in each fiscal year, the Board will prepare (on a consistent basis with the previous fiscal quarter) and submit to the Treasurer a quarterly report, that will include, in respect of the immediately preceding fiscal quarter:

- (a) quarterly unaudited consolidated and unconsolidated Financial Statements;
- (b) such explanations, notes and information as is required to explain and account for any variances between the actual results from operations and the budgeted amounts set forth in the current Business Plan, including any material variances in

the projected ability of any business activity to meet or continue to meet the financial objectives of the Shareholder;

- (c) information that is likely to materially affect the Shareholder's financial objectives or energy policies;
- (d) information that is likely to materially affect customers' perceptions or opinions regarding the Corporations;
- (e) information regarding any matter, occurrence or other event which is a material breach or violation of any law; and
- (f) any such additional information as the Shareholder may specify from time to time.

#### **6.3 Access to Records**

The duly appointed representatives of the Shareholder (as approved by report to the Council of Norfolk County from time to time) shall have unrestricted access to the books and records of the Corporation and the Subsidiaries during normal business hours. Such representatives shall treat all information of the Corporations with the same level of care and confidentiality as any confidential information of the Shareholder.

#### **6.4 Audit**

The Corporation's consolidated and unconsolidated Financial Statements will be audited annually.

#### **6.5 Accounting**

The Corporation will, in consultation with the auditor, adopt and use the accounting policies and procedures which may be approved by the Board from time to time and all such policies and procedures will be in accordance with generally accepted accounting principles applicable in Canada and applicable regulatory requirements.

#### **6.6 Annual Financial Statements**

The Board will cause the external auditor to deliver, as soon as practicable and in any event within 120 days after the end of each fiscal year, the audited consolidated Financial Statements of the Corporation for consideration by the Shareholder.

## **6.7 Reporting on Major Developments**

In addition to the annual meeting described in Section 4.13, the Board shall report to the Shareholder from time to time on major business developments or materially adverse results or circumstances as the Board considers appropriate or as requested by the Shareholder and such reports received may be considered by the Shareholder at a meeting of Council.

## **ARTICLE 7 - FINANCIAL PERFORMANCE**

### **7.1 Financial Performance**

The Shareholder expects that the Board will establish policies to:

- (a) Capital Structure - develop and maintain a prudent financial and capitalization structure for the Corporation and its Subsidiaries consistent with OEB benchmarks and sound financial principles and established on the basis that the Corporation and its Subsidiaries are intended to be self-financing entities and to maintain a debt to equity ratio of 60:40;
- (b) Distribution Rates - ensure the establishment of just and reasonable rates for the regulated distribution of electricity by the Corporation, or any of its Subsidiaries, which rates are:
  - (i) as may be permitted under applicable legislation;
  - (ii) intended to enhance the value of the Corporation and its Subsidiaries; and
  - (iii) consistent with the encouragement of economic development and activity by Norfolk County;
- (c) Returns - enhance Shareholder value by generating a return on equity as provided for in Section 2.2(d) hereof.
- (d) Risk Management - manage all risks related to the Business conducted by the Corporation and its Subsidiaries, through the adoption of appropriate risk management strategies and internal controls consistent with industry norms.

- (a) employ the most efficient cost structure available for like businesses; and
- (b) mandate the creation and implementation of cost reduction programs to ensure that costs are minimized.

## ARTICLE 8 - REVISIONS TO DECLARATION

DATED this            day of            , 2011.

**THE CORPORATION OF NORFOLK COUNTY**

By: \_\_\_\_\_  
Mayor

By: \_\_\_\_\_  
Clerk

Date as at March 8, 2001

**NORFOLK POWER INC.**

1445949

**Shareholders Register**

DATE	NAME & RESIDENCE	SHARE CLASS NAME	BALANCE HELD
<del>November 1, 2000</del>	<del>City of Nanticoke</del>	<del>Common</del>	<del>-900</del>
<del>November 1, 2000</del>	<del>Town of Delhi</del>	<del>Common</del>	<del>-140</del>
<del>November 1, 2000</del>	<del>Town of Norfolk</del>	<del>Common</del>	<del>-40</del>
<del>November 1, 2000</del>	<del>Town of Simcoe</del>	<del>Common</del>	<del>920</del>
<del>January 1, 2001</del>	<del>Town of Norfolk</del>	<del>Common</del>	<del>-2,000</del>
January 23, 2001	County of Norfolk (formerly Town of Norfolk)	Common	2,000

**COMMON  
SHARE  
CERTIFICATE**

Certificate No. C-5  
For 2,000 Shares  
Issued to  
The Corporation of the County of  
Norfolk  
Dated January 23, 2001

From whom transferred  
the City of Nanticoke, the Township  
of Delhi, the Township of Simcoe and  
the Town of Simcoe  
Dated January 1, 2001

Received Certificate No. \_\_\_\_\_  
for \_\_\_\_\_ Shares  
this \_\_\_\_\_ day of \_\_\_\_\_

No. Original Certificate	No. Original Shares	No. Of Shares Transferred
C-1, -2, -3, and C-4	2,000	2,000

No. C-5

INCORPORATED UNDER THE LAW OF THE PROVINCE OF ONTARIO

=2,000= Shares



**This is to Certify that = THE CORPORATION OF THE COUNTY OF NORFOLK =**  
is the registered holder of = Two Thousand (2,000) =  
fully paid and non-assessable Common shares of NORFOLK POWER INC.

The class or series of shares represented by this Certificate has rights, privileges, restrictions or conditions attached thereto and the Corporation will furnish to the holder, on demand and without charge, a full copy of the text of,

(i) the rights, privileges, restrictions and conditions attached to the said shares and to each class authorized to be issued and to each series insofar as the same have been fixed by the directors, and

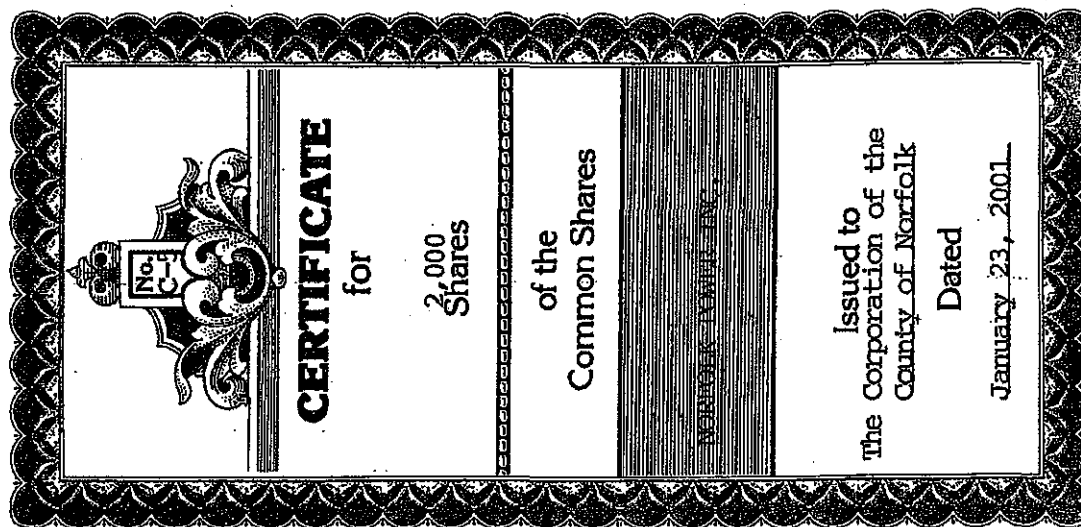
(ii) the authority of the directors to fix the rights, privileges, restrictions and conditions of subsequent series, if applicable.  
**LIEN ON SHARES.** The corporation has a lien on the shares represented by this Certificate for any debt of the shareholder to the Corporation.

**RESTRICTIONS ON TRANSFER.** There are restrictions on the right to transfer the shares represented by this Certificate.  
**IN WITNESS WHEREOF** the Corporation has caused this Certificate to be signed by its duly authorized officers and to be sealed with the seal of the Corporation this 23rd day of January, 2002.

\_\_\_\_\_  
Secretary

ORIGINAL OUT FOR SIGNATURE





For Value Received, the undersigned hereby sells, endorses and transfers unto \_\_\_\_\_

\_\_\_\_\_ Shares of the Common Shares represented by the within Certificate.

Dated \_\_\_\_\_

In presence of \_\_\_\_\_

NOTICE: THE SIGNATURE OF THE UNDERSIGNED MUST CORRESPOND WITH THE SIGNATURE OF THE UNDERSIGNED ON THE CERTIFICATE. IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATSOEVER, AND THE CORPORATION RESERVES THE RIGHT TO DECLINE REASONABLE ASSURANCE THAT THE ENDORSEMENT IS GENUINE AND EFFECTIVE.



Ministry of  
Consumer and  
Commercial Relations

**CERTIFICATE**

This is to certify that these  
articles are effective on

Ministère de  
la Consommation  
et du Commerce

**CERTIFICAT**

Ceci certifie que les présents  
statuts entrent en vigueur le

**1445980**

**OCTOBER 19 OCTOBRE, 2000**

Director / Directrice  
Business Corporations Act / Loi sur les sociétés par actions

**ARTICLES OF INCORPORATION  
STATUTS CONSTITUTIFS**

Form 1  
Business  
Corporations  
Act

Formule 1  
numéro 1  
Loi sur les  
compagnies

1. The name of the corporation is: *Dénomination sociale de la compagnie:*

N	O	R	F	O	L	K	T	E	L	E	C	O	M	M	U	N	I	C	A	T	I	O	N	S	I	N	C

2. The address of the registered office is: *Adresse du siège social:*

**70 VICTORIA STREET**

(Street & Number, or R.R. Number & if Multi-Office Building give Room No.)  
(Rue et numéro, ou numéro de la R.R. et, s'il s'agit d'édifice à bureaux, numéro du bureau)

**SIMCOE, ONTARIO**

(Name of Municipality or Post Office)  
(Nom de la municipalité ou du bureau de poste)

**N 3 Y 1 L 5**

(Postal Code/Code postal)

3. Number (or minimum and maximum number) of directors is: *Nombre (ou nombres minimal et maximal) d'administrateurs:*

**MINIMUM OF ONE (1) DIRECTOR AND A MAXIMUM OF SIXTEEN (16) DIRECTORS**

4. The first director(s) is/are: *Premier(s) administrateur(s):*

First name, initials and surname <i>Prénom, initiales et nom de famille</i>	Address for service, giving Street & No. or R.R. No., Municipality and Postal Code <i>Domicile élu, y compris la rue et le numéro, le numéro de la R.R. ou le nom de la municipalité et le code postal</i>	Resident Canadian State Yes or No Résident Canadien Oui/Non
MICHAEL J. PACE	20 QUEEN STREET WEST, SUITE 2500 TORONTO, ONTARIO M5H 3S1	YES

5. Restrictions, if any, on business the corporation may carry on or on powers the corporation may exercise.

*Limites, s'il y a lieu, imposées aux activités commerciales<sup>2</sup> ou aux pouvoirs de la compagnie.*

There are no restrictions.

6. The classes and any maximum number of shares that the corporation is authorized to issue:

*Catégories et nombre maximal, s'il y a lieu, d'actions que la compagnie est autorisée à émettre:*

An unlimited number of common shares.

7. Rights, privileges, restrictions and conditions (if any) attaching to each class of shares and directors authority with respect to any class of shares which may be issued in series:

*Droits, privilèges, restrictions et conditions, s'il y a lieu, rattachés à chaque catégorie d'actions et pouvoirs des administrateurs relatifs à chaque catégorie d'actions qui peut être émise en série:*

3.

None.

8. The issue, transfer or ownership of shares is/is not restricted and the restrictions (if any) are as follows: *L'émission, le transfert ou la propriété d'actions est/n'est pas restreinte. Les restrictions, s'il y a lieu, sont les suivantes:* 4.

No shares shall be transferred without either:

- (a) the consent of the directors of the Corporation expressed by a resolution passed by the board of directors at a meeting of the directors or by an instrument or instruments in writing signed by a majority of the directors; or
- (b) the consent of the holders of a majority of the voting shares for the time being outstanding expressed by a resolution passed at a meeting of shareholders or by an instrument or instruments in writing signed by the holders of a majority of such shares.

(a) The number of shareholders of the Corporation, exclusive of persons who are in its employment and exclusive of persons who, having been formerly in the employment of the Corporation, were, while in that employment, and have continued after the termination of that employment to be, shareholders of the Corporation, is limited to not more than 50, two or more persons who are the joint registered owners of one or more shares being counted as one shareholder.

(b) Any invitation to the public to subscribe for securities of the Corporation is prohibited.

(c) The Corporation has a lien on a share registered in the name of a shareholder or his legal representative for a debt of that shareholder to the Corporation.

10. The names and addresses of the incorporators are  
*Nom et adresse des fondateurs*  
 First name, initials and last name or corporate name  
*Prénom, initiale et nom de famille ou dénomination sociale*

Full address for service or address of registered office or of principal place of business giving street & No. or R.R. No., municipality and postal code  
*Domicile élu, adresse du siège social ou adresse de l'établissement principal, y compris la rue et le numéro, le numéro de la R.R., le nom de la municipalité et le code postal*

MICHAEL J. PACE

20 QUEEN STREET WEST, SUITE 2500  
 TORONTO, ONTARIO M5H 3S1

These articles are signed in duplicate.

*Les présents statuts sont signés en double exemplaire.*

Signatures of incorporators / *signatures des fondateurs*

  
 MICHAEL J. PACE



 Ministry of  
Consumer and  
Commercial Relations

**CERTIFICATE**  
This is to certify that these  
articles are effective on

Ministère de  
la Consommation  
et du Commerce

**CERTIFICAT**  
Ceci certifie que les présents  
statuts entrent en vigueur le

1445981

OCTOBER 19 OCTOBRE, 2000

*[Signature]*  
Deputy Director

Director / Directrice  
Business Corporations Act / Loi sur les sociétés par actions

ARTICLES OF INCORPORATION  
STATUTS CONSTITUTIFS

Form 1  
Business  
Corporations  
Act

Formule 1  
numéro 1  
Loi sur les  
compagnies

1. The name of the corporation is:

Dénomination sociale de la compagnie:

[illegible]

2. The address of the registered office is:

**Adresse du siège social:**

70 VICTORIA STREET

(Street & Number, or R.R. Number & if Multi-Office Building give Room No.)

(Rue et numéro, ou numéro de la R.R. et, s'il s'agit d'édifice à bureaux, numéro du bureau)

SIMCOE, ONTARIO

N	3	Y	1	L	5
---	---	---	---	---	---

(Name of Municipality or Post Office)

(Postal Code/Code postal)

(Nom de la municipalité ou du bureau de poste)

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Premier(s) administrateur(s):

First name, initials and surname <i>Prénom, initiales et nom de famille</i>	Address for service, giving Street & No. or R.R. No., Municipality and Postal Code <i>Domicile élu, y compris la rue et le numéro, le numéro de la R.R. ou le nom de la municipalité et le code postal</i>	Resident Canadian State Yes or No Résident Canadien Oui/Non
MICHAEL J. PACE	20 QUEEN STREET WEST, SUITE 2500 TORONTO, ONTARIO M5H 3S1	YES



5. Restrictions, if any, on business the corporation may carry on or on powers the corporation may exercise.

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None.

8. The issue, transfer or ownership of shares is/is not restricted and the restrictions (if any) are as follows: *L'émission, le transfert ou la propriété d'actions est/n'est pas restreinte. Les restrictions, s'il y a lieu, sont les suivantes:* <sup>4.</sup>

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- (a) the consent of the directors of the Corporation expressed by a resolution passed by the board of directors at a meeting of the directors or by an instrument or instruments in writing signed by a majority of the directors; or
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 First name, initials and last name or corporate name  
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Full address for service or address of registered office or of principal place of business giving street & No. or R.R. No., municipality and postal code  
*Domicile élu, adresse du siège social ou adresse de l'établissement principal, y compris la rue et le numéro, le numéro de la R.R., le nom de la municipalité et le code postal*

MICHAEL J. PACE

20 QUEEN STREET WEST, SUITE 2500  
 TORONTO, ONTARIO M5H 3S1

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Signatures of incorporators / signatures des fondateurs

  
 MICHAEL J. PACE



 Ministry of  
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**CERTIFICAT**  
Ceci certifie que les présents  
status entrent en vigueur le

Ontario Corporation Number  
Numéro de la compagnie en Ontario

1445949

1.

**OCTOBER 19 OCTOBRE, 2000**

*[Signature]*  
Director / Directorate

**Director / Directrice**  
**Business Corporations Act / Loi sur les sociétés par actions**

**ARTICLES OF INCORPORATION  
STATUTS CONSTITUTIFS**

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Formule 1  
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N	3	Y	1	L	5
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Full address for service or address of registered office or of principal place of business giving street & No. or R.R. No., municipality and postal code  
*Domicile élu, adresse du siège social ou adresse de l'établissement principal, y compris la rue et le numéro, le numéro de la R.R., le nom de la municipalité et le code postal*

MICHAEL J. PACE

20 QUEEN STREET WEST, SUITE 2500  
 TORONTO, ONTARIO M5H 3S1

These articles are signed in duplicate.

*Les présents statuts sont signés en double exemplaire.*

Signatures of Incorporators / *signatures des fondateurs*

  
 MICHAEL J. PACE

**CONSUMERS COUNCIL OF CANADA (CCC)**  
**INTERROGATORY #1 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 1)

1.0 The evidence states that the proposed transaction protects Norfolk's customers through a commitment to freeze their base electricity distribution delivery rates for a period of five years from the closing of the transaction. In addition, their rates will be reduced a further 1% from the Board-approved 2012 rates.

- a) For an average residential customer residing in Norfolk, what is the annual benefit flowing to that customer for the 5-year period?
- b) Specifically, what other benefits will Norfolk customers obtain through the transaction?
- c) Please explain the rationale for the 1% reduction.

**RESPONSE**

- a) Please refer to Board Staff Interrogatory Response 2.5
- b) Please refer to Exhibit A, Tab 2, Schedule 1 Sections 1.1 and 1.2.
- c) Please refer to Board Staff Interrogatory Response 2.2.

**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #2 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 1)

Please explain what happens at the end of the five-year period. At that time what rates will Norfolk customers be charged? If HON seeks and obtains approval for significant increases through a customized incentive regulation model, will Norfolk customers be subject to those rates? What correspondence, if any, has HON provided to Norfolk customers regarding rate levels beyond the five-year freeze?

**RESPONSE**

Please refer to Board Staff Interrogatory Response 7.2. HONI has not provided any correspondence to Norfolk customers regarding rate levels beyond the five year rate freeze.

**CONSUMERS COUNCIL OF CANADA (CCC)**  
**INTERROGATORY #3 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 1)

Under HON's proposal to set rates in 2015 and beyond using a customized rate-setting plan, please estimate what the average annual increases in rates might be.

**RESPONSE**

Norfolk rates will be lowered by 1% and frozen until the end of the 5-year period. Please refer to Board Staff Interrogatory Response 7.2 for additional information.

Hydro One's legacy customers will be subject to the changes approved under HONI's Custom COS application.

**CONSUMERS COUNCIL OF CANADA (CCC)**  
**INTERROGATORY #4 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 2)

The evidence states that there will be no adverse impact on HONI Distribution's existing customers, operationally or through rate impacts. Please provide evidence to support this statement.

**RESPONSE**

The acquisition of NPDI will bring with it additional utility trained staff who will be integrated with HONI operations to service not only the current NPDI service territory but also the broader HONI service territory. The access to NPDI staff will assist HONI in meeting its aging workforce concerns, thus potentially saving future training costs which will be to the benefit of HONI ratepayers. Once integration of Norfolk is completed, the operating systems of HONI, both back office and field, which are generally fixed costs, will be utilized to service an overall larger customer base and therefore reduce the per unit cost to serve for all HONI customers.

**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #5 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 2)

The evidence indicates that HON will move its Dundas Field Business Centre functions from the City of Hamilton to the Town of Simcoe over a three-year period? What is the cost of doing this? What is the rationale for moving the Business Centre? How will it impact HON's existing customers, or their rates?

**RESPONSE**

Please refer to Board Staff Interrogatory 4.



**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #6 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 2)

Please provide all information provided to HON's Board of Directors regarding the transaction.

**RESPONSE**

HONI declines to provide the requested information. The information HONI has used and relied upon in exercising its business judgement are matters that are beyond the scope of the issues before the Board in this proceeding. The relevant issue in the present proceeding is whether or not the present transaction may have an adverse effect to consumers when taking into account prices and the adequacy, reliability and quality of electricity services (i.e., "no harm").

**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #7 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 3)

The evidence states that the completion of this transaction provides an example of where "significant operational savings can be achieved by combining an embedded LDC with HONI." Please provide a schedule setting out all projected operational savings. In addition, please explain how those savings will flow to ratepayers.

**RESPONSE**

Please refer to VECC Interrogatory Response 3 and Board Staff Interrogatory Response 2.

**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #8 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T2/S1/p. 2)

The evidence states that Norfolk customers will benefit in the long term from access to the greater depth of expertise of HONI in the management and maintenance of the distribution system, and in the economies of scale that HONI can realize due to its size. Please specifically explain how Norfolk customers will benefit. Please provide evidence to support the assumption that Norfolk customers will benefit from HONI economies of scale.

**RESPONSE**

Please refer to VECC Interrogatory Response 3.

**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #9 LIST 1**

**INTERROGATORY**

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

(Exhibit A/T1/S1/p. 2)

The purchase price \$93 million. In light of the fact this approximately is 70% above the net book value of Norfolk Hydro, why is this transaction, at this price, in the best interests of HON's current customers? Can HON demonstrate that the costs to serve Norfolk's customers under a consolidated approach will be less than under the current system. Please explain.

**RESPONSE**

With respect to the purchase price, please refer to Board Staff Interrogatory Response 1 and to address the economies of scale to serve Norfolk customers, please refer to VECC Interrogatory Response 3 and SEC Interrogatory Response 11.

**CONSUMERS COUNCIL OF CANADA (CCC)**

**INTERROGATORY #10 LIST 1**

**INTERROGATORY**

Does HON have a written policy that guides its LDC acquisitions? If so, please provide a copy of that policy. Please indicate the extent to which HON's shareholder provides input regarding that policy. If no written policy exists, what steps does HON take in assessing potential acquisitions, and ultimately proceeding with them? What are the key drivers regarding HON's acquisitions? Specifically, what have been the key drivers regarding the acquisition of Norfolk Power?

**RESPONSE**

HONI declines to provide the requested information. HONI views this information to be confidential and commercially sensitive and is not relevant to the issues in this proceeding.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #1 LIST 1**

**INTERROGATORY**

1. Please provide the level of annual capital distribution spending by customer for the last five years for HONI and NP.

**RESPONSE**

1.  
Hydro One:

	2008	2009	2010	2011	2012
<b>Actual Capital Spent</b>	\$514,500,000	\$606,200,000	\$692,133,158	\$730,752,993	\$757,187,549
<b>Number of Customers</b>	1,187,253	1,193,767	1,203,030	1,210,695	1,221,036
<b>Actual Capital Spending by Customer</b>	\$433.35	\$507.80	\$575.32	\$603.58	\$620.12

Norfolk Power

	2008	2009	2010	2011	2012
<b>Actual Capital Spend</b>	\$ 4,276,639	\$ 9,599,768	\$ 4,253,108	\$ 5,053,411	\$ 4,716,976
<b>Number of Customers</b>	18,806	18,895	18,986	19,078	19,147
<b>Actual Capital Spending by Customer</b>	\$ 227.41	\$ 508.06	\$ 224.01	\$ 264.88	\$ 246.36

Please note, NPDI's 2012 financial statements indicate total capital spending of \$6,997,779. However this amount includes \$2,280,803 of spending in previous years, related to smart meters which was moved from regulatory assets to Property, Plant and Equipment, as approved in Norfolk's 2012 COS application. Actual capital spending for 2012 was \$4,716,976.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #2 LIST 1**

**INTERROGATORY**

2. Prior to the proposed acquisition of NP, what was the forecasted capital distribution spending by customer for the next five years (i.e. 2013- 2018) for both HONI and NP? Have these forecasts changed as a result of the proposed acquisition of NP? If so, please provide a detailed explanation.

**RESPONSE**

2. For NPDI, the capital expenditures over the next 5 years are irrelevant as NPDI rates will be lowered and frozen. For Hydro One, there has been no forecast capital change as a result of the acquisition. As stated in the application, HONI's Custom COS will be produced using HONI's existing customer base and will not include any capital and OM&A associated with serving, maintaining, and operating customers within the NPDI service territory.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #3 LIST 1**

**INTERROGATORY**

3. Please provide copies of those documents in HONI's care and control that detail the recovery of or potential recovery of the purchase price of all LDCs acquired by HONI since 1998 that had more than 5,000 customers .

**RESPONSE**

3. HONI declines to provide the requested information. It does so on the grounds that the requested information is not relevant to the application before the Board. The present application seeks authorization for a specific transaction that is not in any way directly or indirectly connected to the purchase price of all LDCs acquired by HONI since 1998 that added more than 5,000 customers or the recovery or potential recovery of the purchase price associated with any of those historical transactions.

As described in its submission dated August 28, 2013, HONI interprets application of the “no harm test”, as derived from RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257 (the “Combined Proceeding”) to be one that considers whether a proposed transaction – and not other real or potential transactions - would have an adverse rate impact to the applicant’s rate payers. The test, and thus the evidentiary proceeding involved, is one focused directly upon the present transaction and not other transactions – whether real or potential<sup>1</sup>.

The requested information does not pertain to the present transaction. Instead it pertains to the analysis and details of historical transactions which have no relationship whatsoever to the present transaction. As a result, HONI submits that none of the requested information can reasonably be viewed as providing any level of assistance to the Board regarding application of the “no harm test” in these circumstances.

<sup>1</sup> Please refer to Ontario Energy Board Decision in the Combined Proceeding – page 6



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #4 LIST 1**

**INTERROGATORY**

4. Please prepare a Table which includes the following information in respect of the greater of (by number of utilities) the 15 largest electric utilities which HONI has acquired or merged with since 1998 or all electric utilities which HONI has acquired which had a customer base of 5,000 or more (hereinafter referred to as the "Acquired Entities").

- (a) the name of each electric utility acquired or merged;
- (b) the closing date of the acquisition transaction ("Transaction") for each;
- (c) the base distribution rates (i.e., fixed rate and base volumetric rate, without rate riders and adders) in effect immediately prior to the Transaction in respect of:

- i. each of the Acquired Entities;
- ii. HONI

for the residential rate classes (urban, medium and low), the general service rate classes (urban and general < 50 kW), and the urban and general service demand billed classes >50 kW.

If traditional bundled rates (i.e. including generated energy and transmission cost) were in place at the time of acquisition, please confirm this, and instead provide the base distribution rates applicable in the Acquired Entity at the time of the initial rate unbundling.

- (d) the current rates in effect today that are being paid by the ratepayers of each of the Acquired Entities for the above noted rate classes.
- (e) the date when, if applicable, rates of each of the Acquired Entities were harmonized with HONI's rates.
- (f) the increase or decrease in capital spending in the 5 years following the acquisition of the Acquired Entities as a percentage of the capital spending by the Acquired Entity in the year immediately preceding the transaction.

**RESPONSE**

4. The information requested in this interrogatory is either not available or is readily available on the public record. Regardless, for the reasons described in EBN

Filed: October 25, 2013  
EB-2013-0187/0196/0198  
Exhibit I  
Tab 5  
Schedule 4  
Page 2 of 2

- 1 Interrogatory Response 3, HONI declines to provide the information as it is not
- 2 relevant to the issues respecting the application at hand.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #5 LIST 1**

**INTERROGATORY**

5. **HONI:** Pursuant to the Board's Decision in HONI's rate case (EB-2009-0096), at paragraph 3.1, page 11, the OEB indicated that various trend measures demonstrated that HONI had limited success in controlling expenditure increases. Please provide details on what HONI has done since this rate case with respect to controlling expenditure increases. Please provide an indication of the results of these initiatives in percentage and dollar terms.

**RESPONSE**

5. HONI declines to provide the requested information. HONI's expenditure management since the EB-2009-0096 case are not matters that are relevant to whether the present transaction may be viewed as reasonably causing an adverse rate impact to rate payers relative to a status quo (i.e the proposed transaction not proceeding) scenario. The terms of the proposed transaction cause HONI to assume a level of cost and integration risk so that NPDI rate customers are provided with a 5 year guaranteed reduction in rates relative to what the status quo would be as well as a having this rate fixed over the five year time period. HONI's management of its historical expenditures does not have bearing on the proposed rates arising from the present transaction. Details concerning the beneficial rate impact to Norfolk ratepayers associated with the present transaction are found in Board Staff Interrogatory Response 2.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #6 LIST 1**

**INTERROGATORY**

6. **HONI:** Pursuant to the Board's Decision in HONI's rate case (EB-2009-0096), at paragraph 3.2, page 18, the OEB indicated that HONI's compensation costs remained excessive in comparison to market indicators and further stated that HONI's compensation costs, including growth in headcount, was one of the areas in which HONI had to take further action to control expenditure increases. Please provide details on what HONI has done since this rate case to control compensation costs, including growth in headcount. Please provide an indication of the results of these initiatives in terms of percentage, dollars and headcount.

**RESPONSE**

6. Please refer to EBN Interrogatory Response 5.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #7 LIST 1**

**INTERROGATORY:**

What was NP's actual depreciation expenses in the years 2010 through 2012, and what depreciation expense did it forecast for 2013?

**RESPONSE:**

	<i>2010 – CGAAP</i>	<i>2011 – CGAAP</i>	<i>2012 – MIFRS</i>	<i>2013 - Budget</i>
<i>Depreciation Expense</i>	\$2,702,287	\$2,949,756	\$2,408,371	\$2,469,577

The depreciation pattern shows a one time reduction in 2012 which is due to moving from legacy CGAAP depreciation rates to IFRS rates.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #8 LIST 1**

**INTERROGATORY**

What amounts did NP actually expend on capital projects in each of the years 2010 through 2012, and what amount does it forecast it will spend on capital projects in 2013?

**RESPONSE**

	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013- Budget</i>
<i>Total Capital Expenditures</i>	4,253,108	5,053,411	6,997,779	4,218,000
<i>Less: Smart Meters (approved in rate base in 2012)</i>	0	0	(2,280,803)	0
<i>Actual Capital Expenditures</i>	<b>4,253,108</b>	<b>5,053,411</b>	<b>4,716,976</b>	<b>4,218,000</b>
<i>Less: Contributed Capital</i>	(819,501)	(1,338,253)	(586,214)	(600,000)
<i>Net Capital Expenditures</i>	<b>3,433,607</b>	<b>3,715,158</b>	<b>4,130,762</b>	<b>3,618,000</b>

2013 capital expenditures are from the approved 2013 budget. As of submission of this response, actual capital spending for the year is forecast to be \$3,870,000 less \$400,000 in contributed capital for a net amount of \$3,470,000.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #9 LIST 1**

**INTERROGATORY**

9. **HONI and NP:** Please provide SAIDI, SAIFI and CAIDI indexes for the last five years for both HONI and NP.

**RESPONSE**

9. The tables in Attachment 1 to this interrogatory response provide the reliability indices for Norfolk Power and for the Hydro One Simcoe Operations area.

**Hydro One SAIDI, SAIFI & CAIDI Summary for 2008-2012 (Including FM)**

	2012	2011	2010	2009	2008
Including LOS*					
SAIDI (Hours)	11.3	22.1	9.4	10.0	21.6
SAIFI (Int)	3.7	4.6	3.3	3.6	4.8
CAIDI	3.0	4.8	2.9	2.8	4.5
Without LOS*					
SAIDI (Hours)	10.6	21.2	9.0	9.3	21.0
SAIFI (Int)	3.2	3.9	2.9	3.1	4.3
CAIDI	3.4	5.4	3.1	3.0	4.9

**Hydro One SAIDI, SAIFI, & CAIDI Summary for 2008-2012 (Excluding FM)**

	2012	2011	2010	2009	2008
Including LOS*					
SAIDI (Hours)	7.5	7.4	7.5	7.4	8.6
SAIFI (Int)	3.1	3.1	2.9	3.0	3.5
CAIDI	2.4	2.4	2.5	2.4	2.4
Without LOS*					
SAIDI (Hours)	7.0	6.9	7.1	7.0	8.1
SAIFI (Int)	2.6	2.6	2.6	2.6	3.0
CAIDI	2.7	2.7	2.7	2.6	2.7

\* Loss of Supply (LOS) indicates interruptions that occur on assets that are not part of the Hydro One Distribution System.



**Norfolk Power Distribution Inc. SAIDI, SAIFI & CAIDI Summary for 2008-2012**

	2012	2011	2010	2009	2008
Including LOS					
SAIDI (Hours)	2.28	10.04	1.95	2.88	2.53
SAIFI (Int)	1.47	3.91	1.71	3.54	1.41
CAIDI	1.55	2.57	1.14	0.81	1.80
Without LOS					
SAIDI (Hours)	1.78	5.77	1.48	N/A	N/A
SAIFI (Int)	1.19	2.79	1.43	N/A	N/A
CAIDI	1.49	2.06	1.03	N/A	N/A

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #10 LIST 1**

**INTERROGATORY**

10. **HONI:** The 2012 OEB Electricity Yearbook reveals that HONI outage indices are SAIDI - 10.58; SAIFI- 3.15; and CAIDI- 3.36, while Norfolk is SAIDI- 1.78; SAIFI- 1.49. HONI pledges to maintain or improve reliability from the existing performance of NP. How does HONI plan to achieve this without eroding the indices of current NP customers? Once rates are merged, will the SAIDI, SAIFI and CAIDI indexes not also be merged? How will NP area ratepayers then know whether the prior service levels (i.e. pre-acquisition) are being maintained?

**RESPONSE**

Please refer to Board Staff Interrogatory Response 5 for an explanation on how HONI intends to maintain or improve reliability from the existing performance of NPDI. Furthermore, the data from the 2012 OEB Yearbook provides the Average SAIDI, SAIFI, and CAIDI statistics for HONI across its entire service territory. A more relevant comparison can be made by looking at the same statistics for HONI's feeders within the area of Norfolk Power, provided in Table 1 below. The local reliability information shows that Hydro One's existing customers experience a very similar level of reliability compared to Norfolk Power's customers.

**Table 1: Comparable Statistics**

	2012		2011		2010		2009		2008	
	Hydro One	NPDI	Hydro One	NPDI	Hydro One	NPDI	Hydro One	NPDI	Hydro One	NPDI
Including LOS*										
SAIDI (hours)	3.19	2.28	5.11	10.04	2.85	1.95	3.31	2.88	5.01	2.53
SAIFI (Int)	1.57	1.47	2.49	3.91	1.40	1.71	2.22	3.54	2.34	1.41
CAIDI	2.03	1.55	2.05	2.57	2.03	1.14	1.49	0.81	2.14	1.79
Without LOS*										
SAIDI (hours)	2.16	1.78	2.86	5.77	1.61	1.48	2.61	N/A	2.12	N/A
SAIFI (Int)	0.83	1.19	0.94	2.79	0.65	1.43	0.99	N/A	0.75	N/A
CAIDI	2.60	1.50	3.04	2.07	2.48	1.03	2.64	N/A	2.83	N/A

\* Including Loss of Supply (LOS), and interruptions that occur on assets that are not part of the  
 Hydro One Distribution System

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #11 LIST 1**

**INTERROGATORY**

11. **HONI and NP:** Please provide all OEB service quality parameters filed for each of the last five years for HONI and NP.

**RESPONSE**

11. Please refer to EBN Interrogatory Response 9 with respect to SAIDI, SAIFI and CAIDI parameters for the local area. For all other service quality parameters, local numbers are not available. The system average information requested is available from the OEB Yearbook.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #12 LIST 1**

**INTERROGATORY**

12. **HONI and NP:** Please provide the average distribution outage response time for the last five years for both HONI and NP

**RESPONSE**

12. The average distribution outage response time that is reported to the OEB is enshrined in the Emergency Response SQI available in the OEB yearbook. Please refer to Table 1 for both Norfolk Power and for Hydro One's regional specific response time for the Simcoe Operating Centre.

**Table 1**

**Reported OEB Service Quality Indicators (SQI's) -- Simcoe**

<b><i>Indicators</i></b>	<b><i>OEB Minimum Standard</i></b>	<b><i>2008</i></b>	<b><i>2009</i></b>	<b><i>2010</i></b>	<b><i>2011</i></b>	<b><i>2012</i></b>
Emergency Response -- Rural Areas	80% within 120 minutes	91%	88%	91%	85%	98% (Excluding Most Prominent) 94% (Including most prominent)

**OEB Service Quality Indicators (SQI's) – Norfolk Power**

<b><i>Indicators</i></b>	<b><i>OEB Minimum Standard</i></b>	<b><i>2008</i></b>	<b><i>2009</i></b>	<b><i>2010</i></b>	<b><i>2011</i></b>	<b><i>2012</i></b>
Emergency Response -- Rural Areas	80% within 120 minutes	100%	96%	100%	94%	100%

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #13 LIST 1**

**INTERROGATORY**

13. The 2012 OEB Electricity Yearbook lists HONI's OM&A at \$439.77/customer whereas Norfolk is at \$333.43/customer, for a difference of \$106.34/customer. The Application indicates that HONI plans to completely implement its operating structure (CIS, Customer Service, etc.) in NP. Please provide a detailed explanation as to how HONI will find efficiencies in the annual amount of approximately \$2,020,460 (19,000 customers x \$106.34). Please provide a detailed buildup budget or breakdown of the forecast efficiencies/savings anticipated by HONI.

**RESPONSE**

13. HONI declines to provide the requested information. It does so because the request concerns commercially sensitive information used by HONI in exercising its business judgment for the purpose of evaluating and entering into the present transaction. The information HONI has used and relied upon in exercising its business judgement are matters that are beyond the scope of the issues before the Board in this proceeding. The relevant issue in the present proceeding is whether or not the present transaction may have an adverse effect to consumers when taking into account prices and the adequacy, reliability and quality of electricity services (i.e., "no harm"). Disclosure of commercially sensitive information used by HONI in exercising its business judgment (including the publication of results of financial models) to unaffected consumers, such as HONI's competitors like EBN, could reasonably be viewed as being for an indirect purpose of assessing how HONI develops bids for future acquisition transactions. The economic efficiencies and cost-effectiveness HONI is relying on to meet the "no harm" test are described in the Application in Exhibit A, Tab 2, Schedule 1 and elaborated upon in Response to Board Staff Interrogatory 2 as they relate to rate-payer impacts. These efficiencies and cost savings are relevant as they arise only if the present transaction is approved and do not arise under a status quo scenario.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #14 LIST 1**

**INTERROGATORY**

14. **HONI:** Please provide a detailed build up budget showing the nature of and value of all anticipated efficiencies/savings that will be gained as a result of the NP acquisition. Please also advise and the particulars of:

- a) How the efficiencies will be realized;
- b) a timeline of when the efficiencies will be gained;
- c) what, if any, effect these efficiencies will have on rates if successful;
- d) what, if any, effect these efficiencies will have on rates if unsuccessful; and
- e) any costs, including both operating costs and capital costs, which may be associated with anticipated efficiencies.

**RESPONSE**

14. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #15 LIST 1**

**INTERROGATORY**

Reference: Ex. AIT3/S1, p. 12, ss. 1.6.7

HONI identifies incremental costs associated with the transaction but does not state the amount. Please provide HONI's forecast of the amounts of incremental costs referenced at Subsection 1.6.7 and a breakdown in respect of these costs by their nature. Please also provide, if not provided in response to the above interrogatory, a detailed breakdown of HONI's forecast productivity gains that will "finance" these costs. Please include in your response all activities undertaken to date to generate these productivity gains, the status of such work, and the timeframe over which the steps leading to these productivity gains will be implemented?

**RESPONSE**

Please refer to EBN Interrogatory Response 13.



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #16 LIST 1**

**INTERROGATORY:**

NP shares a Sensus AMI 'smart meter' system ("AMI system") and operation costs with eight neighbouring LDCs. Does HONI plan to replace the NP system with its own AMI network? If so, what are the estimated costs of converting? Will HONI continue to contribute to the AMI system's costs in future? If so, for how long? What is the forecast amount of HONI's continued contributions to the AMI system in future, if any, stated on an annual basis? Will NP AMI assets be written off and if so, when and how much?

**RESPONSE:**

NPDI does not share a Sensus AMI 'smart meter' system ("AMI system") with neighbouring LDCs. NPDI acquired its own system and obtained the best possible price by coordinating the request with several other LDCs. Each LDC operates its own AMI system. There is no sharing of operations costs with other LDCs.

Detailed integration issues such as those described in this Interrogatory Request are matters of ongoing consideration including assessment of how the NP AMI network will be integrated into HONI's systems.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #17 LIST 1**

**INTERROGATORY**

What was NP's contribution to the AMI system's costs for 2012 (actual) and 2013 (year to date) and what are the 2013 forecast costs?

**RESPONSE**

NPDI does not 'share' operation costs with other LDCs or make contributions for AMI System costs. While NPDI participated in a group with 8 other LDCs to obtain pricing, it has an individual contract with Sensus and is billed individually for its own activity. This billed activity is shown in the table below.

AMI-RELATED EXPENDITURES	2012	2013 YTD
Monthly TGB Fees	\$ 140,707	\$ 98,694
Monthly meter reading fees - Electric & Water	\$ 13,864	\$ 29,480
<b>TOTAL AMI EXPENDITURES</b>	<b>\$ 154,571</b>	<b>\$ 128,174</b>

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #18 LIST 1**

**INTERROGATORY**

To the extent that HONI and NP will no longer be contributing to the AMI's system's costs in future, what analysis has HONI or NP undertaken which will determine the impact on the ratepayers of the other LDCs sharing in the AMI system's costs. Please produce any such analysis. Does NP have a contractual obligation to use and/or to continue financial contributions in support of the AMI system? If so, what is the remaining term of that obligation? If HONI does not intend to continue to use of and payment for the AMI system for the duration of any obligation, will HONI or NP be required to pay a penalty or other lump sum to fulfill the obligation of NP under the sharing arrangement? If so, what is the amount of such penalty or lump sum?

**RESPONSE**

NPDI has a contract with Sensus which continues until 2024. NPDI's contract with Sensus does not require it to pay additional costs if another LDC cancels their contract and NPDI is not aware of any other LDC under obligation to assume any costs if NPDI cancels its contract.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #19 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T2/S1, p. 3, s. 1.2

Economic Efficiency and Cost Effectiveness - Please produce all studies, analyses and other documentation which has been generated which details the efficiency gains and cost effectiveness that will be achieved by the proposed acquisition of NP.

**RESPONSE**

Please refer to VECC Interrogatory Response 3.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #20 LIST 1**

**INTERROGATORY**

20. HONI: Reference: Ex. A/T2/S1, p. 4, s. 1.3 -Incremental Transaction Costs- Please produce a copy of all studies, reports and analyses which set out the productivity gains that HONI will achieve which will finance the transaction costs that will necessarily be incurred in respect of the proposed acquisition of NP. Does HONI propose to only apply revenues generated from the former NP power customers to satisfy these incremental transaction costs? Please provide a breakdown of all of the anticipated one-time transaction costs that will be incurred.

**RESPONSE**

20. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #21 LIST 1**

**INTERROGATORY**

21. Reference: Ex. A/T2/S1, p. 5 - HONI states that it expects to realize operating synergies once it integrates the operation of NP into HONI and that the savings will offset the impact of the 1 percent reduction and rate freeze for former NP customers. Please produce all reports, studies and analyses which detail the cost savings and efficiency gains that will be realized which will offset the rate reduction and rate freeze. Please provide a summary table setting out the total cost savings annually for the number of years necessary for HONI to fully recover the costs of the 1 percent reduction and rate freeze at a reasonable discount rate.

**RESPONSE**

21. Please refer to VECC Interrogatory Response 3 and SEC Interrogatory Response 11.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #22 LIST 1**

**INTERROGATORY**

22. Reference: Ex. A/T3/S1, p. 11, ss. 1.6.2  
HONI states that customers of NP will benefit in the long term from HONI's economies of scale. Please provide all studies, analyses or reports which detail the economies of scale which the current NP customers will benefit from in future.

**RESPONSE**

22. Please refer to SEC Interrogatory Response 11 and VECC Interrogatory Response 3.

1                   **ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

2                                   **INTERROGATORY #23 LIST 1**

3  
4           **INTERROGATORY**

5  
6       23.    The MAAD Application states that up to 20 percent of HONI's workforce is  
7            eligible to retire in 2013 (EB-2013-0187, Ex.A/T3/S1, Attachment 7, p. 26). What  
8            percentage of NP's trade union employees are 50 years of age or older?  
9

10           **RESPONSE**

11  
12       23. The percentage of NPDI's trade union employees aged 50 and over is 34%.



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #24 LIST 1**

**INTERROGATORY**

24. Please outline how many positions will be eliminated once the transaction is fully complete.

**RESPONSE**

24. Please refer to EBN Interrogatory Response 27.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #25 LIST 1**

**INTERROGATORY**

25. Please provide an estimate of the number of employment positions based in NP that HONI plans to maintain beyond the three-year transition plan. For each position or category of position, please indicate whether the duties of the position are planned to be:
- (a) solely for operation and customer service in the NP service territory; (b) performing a function that will serve customers both within the existing NP service territory and in the present HONI service territories; or (c) a mixture of NP service functions and shared functions.

**RESPONSE**

25. Please refer to EBN Interrogatory Response 27.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #26 LIST 1**

**INTERROGATORY**

26. Please provide an organization chart for the Operations Department at NP and for HONI (in the service area that will include NP in future). Please provide the total compensation costs for each of the positions identified in the organization chart for the years 2010-2012, the total number of full-time employees in each of these positions and the applicable salary ranges.

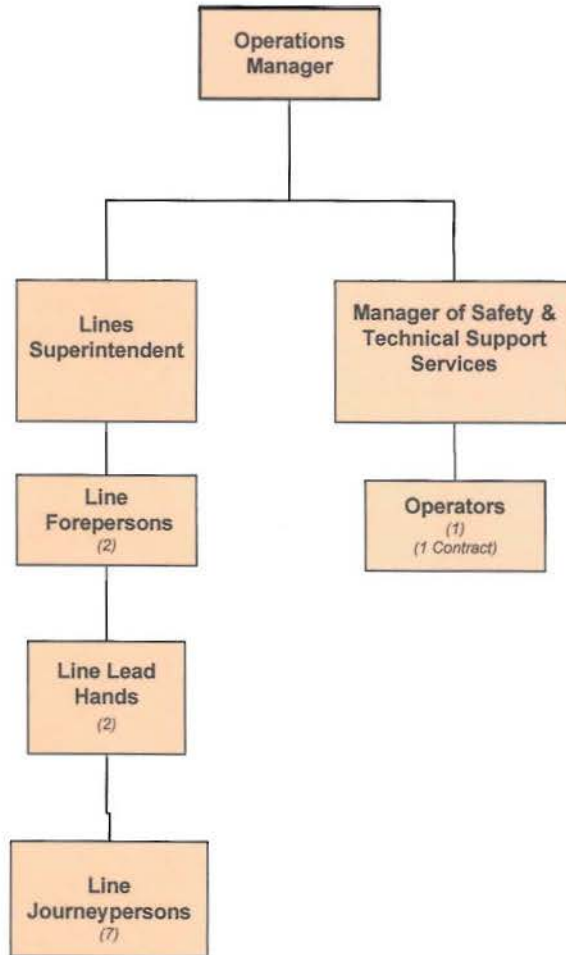
**RESPONSE**

26. Please refer to Attachment 1 for the organizational chart for the operations department at NPDI. Hydro One does not have an organizational chart for the service areas that will include NPDI in the future.

HONI declines to provide the requested salary information as it is not relevant to the issues involved in the present application, namely whether the proposed transaction is likely to cause adverse effects to rate payers relative to a status quo (i.e. the transaction not proceeding) scenario.

**NORFOLK POWER INC.**  
Operations Department October 2013

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EB-2013-0187/0196/0198  
Exhibit I-5-26  
Attachment 1  
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**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #27 LIST 1**

**INTERROGATORY**

27. In estimating the efficiencies that HONI will be able to realize to recover the costs of acquiring NP, please indicate whether HONI has assumed that present NP staff will take over the function of current HONI staff who retire, thus allowing HONI an offsetting cost reduction. If so, please provide the number of positions and estimated total compensation savings involved.

**RESPONSE**

27. Hydro One's plan is to integrate acquired NPDI staff into Hydro One's combined workforce, thus providing broader career opportunities and allowing for the renewal of Hydro One's workforce as staff retire. At this time, Hydro One's integration plan regarding the NPDI acquisition remains under development; hence, the requested information is not yet available.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #28 LIST 1**

**INTERROGATORY**

28. Please confirm that HONI used a discounted cash flow model to calculate the price that HONI could cost-effectively pay for NP. Please provide a table showing the percentage change for the years 2019 and 2024, as compared with 2013 NP actuals, for the following line items in that model: operations and maintenance expense; administrative and general expense; capital expenditure; interest expense, and depreciation. Please also provide the discount rate that was used in such modeling. If the discount rate is greater than the WACC approved by the Ontario Energy Board, please explain why.

**RESPONSE**

28. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #29 LIST 1**

**INTERROGATORY**

29. Please confirm that this transaction will result in the following cost/payments:
- (i) \$39.1 million acquisition premium;
  - (ii) Rate reduction revenue decline of > \$2.45 million (\$490,000 x 5 years);
  - (iii) Transaction and transition costs > \$2.45 million (estimated) Total \$44.05 million.
- (a) If HONI disagrees with the above figures, please provide HONI's current forecast and an explanation for the difference.
- (b) Does HONI agree that it is this aggregate number which it must generate through efficiencies to avoid increasing rates and/or reducing earnings available to HONI's owner as a result of this transaction? If not, please explain.

**RESPONSE**

- 29.
- (i) Any acquisition premium will not be determined until closing;
  - (ii) the rate reduction revenue is equal to a total of \$490,000 over the 5 years and will be paid only if HONI's application to reduce NPDI's rates via a negative rate rider is not approved;
  - (iii) transaction and transition costs will be paid for from the synergies created in the transaction and will therefore not have any impact on HONI or NPDI customers and therefore is not relevant to the OEB's "No Harm" test.
- (a) Please see above.
- (b) While HONI does not agree with the aggregate number, it does agree that any premium, transaction, or transition cost will be paid through the synergies created from this transaction.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #30 LIST 1**

**INTERROGATORY**

30. A study commissioned by HONI in 2011 (Mercer Report) concluded that HONI employee compensation levels are on average 13% higher than the industry market median. It is expected that current NP employees will be elevated to equivalent HONI compensation rates if this Application is approved. In NP's rate application (EB-2011-0272), NP estimated its total 2012 employee compensation at \$4,085,472, Ex.4/T2/S4, Table 2.19, p. 3 of 10). Should the 13% increase occur, the operating cost of NP would increase approximately \$531 ,000/year. Will existing HONI customers not be required to absorb this additional expense given that there will be no increase in rates for NP customers for the next several years? What specific plans will HONI undertake to achieve efficiencies and cost savings that it would not have undertaken had it not been the successful bidder for NP? For clarity, please specifically identify all steps HONI intends to undertake to achieve efficiencies and cost savings as a result of the acquisition of NP which are the result of the acquisition.

**RESPONSE**

30. As stated in Board Staff Interrogatory Response 3, HONI's Custom COS 5 year application will be based on HONI distribution's existing customer base and it will not include any costs associated with the NPDI service territory. Therefore, HONI customers will not absorb any additional salary expenses as a result of this transaction. Please refer to VECC Interrogatory Response 3 with regard to operational efficiencies and cost savings.



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #31 LIST 1**

**INTERROGATORY**

31. Please confirm what portion of the NP purchase price HONI intends to rate base. Is it \$53.9 million as stated at Ex. A/T3/S1, p. 8?

**RESPONSE**

31. Rate Base associated with the acquisition of NPDI will consist of the NBV of assets plus a calculation for working capital. Using 2012 Financial Statements, the NBV of NPDI assets as of December 31, 2012 was \$53.9 million with associated working capital of \$6.0 million., These values will be adjusted upon closing of the transaction, per section 2.4 of the Share Purchase Agreement.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #32 LIST 1**

**INTERROGATORY**

32. Please provide a breakdown in Table format and copies of all internal documents which refer to or forecast costs related to the acquisition of NP, including but not limited to all transition costs, labour cost increases, revenue deficiencies as a result of NP's 1% rate reduction request, financing costs, and HONI opportunity costs.

**RESPONSE**

32. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #33 LIST 1**

**INTERROGATORY**

33. Please outline HONI's planned approach to harmonization of the rates of NP with HONI rates which is planned for 2020. What is the estimated rate impact for NP customers once this harmonization occurs? Please provide calculations and assumptions used for the year of harmonization, including HONI's forecast for the distribution fixed and volumetric rates for each of its rate classes as at the time of harmonization.

**RESPONSE**

33. Please refer to OEB Interrogatory Response 7.2

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #34 LIST 1**

**INTERROGATORY**

34. Reference: Ex.A/T2/S1, p.2, lines 9-11

Please quantify the amount and provide a detailed justification, including calculations and assumptions, for the following statement: "In the long term, because fixed costs of operations will be spread over a wider customer base, HONI Distribution's customers will see a small price benefit." How many years are meant by the words "long term" in this sentence?

**RESPONSE**

34. Hydro One defines long-term to mean longer than the five-year deferral period.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #35 LIST 1**

**INTERROGATORY**

35. Reference: Ex.A/T2/S1, pps. 1 and 2 –  
HONI proposes a 1 percent reduction from the OEB-approved rates (EB-2011-0272) and then freezing NP's base electricity distribution rates for a period of 5 years. At the same time, HONI is proposing that its 5- year cost of service rate application in 2014 for rates effective 2015- 2019 will be based on HONI's distribution existing customer base which will not include any capital or OM&A costs associated with serving, maintaining or operating customers within the NP service territory. Please provide a detailed response to the following questions:

- (a) If during the 2014- 2019 periods the 1 percent reduction and rate freeze in the NP service territory result in a revenue deficiency relative to NP's currently approved rates, as adjusted annually, how do HONI customers benefit from the acquisition?
- (b) As the 1 percent reduction and rate freeze will reduce the return earned from distribution activities in the NP distribution area in the years 2014- 2019, relative to NP's current and future rates without the acquisition, how does this reduced return benefit HONI's parent and the Government of Ontario?
- (c) Please produce HONI's detailed calculations and analysis which forecasts the decline in revenue in the NP service territory in each of the years 2014 – 2019 as a result of the 1 percent reduction and freeze of base rates. Please also indicate what increase or decline in revenues is forecast over this period as a result of load increases or decreases.

**RESPONSE**

35.

(a) As noted in SEC Interrogatory 10, HONI NP's financial performance will be tracked separately from, and not included in, the Hydro One Distribution legacy business. There will be no impact to Hydro One Distribution's customer in the period 2014 -2019 from HONI NP's operations.

(b) The 1% reduction and rate freeze is not expected to reduce the return earned from distribution activities in the NPDI distribution area in the years 2014 – 2019, relative to the status quo (i.e. no transaction) scenario. The rate reduction and rate freeze will be funded from productivity and efficiency savings expected to be achieved from the acquisition.

(c) Please refer to Board Staff Interrogatory Response 2.5.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #36 LIST 1**

**INTERROGATORY**

36. What are the approved loss factors applied by HONI in 2012 and 2013 for each of its residential and general service rate classes? What are the approved loss factors for 2012 and 2013 for NP? When HONI harmonizes NP's rates in or about 2020, will it propose the HONI or NP loss factors for billing NP customers?

**RESPONSE**

36. The table below provides HONI and NPDI's approved loss factors, applicable in both 2012 and 2013, for its residential and general service rate classes.

	Residential			General Service <50		General Service >50	
	Urban Density	Medium Density	Low Density	Urban	Non-urban	Urban	Non-urban
HONI Total Loss Factor	1.078	1.085	1.092	1.092	1.092	1.061	1.061
NP Total Loss Factor	1.0564			1.0564		1.0464*	

\* Assuming primary metered

After the 5-year rate freeze, loss factors appropriate to the NPDI rate classes will be proposed for OEB approval.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #37 LIST 1**

**INTERROGATORY**

37. Please confirm which of HONI's customer classes will apply to NP residential customers (i.e., urban, medium or rural density, or some combination). If a combination, please provide HONI's forecasts of the percentage of residential customers that will be subject to each of the three residential rate classes. Please produce a copy of all analyses undertaken by HONI to confirm the appropriate application of its rates to NP residential customers (i.e., density studies and/or other studies).

**RESPONSE**

37. Please refer to Board Staff Interrogatory Response 7.2.



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #38 LIST 1**

**INTERROGATORY**

38. Please produce a road map and satellite map which outlines the boundaries of the service area of NP. Please provide the most current available information about the current number of NP customers in the:
- (a) Town of Waterford;
  - (b) Town of Simcoe;
  - (c) Town of Port Dover; and
  - (d) The former Town of Delhi; and
  - (e) the western half of the former City of Nanticoke.

**RESPONSE**

38. For a map of the distribution area, please refer to SEC Interrogatory Response 17.

The current number of NPDI customers (using the most current available information) is as follows:

SERVICE AREA	CUSTOMER COUNT
Town of Waterford	1,708
Town of Simcoe	7,752
Town of Port Dover	3,908
Town of Delhi	2,041
Other (Including Nanticoke)	4,009
<b>TOTAL</b>	<b>19,418</b>

Please note, NPDI inherited several customers from the former City of Nanticoke who are rural customers.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #39 LIST 1**

**INTERROGATORY**

39. HONI's response at Subsection 1.8.2 of the MAAD Application (Ex.ArT3/S1, p.14) states that the premium paid over book value (of \$39.1 million) "will not be included in Hydro One Distribution revenue requirement and thus will not be funded by ratepayers". This implies that to the degree that the cost of investment capital is not offset by other savings, the additional cost will reduce HONI's net income and shareholders' equity? Given that the shareholder of HONI is the Province of Ontario, and that the Pils attracted by HONI's net income as well as dividends are revenues used by the Province to pay down the electricity sector stranded debt, please either confirm that the net income reduction will be at the cost of Ontario taxpayers, or explain fully why this would not be the case.

**RESPONSE**

39. Hydro One does not expect the goodwill to be impaired.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #40 LIST 1**

**INTERROGATORY**

40. HONI states at Subsection 1.8.3 of the MAAD Application (Ex.ArT3/S1, pp. 14, 15) that the acquisition will be financed "through cash or its short-term commercial paper program ... backed by a syndicated bank line of credit maturing June 2017. Long-term financing will be through its Medium-Term Note program which is fully operational and valid until September 2013, and planned to be renewed thereafter." Please provide the forecast annual financing costs which HONI will incur to pay the premium of \$39.1 million, including explicitly HONI's assumption as to the term and interest rate. Please also identify the amount of cash which HONI intends to use for purposes of the transaction and clarify whether this cash was surplus to HONI's approved working capital allowance.

**RESPONSE**

40. The acquisition will be financed by Hydro One Inc. and any premium paid will be held at the HOI level and will not affect HONI or its rate payers. The only financing costs that will be attributable to HONI NP, would be related to those financing costs applicable to the already OEB approved net book value of the NPDI assets which will eventually be included in its rate application.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #41 LIST 1**

**INTERROGATORY**

41. The additional premium that is paid for NP is required by accounting standards to be reallocated to the assets acquired and any additional intangibles in order to minimize goodwill. Please provide a detailed explanation (including any documents generated by valuers and related accounting records) as to how this premium will be reallocated. How are HONI customers going to be protected to ensure that the premium applied to the assets will not ultimately end up as part of HONI's rate base?

**RESPONSE**

41. Please refer to Board Staff Interrogatory Response 1.

1                   **ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

2                                   **INTERROGATORY #42 LIST 1**

3  
4           **INTERROGATORY**

5  
6           42.    Please provide the terms of NP promissory note which will be redeemed as part of  
7                   this transaction, including any costs, such as any penalty or early redemption fee.  
8

9           **RESPONSE**

10  
11           42. A promissory note is not part of this transaction. The deposit delivered to the Vendor  
12               as part of this transaction (\$5M) was issued by HOI and as such the terms and  
13               conditions of any financing is not in the scope of this application. For further  
14               information on debt issues, please refer to VECC Interrogatory Response 4.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #43 LIST 1**

**INTERROGATORY**

43. What are the expected short and long-term financing rates assumed by HONI for the purchase of NP assets?

**RESPONSE**

43. Hydro One declines to provide the short and long term financing rates it has assumed in its economic modelling of the proposed transaction as this information is commercially sensitive and pertains to the analysis and business judgment Hydro One has used in its determination to proceed forward with the transaction. These are not matters that are relevant to this proceeding. The issue in this proceeding concerns whether the proposed transaction may have adverse effects to rate payers as compared to the status quo (i.e. no transaction) scenario. The requested information does not pertain to such matters.

For further information on financing rates, please refer to EBN Interrogatory Response 40.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #44 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T2/S1, p. 2

44. HONI is proposing to move its Dundas Field Business Centre functions from the City of Hamilton to the Town of Simcoe, over a 3- year period. What operations are currently undertaken at the Dundas Field Business Centre? What are the one-time forecast costs associated with the move (including any lease breakage penalties or termination fee)? Please provide a cost benefit analysis which compares the costs of HONI remaining in Hamilton versus the Town of Simcoe?

To the extent that any distribution repair and maintenance activities are currently being operated out of the Dundas Field Business Centre. and will be moved to the Town of Simcoe, please provide an analysis as to the impact of the move on HONI customers in the vicinity of the Dundas Field Business Centre. What is the anticipated impact on outage response times?

**RESPONSE**

44. Please refer to Board Staff Interrogatory Response 4.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #45 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T3/S1, p. 11, ss. 1.6.3

45. HONI states that HONI states that Section 6.6 of the Share Purchase Agreement (SPA) outlines an agreed capital expenditure budget and forecast for NP for 2013-2017. Schedule 6.6 of the SPA contains CAPEX figures for years 2013 - 2017, which vary between \$3.2 and 3.4 million. Please provide a breakdown for each of these years as to the capital expenditures anticipated for each of these years. Please also provide a Table which sets out the actual capital expenditures made by NP for the years 2007 - 2012 and its forecast capital expenditures for 2013 and its 2013 YTD actual expenditures.

**RESPONSE**

45. Please refer to EBN Interrogatory Response 13.



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #46 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T3/S1, p. 14, ss. 1.8.1

46. HONI states that it used the commercial value of underlying assets in determining the value of NP. Please explain the term "commercial value" as used by HONI in this statement, noting whether "commercial value" is considered to arise from business cash flows, the market for system component equipment, other considerations, or a combination. HONI states that it also considered other components of the financial statements as well as cash flow projections, an assessment of asset condition, and one-time costs of integration of potential efficiency gains. Please produce all studies, reports, business plans and financial analyses which HONI used for the purposes of valuing NP. Without limiting the generality of this question, please provide a copy of the cash flow projections, any asset condition reports, and any other documentation relied upon by HONI for the purposes of its valuation of NP.

**RESPONSE**

46. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #47 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T3/S1, p. 15, ss. 1.8.6

47. HONI states that certain environmental concerns were disclosed by NP and that liability for the properties in question will be transferred to HONI through the proposed share transfer. While the Schedule to the SPA which deals with environmental disclosure remains redacted, please confirm whether:

(a) These environmental liabilities had any impact on the price paid by HONI. If they did, please explain how and by how much.

(b) Whether any one potential environmental liability is currently estimated at more than \$500,000 (in which case please confirm the number of properties which exceed this threshold).

(c) Whether the aggregate of all potential environmental liabilities exceed \$1 million (in which case, what is the current estimate of the aggregate of the potential environmental liabilities which HONI will assume)?

(d) Is there any potential environmental liability disclosed to HONI as part of its due diligence which will impact the purchase price and if so, by how much?

(e) Will any potential environment liability, if actualized, result in costs to the County of Norfolk, and if so, how has the County's exposure been accounted for?

**RESPONSE**

47. HONI declines to provide the requested information. As is noted in the preamble to this Interrogatory Request, the Schedule to the SPA deals with information that has been determined by the Board to be confidential. Analysis and details regarding the content of the Schedule, including all of the subparts to this request, would result in the disclosure of commercially sensitive information that has been relied upon by HONI in the exercise of its business judgment. HONI views this information to be confidential and commercially sensitive and in any event information that is not relevant to the issues in this proceeding, namely, whether the present transaction results in adverse effects to rate-payers, relative to a status quo set of circumstances. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #48 LIST 1**

**INTERROGATORY**

HONI and NP: Reference: SPA, Schedule 2.6

48. The SPA provides that in the event the OEB does not approve the 1 percent negative rate rider, HONI shall pay NP \$490,000. Please provide the basis and calculations behind this amount. Please explain how, in this event, the sum of \$490,000 is intended to be utilized to benefit NP ratepayers. Does HONI intend to rate base all or any portion of this payment?

**RESPONSE**

48. For the calculation please refer to SEC Interrogatory Response 7. The sum of \$490,000 will indirectly benefit the NPDI ratepayers by providing funding to the local county. Hydro One does not intend to rate base any portion of this payment.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #49 LIST 1**

**INTERROGATORY**

HONI and NP: Reference: SPA, Schedule 3.1(N) – Contracts and Commitments.

49. These questions relate to all of the Contracts and Commitments set out in the unredacted version of Schedule 3.1 (N).

(a) Did HONI have an opportunity to review or was it apprised of the specifics of the contracts and commitments set out in Schedule 3.1 (N) of the SPA before making its bid for NP?

(b) As a result of HONI's review of the contracts and commitments set out in Schedule 3.1 (N), will HONI be seeking any adjustment in the purchase price? If so, by how much and in which direction? Please provide a detailed explanation of the reasons for any change?

(c) Following HONI's review of the contracts and commitments set out in Schedule 3.1 (N), has HONI determined that it will be assuming an obligation which it did not anticipate for the purposes of its valuation of the shares of NP which is material, being in the aggregate more than \$500,000 greater than the obligations that HONI anticipated? Please confirm the aggregate total amount of these unanticipated obligations.

**RESPONSE**

49. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #50 LIST 1**

**INTERROGATORY**

**HONI and NP:** Reference: SPA, Schedule 3.1(O) – Material Contracts. These questions relate to all of the Material Contracts set out in the unredacted version of Schedule 3.1(O).

- (a) Did HONI have an opportunity to review or was it apprised of the specifics of the material contracts set out in Schedule 3.1(O) of the SPA before making its bid for NP?
- (b) As a result of HONI's review of the material contracts set out in Schedule 3.1(O), will HONI be seeking any adjustment in the purchase price? If so, by how much and in which direction? Please provide a detailed explanation of the reasons for any change?
- (c) Following HONI's review of the material contracts set out in Schedule 3.1(O), has HONI determined that it will be assuming an obligation which it did not anticipate for the purposes of its valuation of the shares of NP which is material, being in the aggregate more than \$500,000 greater than the obligations that HONI anticipated? Please confirm the aggregate total amount of these unanticipated obligations.

**RESPONSE**

Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #51 LIST 1**

**INTERROGATORY**

HONI and NP: Reference: SPA, Schedule 3.1(X)- Permitted Encumbrances.

51. These questions relate to all of the Permitted Encumbrances set out in the unredacted version of Schedule 3.1 (X).

(a) Did HONI have an opportunity to review or was it apprised of the specifics of the permitted encumbrances set out in Schedule 3.1 (X) of the SPA before making its bid for NP?

(b) As a result of HONI's review of the permitted encumbrances set out in Schedule 3.1 (X), will HONI be seeking any adjustment in the purchase price? If so, by howmuch and in which direction? Please provide a detailed explanation of the reasons for any change?

(c) Following HONI's review of the permitted encumbrances set out in Schedule 3.1 (X), has HONI determined that it will be assuming an obligation which it did not anticipate for the purposes of its valuation of the shares of NP which is material, being in the aggregate more than \$500,000 greater than the obligations that HONI anticipated? Please confirm the aggregate total amount of theseunanticipated obligations.

**RESPONSE**

51. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #52 LIST 1**

**INTERROGATORY**

52. In addition to the responses to earlier questions, as a result of HONI's due diligence and/or review of relevant documentation and information.

(a) Are there any unanticipated liabilities (or asset shortages) which HONI will assume as a result of the acquisition which in the aggregate exceed \$500,000. If so, will the purchase price be adjusted and if so, by how much.

(b) Are there any unanticipated or unforecasted assets, accounts receivables or other benefits which will flow to HON I by reason of the transaction which were not included in its valuation of NP? If so, please provide details and values.

**RESPONSE**

52. Please refer to EBN Interrogatory Response 13.



**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #53 LIST 1**

**INTERROGATORY**

53. Please provide a high level summary of the other bids received for NP. The summary should include approximate total cash offer, nature, magnitude and duration of rate guarantees, if any, nature of any service quality guarantees, if any, and undertakings with regard to continuity of employment for NP employees.

**RESPONSE**

53. NPDI declines to provide the requested information. It does so on the grounds that the requested information is not relevant to the application before the Board. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #54 LIST 1**

**INTERROGATORY**

54. Please provide a copy of any HONI Board of Directors communication/approvals relative to the acquisition.

**RESPONSE**

54. Please refer to EBN Interrogatory Response 13.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #55 LIST 1**

**INTERROGATORY**

55. Please produce any document alerting HONI's shareholder (i.e., the Government of Ontario) to the proposed acquisition and specifically, the premium it proposes to pay and the financing costs associated with this premium. Please also produce any document which demonstrates that the Government of Ontario approves the acquisition of NP as proposed.

**RESPONSE**

55. The purchaser of Norfolk Power Inc. is Hydro One Inc., a non-regulated entity, not Hydro One Networks as the question appears to presume. As such, any documentation of communication or approvals between Hydro One Inc. and its shareholder does not form part of the OEB's "no-harm" test. The requested information is accordingly not being provided.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #56 LIST 1**

**INTERROGATORY**

56. Has the Government of Ontario sanctioned, authorized or approved the acquisition of NP by HONI?

**RESPONSE**

56. Please refer to EBN Interrogatory Response 55.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #57 LIST 1**

**INTERROGATORY**

Reference: Ex. AIT3/S1, p. 11 –

57. Is it HONI's view that it does not require the sanction, authorization or approval of the Government of Ontario for this transaction? If so, what are the triggers and thresholds, if any, which would obligate HONI to obtain such approvals (for e.g. the dollar size of the acquisition?)

**RESPONSE**

57. Please refer to EBN Interrogatory Response 55.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #58 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T3/S1, p. 11 –

58. Please provide a detailed explanation as to how the proposed acquisition of NP meets objectives 1 and 2 of Subsection 1 ( 1) of the Ontario Energy Board Act, 1998.

**RESPONSE**

58. Please refer to SEC Interrogatory Response 11.

**ESSEX / BLUEWATER / NIAGARA-ON-THE-LAKE (EBN)**

**INTERROGATORY #59 LIST 1**

**INTERROGATORY**

Reference: Ex. A/T3/S1, p. 11 –

HONI states at Subsection 1.6.2 of its MAAD Application that it had agreed to establish an advisory committee to provide a form of communication between HOI and the County of Norfolk. How often will this committee meet and to what extent will HONI be required to consider and implement any requests from the County of Norfolk? Will the advisory committee be paid? If yes, how much? How will the committee be selected?

**RESPONSE**

The Advisory Committee and its terms of reference will not be established prior to closing. The committee is expected to be made up of representatives from the County and Hydro One senior management.