

Hydro One Networks Inc.

7th Floor, South Tower
483 Bay Street
Toronto, Ontario M5G 2P5
www.HydroOne.com

Tel: (416) 345-5700
Fax: (416) 345-5870
Cell: (416) 258-9383
Susan.E.Frank@HydroOne.com



Susan Frank

Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

November 8, 2013

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON, M4P 1E4

Dear Ms. Walli:

EB-2013-0187/0196/0198 – Hydro One Networks Inc. MAAD S86 Application to Purchase Norfolk Power Inc. – Supplemental and Amended Application

I am attaching two (2) copies of Hydro One Inc.'s MAAD supplemental and amended application for the acquisition of Norfolk Power Inc.

The Ontario Energy Board in Procedural Order No. 6 to this application, requested the Applicants to file an amended application reflecting the relief now sought and to clearly indicate changes from the original pre-filed evidence.

Please find attached the following pieces of evidence:

- Supplemental Evidence to explain the amendments of Hydro One
- Amended Exhibits to the Application:
 - Exhibit A, Tab 1, Schedule 1
 - Exhibit A, Tab 2, Schedule 1
 - Exhibit A, Tab 3, Schedule 1
- Amended interrogatory response to Board Staff IR 7.1 (Exhibit I, Tab 1, Schedule 7)

For ease in updating the record, we have reprinted additional pages where content has shifted due to re-pagination. Changes are identified with a black line beside the evidence impacted.

An electronic copy has been filed using the Board's Regulatory Electronic Submission System and a receipt of which is enclosed.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

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

SUPPLEMENTAL EVIDENCE

Introduction

HONI is filing this additional evidence as a supplement to its Application in response to the Board's Procedural Order No. 6 dated November 5, 2013.

Background

In HONI's response to OEB Staff Interrogatory Request 7.1, potential timing and organizational structure considerations were described as affecting the nature of the relief sought in the applications before the Board. More specifically, the considerations relate to the steps underway and which are required to integrate the business affairs of NPDI with HONI, as well as similar system integration steps that could arise with other transactions being pursued by Hydro One. It is necessary for HONI and NPDI business systems integration to be completed concurrent with the asset transfer. At this stage, the completion timing is anticipated to occur within a few months from the issuance of Board approvals for the share purchase. Given this, a similar transitional period would apply to the NPDI licence asset transfer. The length of this time period was also thought to be affected by the need for other system integration exercises arising from other potential acquisitions (e.g. developing automation techniques to make data transfers more effective). It was for these reasons that HONI proposed to defer the regulatory approvals for the NPDI asset transfer and corresponding NPDI licence cancellation relief such that these steps would occur at a later date.

Clarification of the Approach

The asset transfer and licence cancellation steps involving NPDI remain essential to the overall completion of the transaction. The NPDI transaction effectively has two steps. The first step involves Board authorization for Hydro One Inc. to acquire the shares of NPI and authorization

1 to implement the five year rate freeze contemplated in the rate rider. The effect of these
2 authorizations will be immediate in terms of allowing the commercial transaction to close as well
3 as allowing the timely implementation of the rate reduction and rate freeze. The second step
4 involves authorization to transfer the NPDI distribution system and consequent cancellation of
5 the NPDI distribution licence. For the reasons described above, implementation of this relief can
6 only occur following completion of the necessary business system integration tasks.

7
8 The concern now recognized with a deferral of the approval of the Step 2 requirements (as
9 contemplated in HONI's Response to OEB Staff Interrogatory Request 7.1) is that deferral of the
10 approval steps will cause undue and unnecessary regulatory and commercial uncertainty to the
11 transacting parties. In HONI's view, a more practicable approach to an approval bifurcation, is
12 having the Board include a transitional period as a condition to the original sought relief. This
13 will allow the integration steps to be completed and for the asset transfer and licence cancellation
14 steps to then occur within the transitional period. Importantly, this approach is viewed by the
15 parties as providing greater regulatory and transactional certainty.

16 17 **Compliance with ARC During the Transitional Period**

18
19 HONI and NPDI are mindful of the Affiliate Relationships Code (ARC) requirements which
20 may apply in the post-acquisition, pre-asset transfer transitional period. HONI and NPDI will
21 comply with any ARC requirements including the execution of applicable services agreements
22 that pertain to any shared services.

23 24 **Internal Organizational Structuring Following Asset Transfer**

25
26 In its response to OEB Staff Interrogatory Request 7.1, HONI also indicated that internal
27 organizational changes were being considered in respect of the transaction. The specific changes
28 that are now being sought relate to the post-asset transfer (i.e. step 2) time period. Following the
29 NPDI asset transfer, HONI will have its affairs arranged so that a new distribution business unit
30 is established which will have responsibility for the acquired NPDI distribution business. While

1 the day to day operational affairs of NPDI would be integrated into those of HONI, the new
2 business unit would be distinct from HONI's existing distribution business. Accounting and
3 reporting activities would be segmented and would allow the new business unit to have
4 responsibilities for what is now NPDI's regulatory and rate making activities separate and
5 distinct from HONI's existing distribution business. This proposed structure will allow rate
6 administration and regulatory reporting during the five year rate freeze period for NPDI's
7 customers to occur in a timely, transparent and efficient manner.

8
9 In order to accommodate this change, HONI is requesting that the Board either amend its
10 existing distribution licence to reflect the fact that the NPDI service territory will be administered
11 separately from HONI's other distribution service areas, or alternatively, that the NPDI
12 distribution licence is cancelled and a new licence is issued to HONI and limited to the NPDI
13 service area. Either approach would be acceptable to HONI. Implementation of either step
14 would occur concurrent with the, and thus form part of, the step 2 implementation activities.

15
16 The administrative separation and licence segregation of the NPDI business unit is intended to be
17 consistent with the manner in which HONI has organized its affairs for other operating divisions,
18 such as the Hydro One transmission and distribution businesses.

19
20 **Implications to Sought Relief**

21
22 Based on the foregoing, HONI is no longer seeking amendments to the relief described in its
23 Response to OEB Staff Interrogatory Request 7.1. A revised response to this Request is attached
24 to this filing.

25
26 The relief HONI and NPDI seek is as originally filed with the following clarifications.
27 Authorization for leave to transfer the NPDI distribution business to HONI is requested such that

1 the transfer may occur within an 18 month time period from the approval date.¹ A similar
2 transition period is sought as a condition for cancellation of the NPDI distribution licence
3 approval. HONI proposes to notify the Board in writing of the effective date of the transfer and
4 cancellation of NPDI's distribution licence. Additional relief is sought with respect to two
5 matters. The first concerns the proposed amendment to the HONI distribution licence to reflect
6 the stand-alone business unit structure. Alternatively, HONI requests the issuance of a separate
7 distribution licence concurrent with cancellation of the NPDI distribution licence and which the
8 new licence would be limited to the ongoing operation and administration of the service territory
9 currently served by NPDI. The second matter concerns the transfer of NPDI's rate order then in
10 effect at the time NPDI's distribution licence is cancelled. The rate order to be transferred would
11 include the rate rider NPDI is seeking to implement upon approval of these applications and as
12 part of the Step 1 activities.

13
14 During the contemplated transition period, NPDI will continue to operate its regulated
15 distribution business and NPDI and HONI will continue to carry out all necessary system
16 integration activities. NPDI and HONI will comply with any applicable ARC requirements.

17
18 HONI submits that none of these changes will have any adverse rate impact to NPDI or HONI's
19 distribution customers. Specifically, none of the changes affect the proposed rate reduction and
20 five year rate freeze period as described in the applications.

¹ 18 months is the usual term allowed by the Board for an applicant to complete the transactions approved in a section 86 proceeding. See, for example, Decision issued December 15, 2008 in EB-2008-0335, Decision and Order issued January 11, 2005 in EB-2004-0504, Decision and Order issued June 20, 2005 in EB-2005-0256, Decision and Order issued June 24, 2005 in EB-2005-0255, Decision and Order issued September 19, 2005 in EB-2005-0254.

1 **AND IN THE MATTER OF** an application made by Hydro One Networks Inc. seeking an
2 order to issue a separate distribution licence made pursuant to section 60 of the *Ontario Energy*
3 *Board Act, 1998* to serve the customers of the former Norfolk Power Distribution Inc.

4
5 **APPLICATION**
6

7 The Applicant under section 86(2)(b) of the *Ontario Energy Board Act, 1998*, is Hydro One Inc.
8 (“HOI”), an Ontario corporation with its head office in the City of Toronto. HOI is wholly
9 owned by the Province of Ontario and is the parent company of Hydro One Networks Inc.
10 (“HONI”), Hydro One Brampton Networks Inc., Hydro One Remote Communities Inc. and
11 Hydro One Telecom Inc.

12
13 The Applicant under section 86(1)(a) of the *Ontario Energy Board Act, 1998*, is Norfolk Power
14 Distribution Inc. (“NPDI”) a wholly owned subsidiary, at the date of this application, of Norfolk
15 Power Inc. (“NPI”), NPI is a holding company, currently wholly-owned by The Corporation of
16 the County of Norfolk (“the County”). Upon closing of the transaction, NPDI will be wound up
17 and its assets transferred to HONI.

18
19 NPDI’s distribution system serves approximately 19,000 Residential and General Service
20 customers in the NPDI service territory (see **Exhibit A, Tab 3, Schedule 1, Section 1.3.3** for
21 further customer details).

22
23 HONI’s distribution system serves approximately 1.2 million customers in its service territory
24 (See **Exhibit A, Tab 3, Schedule 1, Section 1.3.3** for further customer details).
25

1
2 **1.0 OVERVIEW OF APPLICATION**
3

4 On April 2, 2013, the County (as Vendor) and HOI (as Purchaser) entered into a share purchase
5 agreement (the “Agreement”), whereby the Vendor agreed to sell, and the Purchaser agreed to
6 purchase, all of the issued and outstanding shares of NPI (the “Shares”). The purchase price is
7 \$93 million, comprising a cash payment of approximately \$66 million for the shares and the
8 assumption of NPI’s long-term debt of approximately \$27 million. The Agreement contemplates
9 the transaction closing 30 days following the Parties’ receipt of all Required Approvals,
10 including Ontario Energy Board (“the Board” or “OEB”) approval of this application under
11 sections 86(2) and 86(1) of the *Ontario Energy Board Act, 1998*.

12
13 The Agreement (see **Exhibit A, Tab 3, Schedule 1, Attachment 6**) contemplates the following
14 items in addition to the sale of the Shares:

- 15 (a) The purchase price is subject to adjustment within 90 days following closing, for Working
16 Capital, Net Fixed Assets, and Long Term Debt, as defined in the Agreement;
- 17 (b) As part of this Application, HONI will apply to the OEB for approval to include a negative
18 rate rider to NPDI’s electricity rates (effective May 1, 2013) to reduce base delivery
19 distribution rates by one percent (1%) of the EB-2011-0272 approved 2012 rates, and to have
20 such reduced rates apply for the next five years (see **Exhibit A, Tab 2, Schedule 1, Section**
21 **2** for further detail). Assuming such approval is obtained, it is HONI’s current expectation
22 that NPDI rates will be harmonized with HONI rates at the earliest rebasing opportunity,
23 currently expected to be in 2020 or some other option as discussed Exhibit A, Tab 2,
24 Schedule 1, Section 3,
- 25 (c) HOI or an affiliate shall offer all employees of NPI and NPDI continued employment; and
26 (d) HOI and The County shall establish an advisory committee, which shall include at least three
27 representatives from the County, to monitor and provide input with respect to the provision
28 of distribution services in Norfolk County.

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2.0 OEB APPROVAL REQUESTS

2.1 Ontario Energy Board Act, Sections 86(2)(b), 86(1)(a), 77(5) and 74 approvals

- HOI is applying to the Board pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998* (“the Act”), seeking leave to acquire all the issued and outstanding shares of NPI from the County.
- NPDI is applying pursuant to section 86(1)(a) of the *Ontario Energy Board Act, 1998*, to dispose of its distribution system to HONI.
- If the Board grants leave for NPDI to dispose of its distribution system to HONI, after closing and upon integration of the proposed transaction, NPDI requests, pursuant to section 77(5) of the Act, that its electricity distribution licence be cancelled. HONI requests, pursuant to section 74 of the Act, that its Distribution licence be amended such that Appendix B, Tab 1 of its licence includes the portion of Norfolk County formerly served by NPDI and that Appendix B, Tab 4 be amended to exclude the portion of Norfolk County formerly served by NPDI. Alternatively, the portion of Norfolk County formerly served by NPDI would be transferred to the new distribution licence established pursuant to section 60 of the Act and defined as its distribution service territory.
- Upon completion of integration, 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.

- 1 • The net book value of the assets that will be transferred to HONI’s rate base is approximately
2 \$53.9 million.

3
4 **2.2 Other Approvals Sought**

- 5
6 • Approval to include a rate rider in the 2013 OEB-approved rate schedule of NPDI to give
7 effect to reducing the approved 2012 base delivery distribution rates (EB-2011-0272) by one
8 per cent (1%). See **Exhibit A, Tab 2, Schedule 1, Section 2.0** for further information.

- 9
10 • Approval to defer the rate rebasing of HONI NP (the former NPDI) for five years from the
11 date of closing the proposed transaction, consistent with the Report of the Board titled “Rate-
12 making Associated with Distributor Consolidation” issued July 23, 2007. At the end of the
13 five-year period, HONI Distribution expects to apply under the Board’s Incentive Regulation
14 Mechanism (“IRM”) to adjust HONI NP’s rates until the earliest opportunity to rebase its
15 rates, currently expected in 2020. See **Exhibit A, Tab 2, Schedule 1, Section 3.0** for further
16 information.

- 17
18 • Approval to continue the “Application for Tax Changes” rate rider currently approved for
19 NPDI until HONI NP’s rates are rebased, and to true-up that balance at the next rebasing.
20 See **Exhibit A, Tab 2, Schedule 1, Section 4.0** for further information.

- 21
22 • Approval to utilize USGAAP for NPDI financial reporting.

1 The proposed transaction also protects HONI Distribution customers. HONI Distribution plans
2 to file a five-year cost of service rate application in 2014 for rates effective 2015 to 2019 under
3 the Board's Custom Incentive Regulation regime. That application will be based on HONI
4 Distribution's existing customer base, i.e., it will not include any capital or OM&A costs
5 associated with serving, maintaining or operating customers within the NPDI service territory.
6 For reporting under the Board's Reporting and Record Keeping Requirements ("RRR")
7 purposes, HONI Distribution will continue to report on its legacy business excluding NPDI and
8 if applicable, any other future acquisitions. There will be no adverse impact on HONI
9 Distribution's existing customers, operationally or through rate impacts. In the long term,
10 because fixed costs of operations will be spread over a wider customer base, HONI
11 Distribution's customers will see a small price benefit.

12
13 HOI has agreed to establish an Advisory Committee to provide a forum for communication
14 between HOI and the county. The county may appoint three representatives to the committee,
15 and HOI will include staff representation from the same geographic district as covered by
16 NPDI's current distribution licence.

17
18 HOI has guaranteed a local presence within NPI's office on Victoria St. in the Town of Simcoe
19 for a minimum of three years and will move its Dundas Field Business Centre functions from the
20 City of Hamilton to the Town of Simcoe over a three-year period.

21
22 NPDI customers will benefit in the long term from access to the greater depth of expertise of
23 HONI in the management and maintenance of the distribution system and in the economies of
24 scale that HONI can realize due to its size.

25
26 HOI has committed to a capital expenditure budget and forecast in the Share Purchase
27 Agreement that will allow it to maintain or improve reliability from the existing performance of
28 NPDI.

1 NPDI customers will have access to the same level of customer service and billing systems that
2 HONI Distribution's existing customers currently receive.

3
4 Upon integration, HONI will have accountability for planning for the entire county. Prior to the
5 transaction, HONI Distribution served 14,000 customers within Norfolk County. After the
6 transaction, HONI will serve all the customers of the county and will ensure that there is
7 adequate supply for all of Norfolk County.

8 9 **1.2 Promotion of Economic Efficiency and Cost Effectiveness**

10
11 The completion of this transaction provides an example where significant operational savings
12 can be achieved by combining an embedded LDC with HONI. HONI will leverage its existing
13 back-office systems and processes (e.g. IT, accounting, and customer service) to obtain
14 operational and capital synergies in serving the customers of NPDI.

15
16 During the period after closing of the transaction and prior to full integration, service level
17 agreements in compliance with the OEB's *Affiliate Relationships Code for Electricity*
18 *Distributors and Transmitters* will be drafted between NPDI and Hydro One affiliates.

19
20 HONI will keep separate financial records for the Norfolk Distribution Business (HONI NP).
21 Upon approval NPDI's assets will be transferred to HONI and tracked as a separate business unit
22 within HONI. OM&A costs will be charged to the Norfolk Distribution Business using fully
23 allocated pricing, similar to what is now done to record costs to HONI's Transmission and
24 Distribution businesses. Common costs will be allocated to the Norfolk Distribution Business
25 consistent with HONI's current common corporate cost allocation model.

26
27

1 As HONI is facing significant demographic challenges and upcoming retirements, HONI will be
2 able to provide job security for all NPDI staff, and will utilize both its existing staff and those
3 acquired from NPDI to meet the needs of all its customers. As HONI will now be planning the
4 electricity needs for the entire county, it will be able to more efficiently manage both the
5 operating and capital costs associated with serving customers across the county. HONI
6 Distribution's existing Simcoe Operating Centre is located less than 2 km from NPDI's
7 Operating Centre located at 70 Victoria Street. HONI will consolidate operations between these
8 two facilities over the next three years and transfer new work to the existing NPDI back-office
9 and administrative staff, resulting in more efficient staff utilization. Upon closing of this
10 transaction, NPDI staff will also be eligible to apply for vacancies within HONI, which will
11 allow NPDI staff to fill vacancies across HONI in jobs that match their skill set and experience.
12 HONI's businesses will gain operating and capital efficiencies while maintaining employment
13 opportunities for all the acquired staff of NPDI.

14 .
15 **1.3 Incremental Transaction Costs**
16

17 Both parties to the transaction will have incurred some incremental costs associated with the
18 transaction. These include costs incurred for due diligence, to negotiate and complete the
19 transaction, costs associated with all necessary regulatory approvals, the integration costs to
20 transfer the customers into HONI Distribution's customer and outage management systems, and
21 initial costs to bring equipment up to HONI standards. These costs will be financed through
22 productivity gains associated with the transaction and will not be included in HONI
23 Distribution's revenue requirement and thus will not be funded by ratepayers
24

25 **1.4 The "No Harm" Test**
26

27 For the reasons addressed in the preceding sections, both NPDI and HONI submit that this
28 transaction is consistent with the "no harm" test as outlined in the RP-2005-0018/EB-2005-0234/

1 EB-2005-0254/EB-2005-0257 Decision. The application lends itself to the objectives of the
2 Board as set out in section 1 of the Act.

3 4 **2.0 HYDRO ONE NP CUSTOMER RATES AND BILL IMPACT**

5
6 As per the Share Purchase Agreement, NPDI proposes to include a rate rider to the 2013 OEB-
7 approved rate schedule of NPDI's distribution delivery rates (effective May 1, 2013, EB-2012-
8 0151) to give effect to a 1% reduction to the approved 2012 (EB-2011-0272) base delivery rates,
9 then have such rates frozen and the rider applied for five years from the date of closing the
10 proposed transaction.

11
12 Both Fixed and Volumetric rate riders will continue to be included in NPDI rate schedules for
13 rates effective May 1, 2013 (as approved per their IRM application EB-2012-0151). Detailed
14 calculations of the rate riders can be found in **Exhibit A, Tab 2, Schedule, 1, Appendix A.**

15
16 HONI expects to realize operating synergies once it integrates the operations of NPDI into
17 HONI. The net savings, after considering transaction and integration costs will more than offset
18 the impact of offering a 1% reduction relative to 2012 base distribution delivery rates (as set out
19 in EB-2011-0272) for five years. Examples of cost savings include reduced spending for
20 vehicles, Information Systems (hardware and software), office equipment and furniture,
21 SCADA, communications equipment, and reduced operating costs for central functions and
22 services.

23 24 **2.1 Bill Impact**

25
26 Below are the impacts, for customers in the NPDI service territory, of the Proposed Transaction
27 on the total bill as well as distribution base rates, in order to give effect to the proposed negative
28 rate rider. The impacts are based on NPDI's approved rates effective May 1, 2013 applied to the

1 average consumption levels for each rate class used by NPDI in calculating bill impacts as part
2 of its 2013 IRM application, and assuming the proposed rate rider is approved. The rate
3 reductions are slightly greater than 1%, given that 2013 approved rates are higher than 2012
4 approved rates:

	Change in Base Distribution Rates (%)	Change in Total Bill (%)
Residential	-1.41%	-0.42%
General Service less than 50 kW	-1.62%	-0.43%
General Service 50 to 4,999 kW	-1.45%	-0.18%
Unmetered Scattered Load	-1.33%	-0.37%
Sentinel Lighting	-1.42%	-0.74%
Street Lighting	-1.49%	-0.50%
Embedded Distributors	-1.47%	-5.45%

5 Detailed calculations of the bill impacts can be found in **Exhibit A, Tab 3, Schedule 1,**
6 **Attachment 14.**

7

8 **2.2 Rate Schedules**

9

10 The approved current rate schedules for HONI Distribution, effective January 1, 2013 (EB-2012-
11 0136) are attached as **Exhibit A, Tab 2, Schedule 1, Appendix B.** The approved rate schedules
12 for NPDI effective May 1, 2012 (EB-2011-0272) are attached as **Exhibit A, Tab 2, Schedule 1,**
13 **Appendix C.** The Board Decision (dated April 4, 2013) approving NPDI's 2013 rates, effective
14 May 1, 2013 (EB-2012-0151) is attached as **Exhibit A, Tab 2, Schedule 1, Appendix D.** The
15 proposed rate schedules, including the requested rate rider, for the area currently served by
16 NPDI, effective after closing, are attached as **Exhibit A, Tab 2, Schedule 1, Appendix E.**

17

18

1 **3.0 TIMING OF REBASING**

2
3 **3.1 Rate Rebasing**

4
5 HONI proposes to defer the rate rebasing of the former NPDI (to be known as “HONI NP”) to
6 the earliest opportunity after 5 years from the date of closing the Proposed Transaction. This
7 was an important factor in HONI’s consideration of the merits of the Proposed Transaction. The
8 deferral of rebasing HONI NP will give HONI time to retain savings to offset costs while
9 protecting the interests of consumers across both existing service areas. This is consistent with
10 the Board’s policy determined in the Report of the Board titled, “Rate-making Associated with
11 Distributor Consolidation”.

12
13 At the end of the five-year rate freeze period in 2019, HONI expects to apply the Board’s
14 Incentive Regulation Mechanism to adjust HONI NP rates until the earliest opportunity to rebase
15 their rates, currently expected in 2020.

16
17 **3.2 Rate Harmonization**

18
19 Following the requested five-year freeze of NPDI customer’s rates, HONI plans to file a rate
20 application to set rates for HONI NP. HONI’s proposed approach will be consistent with OEB
21 rate making principles (e.g. fair, practical, clear, rate stability and effective cost recovery of
22 revenue requirement) and will promote consolidation of the industry by providing an approach
23 that mitigates the bill impacts to customers.

24
25 As industry rates evolve over the next five plus years, HONI expects to file an application in line
26 with the principles noted above. The rate application at that time may propose to: (i) create new
27 acquired customer rate classes; (ii) move acquired customers to an appropriate HONI rate class
28 existing at that time; or, (iii) some other option. It is not possible to say which of these

1 approaches will be adopted since it will depend on the situation at the time of setting new rates
2 for Norfolk. Some considerations in deciding on rate strategies include the number and
3 characteristic of the acquired utilities, customer growth in the acquired utilities and potential
4 development within the electricity regulatory arena in Ontario.

5
6 HONI will have also maintained the ability to have a separate revenue requirement for the
7 Norfolk Distribution Business in 2019, by, as mentioned previously, separately tracking all costs
8 associated with this business.

9
10 Whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate
11 applications will be subject to OEB approval and will satisfy the Board's "Filing Requirements
12 for Electricity Distribution Rate Applications".

13
14 Until the end of the five year freeze period, HONI proposes to retain two separate rate schedules
15 for customers in each of the service areas – that is those currently served by HONI Distribution
16 and those currently served by NPDI.

17 18 **4.0 REGULATORY ASSETS AND RATE RIDERS**

19
20 NPDI currently has an approved Rate Rider for "Application of Tax Change", effective until
21 April 30, 2014. The rider is for the sharing of the impact of currently known legislated tax
22 changes, as applied to the tax level reflected in the Board Approved base rates. Since there will
23 be no rebasing of NPDI rates in the five-year rate freeze period, HONI proposes to continue to
24 apply this rider until NPDI rates are rebased, and to true-up the balance at the next rate rebasing.

25
26 NPDI's current rate rider for the recovery of Lost Revenue Adjustment Mechanism ("LRAM") is
27 effective until April 30, 2014. This rate rider will recover the lost revenue incurred in 2011 as a
28 result of CDM programs implemented between 2005 and 2010, as well as the lost revenue from

1 2011 CDM activities between January 1, 2011 and December 31, 2011. HONI requests to
2 continue to track variances in Board-approved versus actual revenue resulting from CDM
3 initiatives from 2013 to the time of HONI NP rebasing, in the LRAM account.

4 5 **5.0 USGAAP**

6
7 HONI Transmission received OEB approval to utilize US Generally Accepted Accounting
8 Principles (“US GAAP”) as its approved framework for rate setting, regulatory accounting and
9 regulatory reporting in the Decision with Reasons in EB-2011-0268 (issued on November 23,
10 2011). HONI Distribution also received OEB approval for the same in EB-2011-0399 (issued
11 on March 23, 2012). The latter Decision noted “as the Board has found that Hydro One
12 transmission rates should be set on the basis of USGAAP, it would generally be inefficient to
13 require the distribution utility to use MIFRS for regulatory reporting and rate making”.

14
15 NPDI’s financial statements are currently prepared under Canadian Generally Accepted
16 Accounting Principles (“CGAAP”) and are compliant with the OEB letter (July 27, 2012)
17 requiring all LDCs retaining CGAAP to adopt IFRS-compliant depreciation policy and an IFRS-
18 compliant cost capitalization policy.

19
20 HONI requests approval to utilize USGAAP for accounting purposes in relation to HONI NP.
21 Approval to use USGAAP for HONI NP will simplify any future rate integration; will avoid
22 incremental costs or productivity losses by simplifying processes and avoiding the need for
23 workarounds; and will facilitate HOI’s consolidated reporting for securities filing purposes
24 (possibly including future U.S. Securities and Exchange Commission), thus avoiding incremental
25 costs and/or reduced productivity. It would be inefficient and costly to maintain different
26 accounting regimes for divisions within HONI.

1 **6.0 COMPLIANCE MATTERS**

2
3 Pending approval of this transaction, and after notification to the Board that integration is
4 completed, the distribution business activities of NPDI, currently under Electricity Distribution
5 Licence ED-2002-0521, will either become subject to HONI's Electricity Distribution Licence
6 ED-2003-0043, which licence will be amended to include this service territory or alternatively be
7 transferred to the new distribution licence. The customers, assets, systems, processes and
8 operations of NPDI will be fully integrated into HONI Distribution's business activities.

9
10 HONI confirms that it is materially in compliance with its regulatory requirements, subject to
11 any approved regulatory exemptions. The list of specific code requirements from which HONI
12 Distribution has been exempted can be found in Schedule 3 of HONI's Electricity Distribution
13 Licence.

14
15 NPDI has confirmed that as of the date of the application, to the best of its knowledge, it is
16 currently in compliance with all licence and code requirements per its Electricity Distribution
17 licence (EB-2002-0521). It is expected that following the approval and completion of the
18 transaction and after the integration of the NPDI distribution business activities into those of
19 HONI, HONI Distribution will continue to be materially compliant with all applicable
20 Legislation, Regulations, Market Rules, other Licence Conditions and Codes.

21
22 HONI's compliance policy will continue to require that confirmed instances of non-compliance
23 be disclosed and mitigated as necessary including applications for exemptions from such
24 requirements, if necessary. Any potential instances of non-compliance associated with NPDI's
25 distribution business activities will be addressed during the integration process. For example, the
26 non-electricity billing services currently being provided by NPDI will be transferred to Hydro
27 One Telecom Inc. This transfer will be implemented after a short transition period in compliance
28 with Section 71(1) of *Ontario Energy Board Act, 1998*. In any case, given the small customer

1 base of NPDI (when compared to HONI Distribution), the integration is not expected to have any
2 material impact on the current compliance status of HONI Distribution, even during the
3 transition period.

4 5 **7.0 SUMMARY**

6
7 HOI requests a written hearing for this proceeding and submits that the evidence supports
8 approval of the application for the following reasons:

- 9 • The application has no adverse impact on the price, adequacy, reliability and quality of
10 service of NPDI or of HONI Distribution;
- 11 • The customers of both local distribution companies will be held harmless;
- 12 • This transaction was completed on a commercial basis between a willing seller and willing
13 buyer. It is a demonstration of the type of benefits that can be realized from consolidation
14 within the electric distribution sector in Ontario and is consistent with the findings of the
15 Sector Review Panel. This transaction eliminates the duplication of effort between HONI
16 and NPDI and results in a single electric distribution service provider for all of Norfolk
17 County, which will ultimately lead to a lower cost of service across the HONI and NPDI
18 service areas and will create downward pressure on electricity distribution rates.

Ontario Energy Board

Application form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*



PART I: GENERAL INFORMATION

1.1 Nature of Applications:

(A) under section 86(2)(b), the applicant is Hydro One Inc. (“HOI”) and the other party is The Corporation of the County of Norfolk (the “County”), regarding the acquisition by HOI of all of the shares of Norfolk Power Inc. (“NPI”) of the parent company of the distributor Norfolk Power Distribution Inc. (“NPDI”); and

If the Board grants approval to section 86(2)(b) as stated above, upon filing notice to the Board of completion of integration of Norfolk Power Distribution Inc. operations into Hydro One Networks Inc., Hydro One further requests:

(B) under section 86(1)(a) regarding the transfer, *following* the transaction described in (A), of the assets and liabilities of the electricity distribution business from NPDI (applicant) to Hydro One Networks Inc. (other party). If these applications are approved, the distribution system assets of NPDI will move from control by the County to direct ownership by HONI

1.1.1 Application Type

- For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))
- For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))
- For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))
- For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))
- For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

1.1.2 Notice under section 80 or 81 of the Act

Is a notice of proposal required under section 80 or 81 of the Act?

Yes

No

If yes, the applicant must also file a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" with the Board.

1.2 Identification of the Parties

1.2.1 Name of Applicant

Legal name of the applicant: Hydro One Inc.

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Engelberg	Michael	
Other	<input type="checkbox"/>			Title/Position		
				Assistant General Counsel		

Address of Head Office: 483 Bay Street

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
(416) 345-6305	(416) 345-6972	mengelberg@HydroOne.com	

Legal name of the applicant in (B): Norfolk Power Distribution Inc.

The transaction which is the subject of the application by NPDI under s. 86(1) occurs following the acquisition of NPDI's parent by HOI and is contingent on approval of the application by Hydro One Inc. under s.86(2). The address given for the applicant NPDI below, is the address of Hydro One Networks Inc. to which all notices should be directed for NPDI as applicant. However, NPDI, the currently licenced distributor is represented by J. Mark Rodger of the law firm of Borden Ladner Gervais and he should be considered the primary contact for NPDI with respect to the application under s. 86(2). With respect to the s.86(1) application, the primary contact named below is an employee of NPDI and is available at the phone and fax numbers indicated.

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	McEachran	Jody	
Other	<input type="checkbox"/>			Title/Position		
				Acting Chief Executive Officer		

Address of Head Office: 483 Bay Street

City Toronto	Province/State Ontario	Country Canada	Postal/Zip Code M5G 2P5
Phone Number (519) 426-4440 X 2264	Fax Number (519) 426-4514	E-mail Address jmceachran@norfolkpower.on.ca	

Address of Primary Contact for NPDI in relation to s. 86(1) application: Borden Ladner Gervais LLP, Scotia Plaza, 40 King St. W.

Mr. <input checked="" type="checkbox"/>	Mrs. <input type="checkbox"/>	Last Name Rodger	First Name Mark	Initial
Miss <input type="checkbox"/>	Ms. <input type="checkbox"/>	Title/Position Counsel		
Other <input type="checkbox"/>				
City Toronto	Province/State Ontario	Country Canada	Postal/Zip Code M5H 3Y4	
Phone Number (416) 367-6190	Fax Number (416) 361-7088	E-mail Address mrodger@blg.com		

Other Party to the Transaction (if more than one attach a list)

Name of the other party: The Corporation of Norfolk County

Name of Primary Contact:

Mr. <input checked="" type="checkbox"/>	Mrs. <input type="checkbox"/>	Last Name Travale	First Name Dennis	Initial
Miss <input type="checkbox"/>	Ms. <input type="checkbox"/>	Title/Position Mayor		
Other <input type="checkbox"/>				

Address of Head Office: 50 Colborne Street South

City Simcoe	Province/State Ontario	Country Canada	Postal/Zip Code N3Y 4N5
Phone Number (519) 426-5870 x1220	Fax Number (519) 426-8573	E-mail Address Dennis.Travale@norfolkcounty.ca	

Name of the other party: Hydro One Networks Inc.

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Waller	Jamie	
Other	<input type="checkbox"/>			Title/Position		
				Sr. Regulatory Coordinator		

Address of Head Office: 483 Bay Street

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
(416) 345-6948	(416) 345-5866	regulatory@HydroOne.com	

1.3 Description of the Business of Each of the Parties

- 1.3.1 Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity (“Electricity Sector Affiliates”).

Norfolk Power Distribution Inc. (“NPDI”)

NPDI owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution Licence ED-2002-0521 (a copy of which is provided in **Exhibit A, Tab 3, Schedule 1 Attachment 1**). NPDI also provides water and waste water billing and metering services to Norfolk County.

NPDI is, at the date of this application, a wholly-owned subsidiary of Norfolk Power Inc. (“NPI”), a holding company, itself wholly-owned by Norfolk County.

Hydro One Inc. (“HOI”)

Hydro One Inc. is wholly-owned by the Province of Ontario and is the parent company of Hydro One Networks Inc., Hydro One Brampton Networks Inc., Hydro One Remote Communities Inc. and Hydro One Telecom Inc.

Hydro One Networks Inc. (“HONI”)

Hydro One Networks Inc. is a wholly-owned subsidiary of HOI and is the largest transmitter and distributor of electricity in Ontario. HONI’s distribution company serves approximately 1.2 million customers. Customers include local distribution companies, customers with load exceeding 5 MW, and rural and urban customers. Distribution assets as at December 31, 2012, had a net book value of \$5.3 billion. HONI Distribution owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution Licence ED-2003-0043 (a copy of which is provided in **Exhibit A, Tab 3, Schedule 1, Attachment 2**). HONI also has a regulated transmission business owning 97% of transmission in Ontario with almost 30,000 km of high-voltage transmission lines.

Hydro One Brampton Networks Inc.

Hydro One Brampton Networks Inc. is HOI’s urban distribution company serving customers in the GTA.

Hydro One Remote Communities Inc.

Hydro One Remote Communities Inc. operates a small, regulated generation and distribution system serving remote communities across Northern Ontario that are not connected to Ontario’s electricity grid.

HOI’s other business segment is represented primarily by the operations of **Hydro One Telecom Inc. (“HOT”)**. This subsidiary markets dark and lit fibre-optic capacity to telecommunications carriers and commercial customers with broadband network requirements. The assets of this segment constituted approximately \$600 million of HOI’s total assets of \$21 billion as at December 31, 2012.

Norfolk Energy Inc. (“NEI”), a provider of dark fibre telecommunications services, has assets that

will be subsumed within HOT. While this affiliate transaction does not require OEB approval under the MAAD requirements, information related to it is provided in order to present a complete picture of the entire transaction through the sale-purchase of NPI shares by HOI.

1.3.2 Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.

Norfolk Power Distribution Inc.

As defined in Schedule 1 to its Distribution Licence, NPDI serves the geographical territory described as follows (the "NPDI Service Territory"):

- (a) the westerly half of the former City of Nanticoke within the Municipality of the Town of Norfolk as of December 31, 2000;
- (b) the former Town of Delhi (in the former Township of Delhi) within the Municipality of the Town of Norfolk as of December 31, 2000;
- (c) the former Town of Port Rowan (in the former Township of Norfolk) within the Municipality of the Town of Norfolk as of December 31, 2000; and Villages of Long Point Bay, Phase 7, Registered Plan #37M-23, Block 36 & Block 37, Lot #3 to 14 and Lot #17 to 35;
- (d) the former Town of Simcoe within the Municipality of the Town of Norfolk as of December 31, 2000; and
- (e) the rural area of Norfolk County, east of Highway 24.

Hydro One Networks Inc.

See HONI's Electricity Distribution Licence ED-2003-0043 (**Exhibit A, Tab 3, Schedule 1 Attachment 2**), Schedule 1 for a Definition of its Distribution Service Area.

The attached map (**Exhibit A, Tab 3, Schedule 1, Attachment 3**) is a representation of Hydro One Distribution's service territory. It is not a substitute for the written description in its Electricity Distribution Licence ED-2003-0043. The map is accurate where local distribution company's ("LDC") boundaries conform to existing or former municipal boundaries but is only a best-effort representation in locations where there have been annexations or for other reasons the LDC boundaries are different from current or former municipal boundaries.

1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

Norfolk Power Distribution Inc.

NPDI's distribution system serves approximately 19,000 Residential and General Service customers in the NPDI Service Territory.

The following table provides a summary of the number of customers and connections by customer class for 2011:

Rate Class	Number of Customers
Residential	16,880
General Service < 50 kW	1,984
General Service 50 to 4,999 kW	167
Embedded Distributor	5
Street Lighting	3,819
Sentinel Lighting	372
Unmetered Scattered Load	76
Total	23,303

Hydro One Networks Inc. - Distribution

HONI's distribution system serves approximately 1.2 million customers in its Service Territory.

The following table provides a summary of the number of customers in each rate of the above rate classes as filed in Hydro One Networks Inc. Distribution's ("HONI Distribution") most recent rebasing application:

Rate Class	Number of Customers
Urban Density Residential (UR)	140,540
Medium Density Residential (R1)	412,455
Low Density Residential (R2)	367,107
Seasonal Residential	156,901
General Service Energy Billed (GSe)	98,776
General Service Demand Billed (GSd)	7,361
Urban Density General Service Energy (UGe)	10,577
Urban Density General Service Demand (UGd)	1,130
Street Lights	5,234
Sentinel Lights	37,506
Distributed Generation (DGen)	88
Sub Transmission (ST)	607
Total	1,238,282

- 1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

Originally, the service areas of each of the licenced distributors will remain unchanged after the completion of this transaction. If the Board grants approval to section 86(2)(b) as stated above, upon filing notice to the Board of completion of integration of NPDI operations into HONI, HONI requests that the Board either amend its distribution licence to reflect the fact that the NPDI service territory will be administered separately from HONI's other distribution services area, or alternatively, that the NPDI distribution licence is cancelled and a new licence is issued to HONI and limited to the NPDI service area.

- 1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

Please refer to **Exhibit A, Tab 3, Schedule 1, Attachments 4 and 5** for corporate charts of HOI and the County, respectively.

1.4 **Description of the Proposed Transaction**

- 1.4.1 Please provide a detailed description of the proposed transaction.

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. The Agreement contemplates the transaction closing 30 days following the Parties' receipt of all Required Approvals, including Ontario Energy Board ("the Board" or "OEB") approval of this application under sections 86(2) and 86(1) of the *Ontario Energy Board Act, 1998*.

A copy of the signed Agreement is attached hereto as **Exhibit A, Tab 3, Schedule 1, Attachment 6**. The Agreement contemplates the following items in addition to the sale of the Shares:

- (a) The purchase price is subject to adjustment within 90 days following closing, for Working Capital, Net Fixed Assets, and Long-Term Debt, as defined in the Agreement;
- (b) Along with this Application, HONI will apply to the OEB for approval to include a negative rate rider to NPDI's electricity rates (effective May 1, 2013) to reduce base delivery distribution rates by one per cent (1%) of the EB-2011-0272 approved 2012 rates, and to have such rates apply for the next five years (please refer to **Exhibit A, Tab 2, Schedule 1, Section 2.0** of this application for further details). Assuming such approval is obtained, it is HONI's current expectation that NPDI rates will be harmonized with HONI rates at the earliest rebasing opportunity, currently expected to be in 2020 or some other option as discussed Exhibit A, Tab 2, Schedule 1, Section 3.0;
- (c) HOI or an affiliate shall offer all employees of NPI and NPDI continued employment; and
- (d) HOI and the county shall establish an advisory committee which shall include at least three representatives from the county, to monitor and provide input with respect to the provision of distribution services in Norfolk County.

The rate base value of the assets pertaining to this transaction is approximately \$53.9 million.

- 1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

As described in section 1.4.1, the total purchase price is \$93 million, comprising a cash payment of approximately \$66 million for the Shares plus the assumption of NPI's long-term debt of approximately \$27 million. The Agreement contemplates three types of adjustments to purchase price: (i) Working Capital, (ii) Net Fixed Assets, and (iii) Long Term Debt, as defined in the Agreement. These adjustments will be calculated within 90 days following closing.

- 1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

Please refer to the following attachments to **Exhibit A, Tab 3, Schedule 1** for a copy of the audited financial statements for the past two (2) most recent years:

- **Attachment 7** 2012 Hydro One Inc. Consolidated
- **Attachment 8** 2011 Hydro One Inc. Consolidated
- **Attachment 9** 2012 Hydro One Networks Inc. - Distribution
- **Attachment 10** 2011 Hydro One Networks Inc. - Distribution
- **Attachment 11** 2012 Norfolk Power Distribution Inc.
- **Attachment 12** 2011 Norfolk Power Distribution Inc.

Note that although The Corporation of Norfolk County is a party to this transaction, its financial statements have not been included, as they are not relevant to the transaction.

- 1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

The proposed transaction will not have a material impact on HONI's financial position. The price is less than 2% of HONI Distribution's net fixed assets.

1.5 **Documentation**

- 1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

HOI

Information which HOI has filed to the Ontario Securities Commission is publicly available through SEDAR (www.sedar.com).

NPDI

This corporation does not file any material with securities commissions.

- 1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

A copy of the Share Purchase Agreement is provided in **Exhibit A, Tab 3, Schedule 1, Attachment 6**. Please note that the Agreement has been redacted to remove any “personal information” within the meaning of the *Freedom of Information and Protection of Privacy Act* (Ontario) and pursuant to section 42 of that Act such information should not be released publicly.

A pro forma Asset Transfer Agreement will be used to transfer the assets and liabilities of the NPDI distribution business to HONI.

A copy of the resolution of the County dated April 2, 2013 authorizing the sale of shares to Hydro One Inc. is provided as **Exhibit A, Tab 3, Schedule 1, Attachment 13**.

- 1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

Pending approval of this transaction, , and after notification to the Board that integration is completed, the distribution business activities of NPDI, currently under Electricity Distribution Licence ED-2002-0521, will either become subject to HONI’s Electricity Distribution Licence ED-2003-0043, which licence will be amended to include this service territory or a new licence will be issued. The customers, assets, systems, processes and operations of NPDI will be fully integrated into HONI Distribution’s business activities.

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

NPDI has confirmed that as of the date of the application, to the best of its knowledge, it is currently in compliance with all licence and code requirements per its Electricity Distribution licence (EB-2002-0521). It is expected that following the approval and completion of the transaction and after the integration of the NPDI distribution business activities into those of HONI, HONI Distribution will continue to be materially compliant with all applicable Legislation, Regulations, Market Rules, other Licence Conditions and Codes.

HONI Distribution’s compliance policy will continue to require that confirmed instances of non-compliance be disclosed and mitigated as necessary including applications for exemptions from such requirements, if necessary. Any potential instances of non-compliance associated with NPDI’s distribution business activities will be addressed during the integration process. For example, the non-electricity billing services currently being provided by NPDI will be transferred to Hydro One Telecom Inc. This transfer will be implemented after a short transition period in compliance with Section 71(1) of *Ontario Energy Board Act, 1998*. In any case, given the small customer base of NPDI (when compared to HONI Distribution), the integration is not expected to have any material impact on the current compliance status of HONI Distribution, even during the transition period.

1.6 Consumer Protection

- 1.6.1 Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.

As mentioned above, NPI is a holding company, which is wholly-owned by the County. NPI in turn wholly owns NPDI, a licenced electricity distributor. The purchase of the shares by HOI from the County (as described in section 1.4.1 and the Agreement) will therefore result in a change of control of NPI, and as a result, of NPDI.

- 1.6.2 Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.

As discussed in section 1.4.1, as a result of the proposed transaction, NPDI is applying to the Board for approval to include a negative rate rider to NPDI's approved 2013 rates to give effect to a 1% reduction to 2012 base electricity distribution delivery rates (exclusive of rate riders) (EB-2011-0272)(see **Exhibit A, Tab 2, Schedule 1, Section 2.0**).

The existing customers of HONI Distribution will also be held harmless from this transaction. HONI Distribution will apply for 2015-2019 rates under the Custom Incentive Ratemaking 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. For reporting under the Board's Reporting and Record Keeping Requirements ("RRR") purposes, HONI Distribution will continue to report on its legacy business excluding NPDI and any other future acquisitions. There will be no adverse impact on HONI Distribution existing customers, operationally or through rate impacts. In the long term, because fixed costs of operations will be spread over a wider customer base, HONI Distribution customers will see a small price benefit.

HOI has agreed to establish an Advisory Committee to provide a forum of communication between HOI and the county. The county may appoint three representatives to the committee, and HOI will include staff representation from the same geographic district as covered by NPDI's distribution licence.

Customers of NPDI 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.

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.

The customers of NPDI will have access to the same level of customer service and billing systems that HONI Distribution's existing customers currently receive.

- 1.6.3 Please describe the steps, including details of any capital expenditure plans that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

Through the share acquisition described herein, the acquired NPDI assets will be fully integrated with HONI Distribution's assets to ensure the safe and secure operations and system integrity for both the

acquired customers and the neighbouring HONI Distribution customers. The assets will be maintained and operated by HONI Distribution in the same fashion and to the same standards as HONI Distribution's current assets. The acquisition will not adversely affect operational safety or system integrity.

In addition, Section 6.6 of the Share Purchase Agreement outlines an agreed capital expenditure budget and forecast for NPDI for 2013 to 2017.

- 1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

In performing maintenance on the acquired NPDI distribution system, HONI's distribution system standards will be used. HONI Distribution will thereby be able to serve the customers of NPDI with the same level of service HONI Distribution provides its existing customers by virtue of the existing customer service practices and policies of HONI.

Electric utility service to customers currently served by NPDI will remain subject to OEB rules and regulations governing all Ontario distributors.

Reliability will be maintained from the use of existing and required resources and as a result response times are not expected to be affected.

- 1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

Following the requested five-year freeze of NPDI customer's rates, HONI plans to file a rate application to set rates for HONI NP. HONI's proposed approach will be consistent with OEB rate making principles (e.g. fair, practical, clear, rate stability and effective cost recovery of revenue requirement) and will promote consolidation of the industry by providing an approach that mitigates the bill impacts to customers.

As industry rates evolve over the next five plus years, HONI expects to file an application in line with the principles noted above. The rate application at that time may propose to: (i) create new acquired customer rate classes; (ii) move acquired customers to an appropriate HONI rate class existing at that time; or, (iii) some other option. It is not possible to say which of these approaches will be adopted since it will depend on the situation at the time of setting new rates for Norfolk. Some considerations in deciding on rate strategies include the number and characteristic of the acquired utilities, customer growth in the acquired utilities and potential development within the electricity regulatory arena in Ontario.

HONI will have also maintained the ability to have a separate revenue requirement for the Norfolk Distribution Business in 2019, by, as mentioned previously, separately tracking all costs associated with this business.

Whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate

applications will be subject to OEB approval and will satisfy the Board's "Filing Requirements for Electricity Distribution Rate Applications". Until the end of the five year freeze period, HONI proposes to retain two separate distribution rate schedules for customers in each of the service areas – i.e. those currently served by Hydro One Distribution and those currently served by NPDI. Please see **Exhibit A, Tab 2, Schedule 1, Sections 2.0 and 3.0** for further details on rates.

1.6.6 If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five-year limit set by the Board.

The proposed transaction does not contemplate an amalgamation.
 For details on HONI's rebasing strategy, please see **Exhibit A, Tab 2, Schedule 1, Section 3.0**.

1.6.7 Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.

The transaction will not result in a new utility.
 Incremental costs associated with the transaction include costs incurred for due diligence, to negotiate and complete the transaction, costs associated with all necessary regulatory approvals, the integration costs to transfer the customers into HONI's customer and outage management systems, plus initial costs to bring equipment up to HONI's standards. These costs will be financed through productivity gains associated with the transaction and will not be included in HONI's revenue requirement and thus will not be funded by ratepayers.

1.6.8 Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.

Below are the impacts of the Proposed Transaction on the total bill, as well as the distribution portion of the total bill, based on NPDI's approved rates effective May 1, 2013, applied to the average consumption levels for each rate class used by NPDI in calculating bill impacts as part of its 2013 IRM application, and assuming the proposed rate rider to give effect to the reduction is approved. The rate reductions are slightly greater than 1% given that 2013 approved rates are higher than 2012 approved rates.

	Change in Base Distribution Rates (%)	Change in Total Bill (%)
Residential	-1.41%	-0.42%
General Service less than 50 kW	-1.62%	-0.43%
General Service 50 to 4,999 kW	-1.45%	-0.18%
Unmetered Scattered Load	-1.33%	-0.37%
Sentinel Lighting	-1.42%	-0.74%
Street Lighting	-1.49%	-0.50%
Embedded Distributors	-1.47%	-5.45%

Detailed calculations of the bill impacts can be found in **Exhibit A, Tab 3, Schedule 1, Attachment 14**.

HONI is requesting to continue NPDI's Rate Rider for "Application of Tax Change" until NPDI's rates are rebased. Please see **Exhibit A, Tab 2, Schedule 1, Section 4.0** for further details.

- 1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

NPDI's distribution customers will experience no harm from this transaction. There will be no additional costs to the customers of the parties to the proposed transaction. To the contrary, and as stated in Section 1.6.2, they will have the benefit of the negative rate rider requested in this Application and have their rates frozen at that reduced level for the next five years. NPDI's customers will further benefit from HONI's 24-hour outage response process, Conservation and Demand Management programs, Mobile Outage application, 24-hour web access to their accounts, and an option to be e-billed via the internet.

HONI's current customers will continue to enjoy the same service they receive now. 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.

1.7 **Economic Efficiency**

- 1.7.1 Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.

HONI will leverage its existing back-office systems and processes (e.g. IT, accounting, and customer service) to obtain operational and capital synergies in serving the customers of NPDI. During the period after closing of the transaction and prior to full integration, service level agreements in compliance with the OEB's Affiliate Relationships Code for Electricity Distributors and Transmitters will be drafted between NPDI and Hydro One affiliates.

HONI will keep separate financial records for the Norfolk Distribution Business (HONI NP). Upon approval NPDI's assets will be transferred to HONI and tracked as a separate business unit within HONI. OM&A costs will be charged to the Norfolk Distribution Business using fully allocated pricing, similar to what is now done to record costs to HONI's Transmission and Distribution businesses. Common costs will be allocated to the Norfolk Distribution Business consistent with HONI's current common corporate cost allocation model.

As HONI is facing significant demographic challenges and upcoming retirements, HONI will be able to provide job security for all NPDI staff and will utilize both its existing staff and those acquired from NPDI to meet the needs of all its customers. As HONI will now be planning the electricity needs for all of Norfolk County, it will be able to more efficiently deliver both the operating and capital costs associated with serving the customers across the entire county. HONI will also look to optimize the use of its existing Simcoe Operating Centre and the NPDI Operating Centre.

1.8

1.9 Financial Viability

- 1.9.1 Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.

HOI and the County have entered into a Share Purchase Agreement whereby HOI will be purchasing all of the shares of NPI, whose ownership of all of the shares of NPDI includes the business of distributing electricity to the customers within the former Town of Delhi, the westerly half of the former City of Nanticoke, the former Village of Port Rowan and the former Town of Simcoe.

The County is satisfied that the price to be received is fair and reasonable, based on staff advice and the recommendations of the NPI board of directors. The County also retained the services of Borden Ladner Gervais LLP to advise and assist in conducting a competitive request for proposal process which has resulted in the sale of the shares of the Corporation.

As the purchaser, HOI used the commercial value of underlying assets in determining the value of NPI. HOI considered other components of the financial statements as well as cash flow projections, an assessment of asset condition, one-time costs of integration and potential efficiency gains in assessing the value of the business.

Please refer to section 1.6.2 for discussion regarding future rate levels.

- 1.9.2 If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.

The premium paid over the book value on the transaction will not have a material impact on HONI's financial viability. In addition, the premium paid will not be included in Hydro One Distribution revenue requirement and thus will not be funded by ratepayers.

- 1.9.3 Please provide details of the financing of the proposed transaction.

HOI will initially finance the proposed transaction through cash or its short-term commercial paper program, which is operational and fully 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.

- 1.9.4 If the proposed transaction involves a leasing arrangement, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.

No leasing arrangements are contemplated by the proposed transaction.

- 1.9.5 Please outline the capital (debt/equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend

policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.

The premium paid over the book value on the transaction will not have a material impact on HONI's or HOI's financial viability. In addition, the premium paid will not be included in HONI Distribution's revenue requirement and thus will not be funded by ratepayers.

- 1.9.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.

Certain environmental concerns were disclosed by the Corporation of Norfolk County as part of the request for proposal process and as part of its disclosures under the Agreement. Liability for these matter remains momentarily with NPDI until the properties subject to the environmental concerns are transferred to Hydro One through the contemplated share transfer. HONI manages a distribution business throughout the Province with similar assets and has programs in place to deal with any relevant safety and environmental matters.

1.10 Other Information

- 1.10.1 If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.

A copy of the resolution of the Corporation of Norfolk County dated April 2, 2013 authorizing the sale of shares to HOI is provided as **Exhibit A, Tab 3, Schedule 1, Attachment 13**.

- 1.10.2 Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.

There are none associated with the parties to this application.

- 1.10.3 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

The current net metering thresholds of HONI Distribution and NPDI are 14,330 kW and 701 kW respectively. There are no special circumstances that warrant the Board using a different methodology to determine the net metering threshold for each utility. Therefore, HONI Distribution and NPDI submit that individual CDM targets for both HONI and NPDI should remain separate.

1.10.4 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

This transaction was completed on a competitive, commercial basis between a willing seller and willing buyer. It is a demonstration of the type of benefits that can be realized from consolidation within the electric distribution sector in Ontario and is consistent with the findings of the Sector Review Panel. This transaction eliminates the duplication of effort between HONI Distribution and NPDI and results in a single electric distribution service provider for all of Norfolk County, which will ultimately lead to a lower cost of service across the HONI Distribution and NPDI service areas and will create downward pressure on electricity distribution rates.

PART II: CERTIFICATION AND ACKNOWLEDGMENT

2.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual ORIGINAL SIGNED BY RICK STEVENS	Print Name of Key Individual <u>Rick Stevens</u>	Title/Position <u>VP Customer Service</u>
	Date <u>April 24, 2013</u>	Company <u>Hydro One Inc.</u>

Signature of Key Individual ORIGINAL SIGNED BY DENNIS TRAVALE	Print Name of Key Individual <u>Dennis Travale</u>	Title/Position <u>Mayor</u>
	Date <u>April 24, 2013</u>	Company <u>The Corporation of Norfolk County</u>

Signature of Key Individual ORIGINAL SIGNED BY AIAN HAYS	Print Name of Key Individual <u>Alan H. Hays</u>	Title/Position <u>Chair</u>
	Date <u>April 24, 2013</u>	Company <u>Norfolk Power Inc.</u>

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.) TOR01: 5157356: v2

