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Susan Frank
Vice President and Chief Regulatory Officer
Regulatory Affairs

BY COURIER

February 10, 2014

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 – MAAD S86 Hydro One Networks Inc. Application to Purchase Norfolk Power Inc. – Hydro One Networks Inc. Responses to Interrogatory Questions

Please find attached an electronic copy of responses provided by Hydro One Networks Inc. to Interrogatory questions from the Decision and Order and Procedural Order No. 8.

Below is the Tab numbers for each Intervenor:

Tab	Intervenor
1	Ontario Energy Board
2	Vulnerable Energy Consumers Coalition
3	School Energy Coalition
4	Consumers Council of Canada
5	Essex / Bluewater / Niagara-on-the-Lake

An electronic copy of the Interrogatories, have been filed using the Board's Regulatory Electronic Submission System. Two (2) hard copies will be sent to the Board shortly.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank
Attach.

cc: Intervenors on record via email

ONTARIO ENERGY BOARD (BOARD STAFF)

INTERROGATORY #4 LIST 1(REVISED)

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 Relocating the FBC to NPDI's facility would not result in additional costs to Hydro One as the relocation was already included in Hydro One's current plan. The opportunity to use space within NPDI's facility allows Hydro One to leverage the availability of that space and avoid or mitigate the cost for Hydro One to lease, refurbish, or construct required new space. At a minimum, the avoided cost to lease a similarly sized third party space in this part of Ontario would be approximately $60,000 annually.

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

INTERROGATORY #2 LIST 1 (REVISED)

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

Yes, Hydro One has undertaken an analysis of the incremental costs of serving customers in the NPDI service area. It has done so by forecasting the efficiency gains expected to be achieved from the acquisition under various scenarios. That analysis is set out below, first with a high-level categorization of the gains that are available to be achieved in a typical merger, and then with a more specific description of those gains in the Norfolk context.

High-Level Categorization

The efficiency gains expected to be realized in the NPDI acquisition, or in any future acquisition or merger between a large contiguous distributor like Hydro One and smaller adjacent LDCs, arise in three principal areas:

- Local area operating and capital savings resulting from a more efficient distribution system due to the elimination of an artificial electrical border (i.e., benefits from contiguity)

- Savings due to the elimination of redundant administrative and processing functions (i.e., back office savings or scale efficiencies)

- Savings due to lower financing costs, both from a lower cost of debt on existing rate base, and ripple effects from the capital savings over time, leading to reduced total return on rate base (i.e., financing savings).

In addition to the quantitative benefits noted above achievable through an acquisition or merger, there are also qualitative benefits that will be achieved. These four categories are discussed in more detail below.

Contiguity Benefits

Hydro One is a natural consolidator of the electricity distribution sector in southwestern Ontario, including in the Norfolk area, given that its existing service territory is contiguous to and in most cases completely surrounds other distribution service areas, and it already provides physical supply to many of them directly from its own distribution system. This situation is shown in the attached map (Attachment 1) depicting the current checkerboard pattern of the local distribution system, with small- and medium-sized LDCs contiguous to or surrounded by Hydro One. The geographic advantage of contiguity allows for economies of scale to be realized at the field or operational level through the merger of Hydro One's local system with the geographically embedded distributors'. These operational scale economies may not be available at all, or to the same extent, to other would-be purchasers who do not have the same advantage of contiguity.

With the elimination of an artificial electrical border between contiguous distributors, operational efficiencies arise in various areas, such as the ability to: rationalize local space needs through the elimination or repurposing of duplicate facilities like service centres; to more efficiently schedule operating and maintenance work and dispatch crews over a larger service area; and to more efficiently utilize work equipment (e.g., trucks and other tools), leading to lower capital replacement needs over time. Additionally, the elimination of the electrical border allows for more rational and efficient planning and development of the distribution system. All of the above provide the potential to result in operating and capital savings, both immediate and over time, which would provide long-term benefits to ratepayers relative to the status quo. More specific detail about these savings in the Norfolk context is provided further below.

The benefits of contiguity were recognized by the Board in RP-2003-0044. Although the context for the Board's Findings in that case was in relation to Service Area Amendment Applications, the principles adopted by the Board in general apply equally to merger situations, as noted below:

> *The promotion of economic efficiency in the distribution sector is one of the Board's guiding objectives in the regulation of the electricity sector. The Board is persuaded that economic efficiency should be a primary principle in assessing the merits of a service area amendment application. Economic efficiency would include ensuring the maintenance or enhancement of economies of contiguity, density and scale in the distribution network; the development of smooth, contiguous, well-defined boundaries between distributors; the lowest incremental cost connection of a specific customer or group of customers; optimization of use of the existing system configuration; and ensuring that the amendment does not result in any unnecessary duplication or investment in distribution lines and other distribution assets and facilities.* [Para. 84]

A core difference in assessing the economic efficiency of a merger or acquisition versus a service area amendment (SAA) is that in an SAA application, which typically deals with a request to serve new connecting customers in an adjacent service area, the lowest incremental cost to connect is a key consideration in assessing the merits of the application, as noted in the excerpt from the RP-2003-0044 Decision above. Whereas, in a merger or acquisition, net ratepayer and system benefits relative to the status quo, based on the no-harm test, rather than lowest incremental cost to serve, is one of the key factors in determining whether the transaction is in the public interest.

Savings from Economies of Scale

A larger customer base resulting from the creation of larger regional distributor leads to costs for processing systems, such as billing, customer care, human resources and financial, being spread over a larger group of customers. Consolidation of these functions results in efficiency benefits as duplicate systems and staff positions are eliminated, leading to lower capital and operating costs over time, as noted in the Sector Review Panel Report at page 14. In addition to that, there are administrative savings arising from the elimination of redundant senior management and administrative functions.

As well, Hydro One's cost of borrowing is typically lower than that of local LDCs, leading to savings in financing costs over time. These savings arise in two respects:

- Lower overall debt costs on the acquired LDC's existing rate base, relative to the status quo, assuming Hydro One refinances higher-cost debt assumed in the transaction
- Ripple effects from expected capital savings over time, leading to a reduced rate base and hence lower debt and equity return costs relative to the status quo.

Scale economies such as contiguity benefits, and back office and administrative savings arising from the consolidation of local distribution companies were cited by the EDA and noted by the Panel in the Sector Review Panel Report at page 28: Significant savings from consolidation were also noted in the Drummond Report at page 331.

Qualitative Benefits

Qualitative benefits able to be realized in an acquisition between Hydro One and smaller LDCs include the following:

- Continued employment for all staff of acquired LDCs - Although redundant staffing functions will be eliminated as part of the integration process, leading to efficiency gains, Hydro One, due to its size and current staff retirement profile, is able to offer continued employment to staff of acquired LDCs. This is a benefit that smaller would-be acquirers may not be able to offer.
- Enhanced call centre service to customers – Hydro One has a sophisticated call-centre operation which typically offers longer hours of service and web access than do smaller LDCs. In addition, Hydro One has launched a highly successful smart-phone application for real-time outage management that customers can download to their devices, allowing instant access to outage information and estimated restoration time.
- Savings in recruitment, training, and staff development costs associated with the acquisition of trained and experienced utility staff that will be available to fill positions within Hydro One that will be available through expected retirements and other attrition.
- Industry benefits will begin to accrue to various agencies within the Ontario energy industry. For example, the costs to regulate and administer the sector will be reduced as this and further acquisitions are complete. The Ontario Power Authority (OPA), the Independent Electric System Operator (IESO), the Ontario Energy Board (OEB), and Ministry of Energy can achieve potential savings through reduced regulatory burden and industry oversight. Further, enhanced regional planning efficiencies could also be achieved by having fewer distribution companies planning for larger areas where capital can be deployed more efficiently than with the current fragmented approach.

Efficiency and Qualitative Savings in the Norfolk Context

Specific to NPDI, Hydro One has an operating centre located less than 2 km from the NPDI operating centre. Hydro One crews travel the same roads and drive by the same facilities as the existing line crews from NPDI. Every day staff in the Hydro One Field Business Centre in Dundas answer calls from local businesses and customers for operational services within the area of Norfolk County served by Hydro One. NPDI has customer service representatives that carry out similar functions for their neighbouring customers within Norfolk County. Rationalizing these functions over a larger service area will yield efficiency savings.

Contiguity savings will also be realized through more rational and efficient system planning by the elimination of the artificial electrical border between Hydro One's and NPDI's service areas.

In addition to the contiguity benefits noted above, the integration of Hydro One and NPDI will allow for efficiency gains to be realized through eliminating duplication in administrative and transaction-processing functions. For example, Hydro One processes financial, human resource, information technology, and work management transactions for work being conducted within its existing service area in Norfolk County. NPDI processes very similar transactions for its own service area in Norfolk County. This means that should the transaction proceed, Hydro One has the opportunity to eliminate these sources of duplication. For example, the Norfolk Power Board of Directors is no longer necessary (an estimated governance cost savings of $70,000 annually) as are the functions of the Senior Management Team, and there is an opportunity to reduce the number of regulatory filings, CDM program administration costs, vehicle fleet and information technology costs, and the use of: external consultants and contractors. With respect to staff within NPDI, as noted previously Hydro One is able to offer continued employment within the broader corporation to all affected staff, thereby reducing recruitment, training and development costs and retaining key industry knowledge and expertise.

Financing savings are expected to be achieved due to the acquisition, as a result of both a lower Hydro One cost of debt upon refinancing of some or all of the debt assumed in the transaction, and lower capital replacement needs over time.

These savings have not been quantified due to uncertainty related to the timing of refinancing, and of the size of the spread that will prevail when refinancing occurs.

Qualitative Benefits

The qualitative benefits arising from the Norfolk acquisition are typical of those noted previously – i.e., continued employment and opportunities for advancement for all

acquired staff, enhanced call centre and customer service, reduced training and development costs, as well as industry benefits.

Comparative Cost Savings Forecast: Acquisition versus Status Quo

Table 1 below is a forecast of the quantitative savings expected to be achieved through the acquisition compared to the status quo. As is typical for the development of acquisition plans, a range of outcomes has been portrayed that considers a reasonable range of potential outcomes. Three scenarios are presented in Table 1 with respect to the efficiency savings associated with Hydro One operating the NP Service Territory under the proposed acquisition. The high, medium and low scenarios are relative to the status quo of NPDI continuing operations. The high and low scenarios illustrate a plus/minus 20% variation in cost savings from the medium case scenario.

The quantitative factors that have been described in the sections above have been factored into the projections of OM&A and Capital expenditures developed for Table 1.

Table 1: Projected Norfolk Acquisition OM&A and Capital Expenditure Savings

Low Case Scenario (Low case scenario based on a 20% reduction in savings from medium scenario)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
NPDI Mgmt Forecast	-20%										
OM&A	$ 4.6	$ 4.6	$ 4.7	$ 4.8	$ 4.9	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	
Capex	$ 4.0	$ 3.7	$ 3.7	$ 3.5	$ 3.6	$ 3.7	$ 3.7	$ 3.7	$ 3.7	$ 3.7	
Total	$ 8.6	$ 8.4	$ 8.4	$ 8.3	$ 8.5	$ 8.6	$ 8.6	$ 8.6	$ 8.6	$ 8.6	
Hydro One Forecast	-20%										
OM&A	$ 4.6	$ 2.1	$ 2.1	$ 2.2	$ 2.2	$ 2.2	$ 2.3	$ 2.3	$ 2.4	$ 2.4	
Capex	$ 2.5	$ 2.3	$ 2.3	$ 2.4	$ 2.5	$ 1.9	$ 1.9	$ 2.0	$ 2.0	$ 2.0	
Total	$ 7.1	$ 4.4	$ 4.5	$ 4.5	$ 4.7	$ 4.2	$ 4.2	$ 4.3	$ 4.4	$ 4.4	
Projected Savings (OM&A and Capex)											
Scenario: Low Forecast	$ 1.4	$ 3.9	$ 3.9	$ 3.8	$ 3.8	$ 4.4	$ 4.4	$ 4.3	$ 4.3	$ 4.2	**$ 38.5**

Medium Case Scenario

NPDI Mgmt Forecast (Status Quo)											
OM&A	$ 5.7	$ 5.8	$ 5.9	$ 6.0	$ 6.1	$ 6.2	$ 6.2	$ 6.2	$ 6.2	$ 6.2	
Capex	$ 5.0	$ 4.7	$ 4.6	$ 4.4	$ 4.5	$ 4.6	$ 4.6	$ 4.6	$ 4.6	$ 4.6	
Total	$ 10.7	$ 10.5	$ 10.5	$ 10.4	$ 10.6	$ 10.8	$ 10.8	$ 10.8	$ 10.8	$ 10.8	
Hydro One Forecast											
OM&A	$ 5.8	$ 2.6	$ 2.7	$ 2.7	$ 2.8	$ 2.8	$ 2.8	$ 2.9	$ 2.9	$ 3.0	
Capex	$ 3.1	$ 2.9	$ 2.9	$ 3.0	$ 3.1	$ 2.4	$ 2.4	$ 2.5	$ 2.5	$ 2.6	
Total	$ 8.9	$ 5.6	$ 5.6	$ 5.7	$ 5.8	$ 5.2	$ 5.3	$ 5.4	$ 5.5	$ 5.5	
Projected Savings (OM&A and Capex)											
Scenario: Medium Forecast	$ 1.8	$ 4.9	$ 4.9	$ 4.7	$ 4.8	$ 5.5	$ 5.5	$ 5.4	$ 5.3	$ 5.2	**$ 48.1**

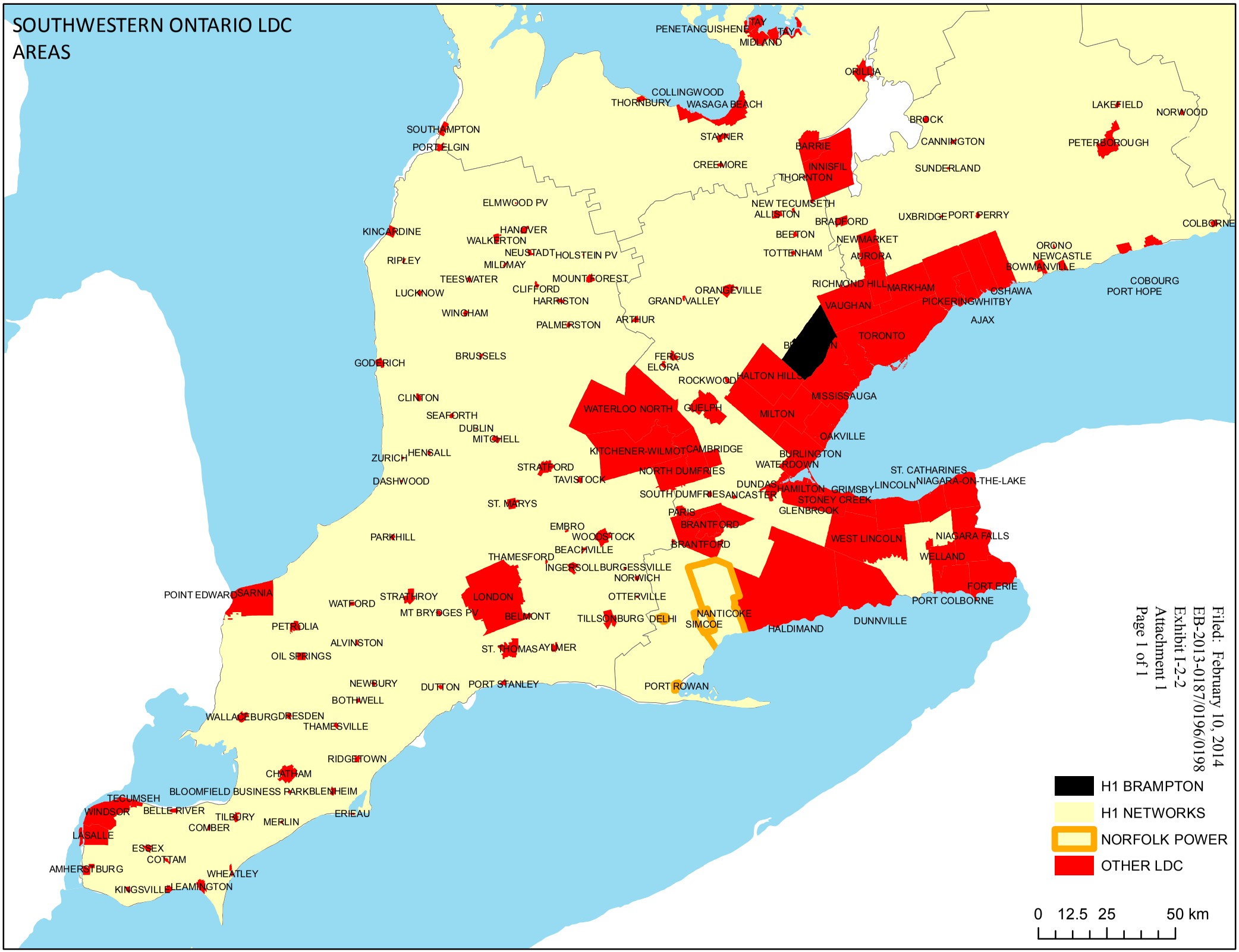
High Case Scenario (High case scenario based on a 20% increase in savings from medium scenario)

NPDI Mgmt Forecast	20%										
OM&A	$ 6.8	$ 7.0	$ 7.1	$ 7.2	$ 7.3	$ 7.4	$ 7.4	$ 7.4	$ 7.4	$ 7.4	
Capex	$ 6.0	$ 5.6	$ 5.5	$ 5.3	$ 5.4	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 5.5	
Total	$ 12.8	$ 12.6	$ 12.6	$ 12.5	$ 12.7	$ 12.9	$ 12.9	$ 12.9	$ 12.9	$ 12.9	
Hydro One Forecast	20%										
OM&A	$ 7.0	$ 3.1	$ 3.2	$ 3.2	$ 3.3	$ 3.4	$ 3.4	$ 3.5	$ 3.5	$ 3.6	
Capex	$ 3.7	$ 3.5	$ 3.5	$ 3.6	$ 3.7	$ 2.9	$ 2.9	$ 3.0	$ 3.0	$ 3.1	
Total	$ 10.7	$ 6.7	$ 6.7	$ 6.8	$ 7.0	$ 6.3	$ 6.3	$ 6.4	$ 6.5	$ 6.7	
Projected Savings (OM&A and Capex)											
Scenario: High Forecast	$ 2.2	$ 5.9	$ 5.9	$ 5.7	$ 5.7	$ 6.7	$ 6.6	$ 6.5	$ 6.4	$ 6.3	**$ 57.7**

Results and Conclusion

The results in Table 1 show under all scenarios that significant synergy savings are available as a result of the proposed transaction and that these savings will be more than sufficient to offset the costs associated with integration, the 1% distribution rate reduction and the proposed 5 year rate freeze. The savings forecast to occur prior to rebasing will accrue to the shareholder to help recover the costs of the acquisition, and post rebasing the projected savings will accrue to ratepayers.

Specifically in years 1 through 5, NPDI ratepayers receive a 1% distribution rate reduction relative to the status quo and in years 6 and beyond the projected cost savings shown in Table 1 will be to the account of ratepayers, which cost savings would not otherwise materialize without the transaction.



Filed: February 10, 2014
EB-2013-0187/0196/0198
Exhibit I-2-2
Attachment 1
Page 1 of 1

SCHOOL ENERGY COALITION (SEC) INTERROGATORY #7

LIST 1 (REVISED)

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 one per cent 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.

Please refer to the revised response to Exhibit I, Tab 2, Schedule 2 for further information regarding Hydro One's comparative cost savings forecast over the pre-rebasing period as well as beyond this term. As is shown in this analysis, the revenue deficiency created by the one per cent rate freeze is expected to be offset by the expected savings prior to rebasing. Post rebasing, actual achieved cost savings would be reflected in cost of service rate filings.

SCHOOL ENERGY COALITION (SEC) INTERROGATORY #15

LIST 1 (REVISED)

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

Comparative forecast cost savings analysis, with and without the transaction and assessing high, medium, and low case scenarios, are shown and described in the revised response to Exhibit I, Tab 2, Schedule 2.

SCHOOL ENERGY COALITION (SEC) INTERROGATORY #16

LIST 1 (REVISED)

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

Referring to Page 35 of the Transcript from the Motion Hearing, where SEC clarifies what information it is seeking in this Interrogatory Response:

> "SEC 16 asks about the tax impacts on cost, and I think they just misunderstood this question. The question was not tax sharing, tax savings sharing. The question was: In many past acquisitions of a small company, they lose some of the tax benefits, special tax credits, small business deduction, et cetera, which means that the costs associated with that enterprise go up, because it's owned by a larger company. So we're just asking: How much is it? Sometimes it can be a lot, sometimes it can be nothing; at least we want to know."

Based on NPDI's most recent cost of service rate filing, EB-2011-0272, NPDI's provision for small business tax credit for the 2012 test year was $33,750. This tax credit would not be available to Hydro One post transaction.

CONSUMERS COUNCIL OF CANADA (CCC)

INTERROGATORY #6 LIST 1 (REVISED)

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

As noted in Attachment 1 to this response, the Hydro One Inc. Board was presented information focusing on the overall acquisition strategy, competitive analysis and valuation of the proposed transaction. A comparative forecast of NPDI's cost structure relative to the status quo was not included in the Board Memorandum.

For a discussion of information that Hydro One's management has considered in its assessment of the proposed transaction relating to cost/benefit analysis, please refer to the revised response to Exhibit I, Tab 2, Schedule 2.

HYDRO ONE INC.
SUBMISSION TO THE BOARD OF DIRECTORS

Attached is Hydro One Inc. Board Memorandum dated January 22, 2013.

Hydro One Inc.
Submission to the Board of Directors

Date: January 22, 2013

Subject: Opportunity for Investment

Submitted by:

Rick Stevens
Vice President, Customer Service

and

Sandy Struthers
Chief Financial Officer

Approved for Submission to the Board by:

Carmine Marcello
President and Chief Executive Officer

RECOMMENDATION

THAT the Board of Directors of Hydro One Inc. approve the submission of a bid in accordance with the terms outlined herein and the delegation of authority to the President and CEO to submit the final proposal and negotiate with the County of Norfolk.

A Request for Proposal has been issued by Borden Ladner Gervais (BLG), on behalf of Norfolk County December 11, 2012, with an offer submission deadline of February 1, 2013. Hydro One management will continue to work with its financial advisor on the valuation right up to the time of the Board Meeting. The attached material provides an overview of the deal and the factors being considered in the valuation and proposal. Management will request a Board resolution at the meeting to approve the Internal Rate of Return and multiple of Rate Base that will govern the bid envelope for the President and CEO to work within.

KEY HIGHLIGHTS

Hydro One management is preparing a proposal and conditional offer to submit to BLG on February 1, 2013. Valuation and due diligence work is still underway. The following documents are attached to provide the Board with background information regarding the opportunity:

a) Norfolk due diligence specifics and overview of the proposal
b) Background information on the Intrinsic Valuation of Norfolk Power Distribution Inc. and Norfolk Energy Inc. prepared by our advisor National Bank Financial.

Hydro One's proposal includes the following key elements:

- An offer to purchase 100% of the shares of Norfolk Power Distribution Inc. – the electric distribution subsidiary of Norfolk Power Inc.
- An offer to purchase 100% of the assets of Norfolk Energy Inc. – the telecom centric services subsidiary of Norfolk Power Inc.
- Key conditions of our proposal will include further technical due diligence and the completion of an acceptable Sale Purchase Agreement with appropriate representations and warranties
- Significant benefits to our offer will include a price freeze for a predetermined time, relocation of staff to the County, access to key Hydro One staff on any post transaction issues and service levels that meet or exceed current conditions.

Hydro One management will present the following information at the Board Meeting:

  - an updated set of comparable transactions and market multiples
  - breakdown of the sources of value
  - sensitivity analysis of key assumptions
  - bid sheet showing pricing information associated with changes in the cost of capital and terminal multiples; and
  - summary of the value proposition to the vendor
- Hydro One management also requests that the final authority to release Hydro One's conditional offer and right to complete the purchase within the bid envelope be delegated to the President and CEO.

This Board Memorandum and the accompanying slides were reviewed and approved for submission to the Board of Directors of Hydro One Inc. by the Audit and Finance Committee at its meeting on January 22, 2013.

CONSUMERS COUNCIL OF CANADA (CCC)

INTERROGATORY #9 LIST 1 (REVISED)

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

The proposed transaction is in the best interests of both Hydro One and NPDI's customers. The premium over net book value is not proposed to be recovered from rate payers.

Efficiency savings are expected to accrue to the benefit of both Hydro One and NPDI ratepayers. Please refer to the revised response to Exhibit I, Tab 2, Schedule 2 for a discussion and quantification of these forecast comparative cost savings.

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

INTERROGATORY #2 LIST 1 (REVISED)

INTERROGATORY

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

Please refer to the table below for the requested information on distribution capital spending per customer. Please note that the cost per customer per year for Hydro One is for Hydro One's entire service area across the province which includes low-density, higher cost to serve areas in difficult terrain, compared with the urban and semi-urban and less environmentally harsh NPDI service area.

Forecast Distribution Plant Capital Expenditure / Customer / Year
Status Quo Scenario

Distributor	2013	2014	2015	2016	2017	2018
Hydro One	$398.50	$384.74	$419.63	$430.34	$420.40	$430.54
NPDI	$181.26	$211.36	$181.26	$211.36	N/A	N/A

NB: NPDI has not completed a capital expenditure forecast post 2016.

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

INTERROGATORY #13 LIST 1 (REVISED)

INTERROGATORY

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

The numbers in the 2012 OEB Electricity Yearbook represent system average OM&A costs across Hydro One's entire service territory. Hydro One serves the largely rural areas of the Province of Ontario as well as semi-urban and urban areas. The cost to serve any given geographic grouping of customers within Hydro One's service territory will differ based on many different factors, including density, tree-cover, geology, and climate.

Hydro One's current OM&A forecast to serve customers in its high and medium density residential rate classes (UR and R1) is considerably lower than the $439.77 "system average" Hydro One OM&A cost shown in the 2012 OEB yearbook. As shown in the 2015 Cost Allocation model output Sheet O1, provided in Exhibit G2, Tab 1, Schedule 2 of Hydro One's recently filed 2015-2019 Distribution Application EB-2013-0416, the OM&A cost to serve the 209,756 high density UR rate class customers is $37.9M. This results in an average annual cost of $181/customer. Similarly, the OM&A cost to serve the 438,731 medium density R1 rate class customers is $120.5M. This works out to an average annual cost of $275/customer. Both of these numbers are lower than Norfolk's operating cost per customer quoted in the preamble above of $333.43/customer annually. Hydro One's other main residential rate class is low density (R2) which applies to customers in rural and remote areas who qualify for Rural and Remote Rate Protection.

The fact that Hydro One's cost of serving high and medium density residential customers is lower than NPDI's average cost of $333.43/customer highlights some of the economic efficiencies that result from this transaction.

Hydro One also notes that the cost per customer values reflect the average cost of serving all customers within the specified rate class. It is anticipated that due to the geographic factors noted in the first paragraph above, the cost of serving southern Ontario customers will be lower than Northern and North-central customers, in which case it could be expected that the per customer cost of serving Norfolk customers would be lower than the averages shown.

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

INTERROGATORY #14 LIST 1 (REVISED)

INTERROGATORY

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

a) Efficiencies will be realized by consolidating the ongoing affairs of NPDI and Hydro One. Please refer to the revised response to Exhibit I, Tab 2, Schedule 2 for a discussion of comparative forecast cost savings associated with and without the proposed transaction.

b) Efficiencies are expected to be realized over the forecast period shown in Table 1 to the revised response to Exhibit I, Tab 2, Schedule 2. Additional cost savings are possible beyond the forecast period; however, Hydro One has not taken steps to examine this period in detail.

c) Prior to rebasing, rates charged to NPDI customers will not be affected regardless of whether or not cost saving efficiencies are achieved. Similarly, Hydro One customers will not be affected regardless of whether or not forecast cost savings efficiencies are achieved prior to rebasing.

After rebasing, the effect of achieved cost efficiencies will be reflected in lower cost of service levels that pertain to the rates charged by Hydro One. Lower prospective costs to provide service are expected to reduce rates as compared to the rates that would otherwise be charged for services provided by Hydro One and NPDI if the transaction did not proceed (status quo). Please refer to Table 1 found in the revised response to Exhibit I, Tab 2, Schedule 2 for an analysis of the forecast comparative cost savings relative to "with" and "without" the transaction proceeding.

d) If the forecast efficiencies are not achieved as planned, in the first 5 years there would be no impact to NPDI customers as rates are proposed to be frozen for this period nor would there be any impact to the rates of existing Hydro One distribution customers. Upon rebasing in 2020, the prudency of any costs will be reviewed in a cost of service application before the OEB. Changes in forecast costs to be incurred for the provision of regulated services that arise from Hydro One not being able to achieve efficiencies, would presumably be an area of consideration in future cost of service hearings established to consider the justness and reasonableness of the costs Hydro One would be applying to recover in rates.

e) Please refer to Table 1 of the revised response to Exhibit I, Tab 2, Schedule 2.

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

INTERROGATORY #15 LIST 1 (REVISED)

INTERROGATORY

Reference: Ex. A/T3/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

Incremental costs associated with the transaction are estimated to be in the range of $2.5 to $4 million. All of these costs are expected to be incurred before 2020 and will be funded and/or recovered through the productivity gains projected to be achieved within this time period.

A breakdown of the forecast incremental costs is as follows:

- Third party advisory costs (legal, regulatory, environmental, financial): $750k to $1M;
- System integration and transition costs: $1.5M - $2.5M; and
- Initial costs to bring equipment up to Hydro One's standards: $250k-$500k.

Please refer to the revised response to Exhibit I, Tab 2, Schedule 2 for the productivity gains that will fund the incremental transition costs noted above.

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

INTERROGATORY #16 LIST 1 (REVISED)

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 AMI 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.

Hydro One operates multiple smart metering systems (e.g. Trilliant, SmartSynch and MV90). Hydro One's long term strategy is to utilize the evolving Trilliant smart meter system for the bulk of its metering requirements. Upon acquiring the AMI system it will be managed as part of the smart meter portfolio. Within the longer term strategy the AMI system will continue to be operated until an assessment is made for it to be cost efficiently decommissioned and the end points migrated onto the Trilliant platform.

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

INTERROGATORY #20 LIST 1 (REVISED)

INTERROGATORY

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

In light of the Board's Motion Ruling, Hydro One has included its forecast cost savings comparative analysis for the "with" and "without" transaction scenario basis. Please refer to the revised response to Exhibit I, Tab 2, Schedule 2. Other studies and reports that consider expected productivity gains associated with the LDC sector consolidation include: the report of the Ontario Distribution Sector Review Panel *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First*, as well as the *Commission on the Reform of Ontario's Public Services: A Path to Sustainability and Excellence* ("the Drummond Report"). These reports are publicly available and well known to market participants.

Some of the incremental transaction costs relate to changes to Hydro One's billing, customer care and financial systems to integrate former NPDI customers into Hydro One's suite of applications, as noted in the revised response to Exhibit I, Tab 5, Schedule 15. The costs of these system changes will be recovered through Hydro One's current rates and productivity gains. Other transaction costs, such as the costs to bring equipment up to Hydro One standards, will be recovered through revenues from former NPDI customers as well as productivity savings.

However, both Hydro One and former NPDI customers will be better off in the long run as the transaction, including incremental transactions costs, will yield a lower combined revenue requirement than under the status quo "no transaction" scenario, based on the expected productivity savings shown in Table 1 of the revised response to Exhibit I, Tab 2, Schedule 2.

For more information on incremental transaction costs, please refer to the revised response to Exhibit I, Tab 5, Schedule 15. As these costs are expected to be incurred during the first 5 year period when the proposed rate freeze is in effect, they may effectively be considered as "one time" costs arising from the transaction.

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

INTERROGATORY #21 LIST 1 (REVISED)

INTERROGATORY

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

Table 1 of the revised interrogatory response to Exhibit I, Tab 2, Schedule 2 demonstrates the anticipated timing and amount for the savings in OM&A and capital expenditures over a ten year period as compared to the projected costs if Norfolk Power remained in operation and shows three scenarios representing high, low, and medium cases. This table demonstrates that the projected savings are sufficient to finance the cost of providing the rate reduction and five year rate freeze. As discussed in the revised response to Exhibit I, Tab 3, Schedule 7, the annual cost of the rate reduction is estimated to be approximately $115,000 per year.

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

INTERROGATORY #22 LIST 1 (REVISED)

INTERROGATORY

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

Please refer to the revised responses to Exhibit I, Tab 2, Schedule 2 and Exhibit I, Tab 5, Schedule 20.

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

INTERROGATORY #24 LIST 1 (REVISED)

INTERROGATORY

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

RESPONSE

Hydro One anticipates operating the NPDI assets with 30 fewer staff positions resulting in annual compensation savings of approximately $2 million per year. Hydro One expects to redeploy all NPDI staff to other existing positions within the Hydro One organization. This redeployment creates both efficiencies for the operation of the NPDI assets and provides knowledgeable staff to fill positions within the Hydro One workforce.

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

INTERROGATORY #25 LIST 1 (REVISED)

INTERROGATORY

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

Please refer to the revised response to Exhibit I, Tab 5, Schedule 26.

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

INTERROGATORY #26 LIST 1 (REVISED)

INTERROGATORY

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

Please refer to Attachment 1 for the organizational chart for the operations department at NPDI. Hydro One does not have an organizational chart at the level of detail requested for the service areas that will include NPDI post-acquisition.

Aggregate salary information has been provided to ensure personal and confidential information is protected.

As discussed in the revised response to Exhibit I, Tab 5, Schedule 24, Hydro One expects to eliminate 30 of the 46 positions currently required to operate NPDI. As Hydro One already has an operating organization in place that provides the same functions, such as senior management, professional, and some union staff, certain positions will no longer be required. The NPDI personnel currently in these roles will have the opportunity to transition to other positions within Hydro One.

Figure 1 below shows Hydro One's projection, by staff category, of the number of staff that currently are employed by NPDI and their respective aggregate salaries. NPDI direct staff will be transitioned to Hydro One's Simcoe Operating Centre and will become part of the centre's pool of resources working on everything within the larger service area encompassing NPDI's current service territory. Indirect staff, as noted above, are those staff that are expected to move to other positions within Hydro One once integration is complete. The left side of the Figure 1 breaks down the current staff between direct and indirect positions and shows the total salary paid by NPDI. The right hand side of Figure 1 illustrates the anticipated level of staffing and salaries required to operate the current NPDI service territory once acquired by Hydro One and operating as the NP business segment.

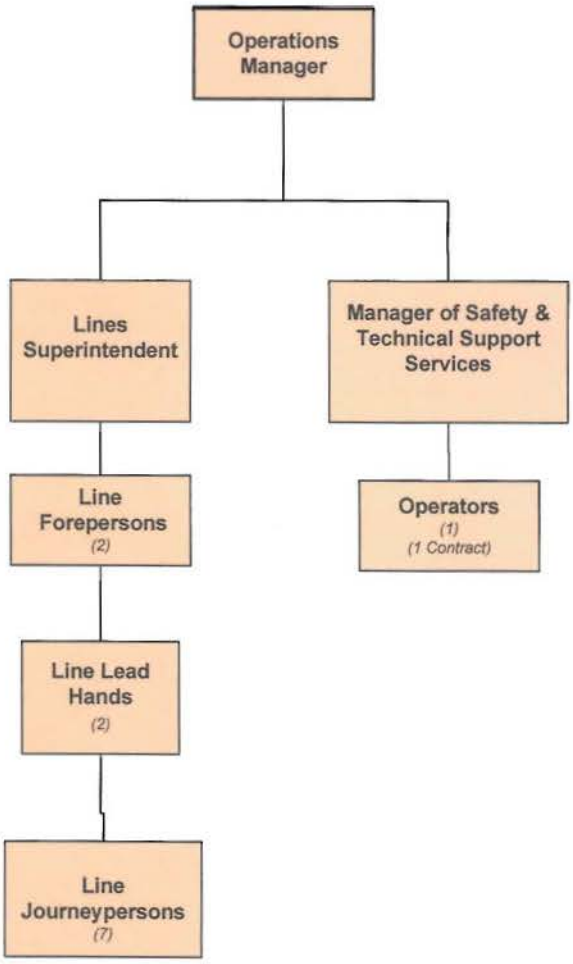
Figure 1

	NPDI Staffing and Salaries			Proposed HONI NP Staffing and Salaries	
Staff Category	Direct	Indirect	Salary($)	Direct	Salary ($)
Management		7	699,400		
Professional		8	637,400		
Inside Union	3	13	955,718	3	267,034
Outside Union	13	2	1,094,683	13	1,157,149
Total	16	30	3,387,202	16	1,424,184
Projected Salary Savings					**$1,963,018**

Figure 1 demonstrates that Hydro One anticipates an overall savings on salaries of approximately $2M annually, after accounting for differences between salary levels between NPDI and Hydro One.

NORFOLK POWER INC.

Operations Department October 2013



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

INTERROGATORY #27 LIST 1 (REVISED)

INTERROGATORY

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

Please refer to the revised response to Exhibit I, Tab 5, Schedule 26 for the number of positions that are expected to be absorbed into Hydro One. 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. Salary information, and therefore the related compensation impact for the staff that are expected to transition to Hydro One, is not available at this time as the integration plan is still under development.

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

INTERROGATORY #30 LIST 1 (REVISED)

INTERROGATORY

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 of10). 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

Please refer to the revised response to Exhibit I, Tab 5, Schedule 26. As noted in that response, existing NPDI staff will be either absorbed into Hydro One legacy distribution operation to fill expected retirement vacancies, or they will be assigned to the Hydro One Simcoe Operating Centre to provide service to the larger area, including the service area of the former NPDI. As the staff being absorbed into the Hydro One legacy business will assume existing vacated positions, there will be no incremental impact on Hydro One's compensation costs. As a result, as indicated on Table 1 of the revised response to Exhibit I, Tab 5, Schedule 26, there will be a net decrease in compensation costs and staffing levels due to the transaction.

As noted above, the staff not required to operate and maintain the NPDI Service Territory will fill vacant positions created through retirement and other attrition which will provide a further source of savings to Hydro One by providing highly trained and experienced staff to take on roles in Hydro One. This will generate savings to Hydro One in recruitment, training and development costs. These savings have not been estimated or included in the projected efficiency savings.

Please see the revised response to Exhibit I, Tab 2, Schedule 2 for information regarding how Hydro One intends to achieve efficiency savings from this transaction.

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

INTERROGATORY #32 LIST 1 (REVISED)

INTERROGATORY

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

Hydro One's revised response takes into consideration the determination of the Board that the applicants provide the Board and parties with information that will allow for the comparative analysis of the cost structure that will be introduced as a result of the transfer transaction as it relates to the existing cost structure along with any related non-financial impacts.

Please refer to the revised response to Exhibit I, Tab 2, Schedule 2 for a comparative cost forecast that considers a "with" and "without" transaction analysis. Please refer to the revised responses to Exhibit I, Tab 5, Schedule 15 and Exhibit I, Tab 5, Schedule 26 for more detailed information regarding incremental transition costs, and labour costs.

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

INTERROGATORY #44 LIST 1 (REVISED)

INTERROGATORY

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

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

Please refer to the revised response to Exhibit I, Tab 1, Schedule 4. Please note, there is no expected impact on outage response time due to the relocation of the Field Business Centre as the centre provides technical, scheduling and administrative support not operating functions.

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

INTERROGATORY #45 LIST 1 (REVISED)

INTERROGATORY

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

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

Please refer to the revised response to Exhibit I, Tab 2, Schedule 2 for a comparison of proposed capital expenditures under Hydro One operations for the years 2013 – 2017 versus the expected operations under the existing NPDI, under three scenarios, low, medium and high. An average breakdown of capital additions over the years 2013-2017 by category, assuming the acquisition occurs, is shown in the table below:

Table 1 - Breakdown of Capital Expenditures

	HONI NP	**Average Imputed Cost* ($M)**
Sustaining (e.g. Wood Poles)	19%	$0.6
Demand (e.g. Trouble Calls, New Connects)	39%	$1.3
Station Upgrades	6%	$0.2
System Reinforcement (e.g. voltage conversions)	27%	$0.9
Other	9%	$0.3
Total	**100%**	**$3.3**

**Based on annual $3.3 million capital expenditure.*

Table 2 below provides the actual expenditures for NPDI for the years 2007 to 2013 (excluding smart meter capital of $2.3 million).

Table 2 – NPDI Actual Capital Expenditures ($)

	2007	2008	2009	2010	2011	2012	2013 Forecast
Net Capital Expenditures	**5,464,405**	**3,945,182**	**9,068,354**	**3,433,608**	**3,715,158**	**4,130,762**	**3,470,500**

Please note the 2013 total is the year end forecast containing actuals to year end inclusive of an accrual for minor outstanding invoices.

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

INTERROGATORY #46 LIST 1 (REVISED)

INTERROGATORY

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

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

Hydro One's revised response takes into consideration the determination of the Board that the applicants provide the Board and parties with information that will allow for the comparative analysis of the cost structure that will be introduced as a result of the transfer transaction as it relates to the existing cost structure along with any related non-financial impacts.

Table 1 of Hydro One's revised response to Exhibit I, Tab 2, Schedule 2 demonstrates the anticipated timing and amount for the savings in OM&A and capital expenditures over a ten year period as compared to the projected costs if NPDI remained in operation and shows three scenarios representing high, medium, and low cases. This table demonstrates that the projected savings are sufficient to finance the incremental costs that are associated with the acquisition along with the 1% distribution rate decrease and five year rate freeze.

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

INTERROGATORY #54 LIST 1 (REVISED)

INTERROGATORY

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

RESPONSE

Please refer to the revised response to Exhibit I, Tab 4, Schedule 6.