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Regulatory Affairs

BY COURIER

March 11, 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 – Hydro One Networks Inc. MAAD S86 Application to Purchase Norfolk Power Inc. – Interrogatory Questions on Essex Powerlines Corporation, Bluewater Power Distribution Corporation, and Niagara-on-the-Lake Hydro Inc. Evidence

Please find attached Hydro One Networks Inc.'s Interrogatory questions on Essex Powerlines Corporation, Bluewater Power Distribution Corporation, and Niagara-on-the-Lake Hydro Inc.'s evidence. Two (2) hard copies will be sent to the Board shortly.

An electronic copy of the Interrogatories has been filed using the Board's Regulatory Electronic Submission System (RESS).

Sincerely,

ORIGINAL SIGNED BY IAN MALPASS FOR SUSAN FRANK

Susan Frank

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

HYDRO ONE NETWORKS INC. INTERROGATORY QUESTIONS ON ESSEX POWERLINES CORPORATION, BLUEWATER POWER DISTRIBUTION CORPORATION, AND NIAGARA-ON-THE-LAKE HYDRO INC. ("EBN") EVIDENCE

INTERROGATORY # 1

References:

(i) Evidence of Paula Zarnett on behalf of EBN, page 13

"BDR therefore concludes that the Applicants have not shown that any significant reductions in costs related to field operations. The planned reductions in capital work have not been shown to be prudent, and may be the source of harm to customers."

(ii) Evidence of Paula Zarnett on behalf of EBN, page 19

"BDR is also concerned that service quality and reliability may be reduced as a result of lower capital spending on the distribution system, resulting in harm to the customers."

(iii) Other OEB Proceedings as Follows:

EB-2013-0416:	Exhibit A, Tab 17, Schedule 7
	Exhibit D1, Tab 2, Schedule 1
EB-2012-0136:	Exhibit I, Tab 2, Schedule 1.11 Staff 12
	Technical Conference Response VECC 5, E1
EB-2012-0031:	Exhibit A, Tab 13, Schedule 2, pages 31 and 96
	Exhibit D1, Tab 4, Schedule 3
EB-2009-0096:	Exhibit D1, Tab 2, Schedule 1

(iv) Current Proceeding:

EB-2013-0187/0196/0198:	Exhibit I, Tab 1, Schedule 5
	Exhibit I, Tab 2, Schedule 3

Interrogatories

a) From an operating and maintenance perspective does BDR agree that NPDI's distribution system assets are of the same class and type as those that Hydro One Distribution currently owns and operates? If BDR cannot agree, please explain.

b) How did BDR take into account the fact that the NPDI operating and maintenance cost estimates post-acquisition have been developed using the same methodology and approach that Hydro One Distribution uses for the development of operating and maintenance cost estimates for its overall system assets?

c) If BDR was not aware of this fact (see References iii and iv above), how does this change BDR's conclusions reached in Reference (i) above?

INTERROGATORY NO. 2

References:

(i) EB-2013-0416, Exhibit B2, Tab 1, Schedule 2

(ii) EB-2013-0187, Exhibit A, Tab 3, Schedule 1, Attachment 11, Page 18

(iii) Evidence of Paula Zarnett on behalf of EBN, page 18

> "BDR concludes that the Applicants have not supported their claim that lower costs of debt are a certain benefit of the transaction, both because NPDI can and has already obtained cost effective debt capital from Infrastructure Ontario, and because there has been no commitment that Hydro One will refinance the higher-cost debt assumed in the transaction."

Preamble:

Hydro One Distribution in its 2015-2019 Cost of Service application filed evidence about its most recent debt issues (see reference (i) above). The cost of debt issued in 2012 and 2013 ranged from 2.78% to 4.59% for issuances varying in term from 5 to 50 years. These are standard corporate bonds which repay the entire principal amount at the end of their term.

NPDI's 2012 financial statements (per reference (ii) above), show that NPDI's debt consists of both bank loans ($13.1 million) and debentures from Infrastructure Ontario ($15.1 million). The cost of the debt associated with the bank loans consisted of two 25 year term swaps at 5.42% and 6.25% (plus BA stamping fees at 0.75%), and a 15-year term at 5.27% (plus BA stamping fee at 0.75%).

The rates provided in EBN's evidence available to municipal LDCs from Infrastructure Ontario are for serial and amortizing loans. Serial loans require repayments of an equal amount of principal semi-annually over the term of the loan, which halves the effective term of the loan. Similarly, amortizing loans repay principal over the term of the loan, which shortens the effective term. When comparing interest rates for loans it should be based on the same effective term. The periodic repayment of principal also increases refinancing risk as debt is repaid more frequently.

Interrogatories:

a) Given that NPDI has both bank loan swaps and Infrastructure Ontario debentures, why did BDR omit debt obtained from bank loans in its comparison of debt interest rates to Hydro One?

b) Does BDR agree that NPDI's rate base is projected to grow? If agreement cannot be provided, please provide a detailed rationale for this position.

c) Please confirm how BDR has taken into account the difference in the effective term between serial bonds (Infrastructure Ontario) and standard corporate bonds (Hydro One), when comparing the interest rates of the two types of debt.

INTERROGATORY NO. 3

Reference:

Evidence of Paula Zarnett on behalf of EBN, page 19

"With regard to Service Quality, BDR has concluded that information from public sources provides a basis for concern that NPDI customers may experience a decline in levels of Service with HONI. This information has not countered by evidence from the Applicants [sic]. BDR is also concerned that service quality and reliability may be reduced as a result of lower capital spending on the distribution system, resulting in harm to the customers."

Preamble:

As shown in response to EBN Interrogatory 26 (Exhibit I, Tab 5, Schedule 26), Figure 1 filed February 10, 2014, Hydro One plans to retain 13 of 15 NPDI direct staff (almost 90%) and manage them as part of a larger consolidated service area, out of Hydro One's existing Simcoe Operations Centre. The Simcoe Operating Centre is located less than 2 km from the existing Norfolk Power Operating Centre.

Interrogatory:

Did BDR consider the benefits of consolidated field operations, including retention of local knowledge, in a single location in making its conclusion regarding service levels? If yes, please explain how.