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April 4, 2014

VIA RESS, EMAIL AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

RE: Applications by Hydro One Inc., Norfolk Power Distribution Inc. and Hydro One Networks Inc.
EB-2013-0196, EB-2013-0187 and EB-2013-0198

In accordance with the Directions set out in the Board's Procedural Order No. 8, enclosed please find the joint written submissions of Hydro One Inc. and Hydro One Networks Inc.

Yours truly,

McCarthy Tétrault LLP

Gordon M. Nettleton

IN THE MATTER OF an application made by Hydro One Inc. for leave to purchase all of the issued and outstanding shares of Norfolk Power Inc. made pursuant to section 86(2)(b) of the *Ontario Energy Board Act*, 1998;

AND IN THE MATTER OF an application made by Norfolk Power Distribution Inc. seeking to include a rate rider in the 2013 OEB-approved rate schedule of Norfolk Power Distribution Inc. to give effect to a 1% reduction relative to 2012 base electricity delivery rates (exclusive of rate riders), made pursuant to section 78 of the *Ontario Energy Board Act*, 1998;

AND IN THE MATTER OF an application made by Norfolk Power Distribution Inc. for leave to transfer Norfolk Power Distribution Inc.'s distribution system to Hydro One Networks Inc. made pursuant to section 86(1)(a) of the *Ontario Energy Board Act*, 1998;

AND IN THE MATTER OF an application made by Norfolk Power Distribution Inc. for leave to transfer/assign Norfolk Power Distribution Inc.'s distribution licence and rate order to Hydro One Networks Inc. made pursuant to section 18 of the *Ontario Energy Board Act*, 1998.

HYDRO ONE INC. AND HYDRO ONE NETWORKS INC.
JOINT WRITTEN SUBMISSIONS
April 4, 2014

A. INTRODUCTION

In accordance with Procedural Order No. 8 dated January 24, 2014, Hydro One Inc. and Hydro One Networks Inc. ("Hydro One") are pleased to provide joint written submissions into the applications comprising Ontario Energy Board ("OEB" or "Board") Proceedings EB-2013-0187, EB-2013-0196 and EB-2013-0198. These applications are made to effect a commercial transaction between Hydro One and the County of Norfolk ("the County"). The County has agreed to sell, and Hydro One has agreed to purchase, all of the issued and outstanding shares of Norfolk Power Inc. ("NPI"). As part of the commercial arrangement, Hydro One has agreed to seek OEB approval to include a negative rate rider to reduce the base delivery distribution rates of Norfolk Power Distribution Inc. ("NPDI") by 1% using NPDI's 2012 rates approved in EB-2011-0272 and to have such reduced rate levels remain in effect for the next five years.

The commercial arrangements before the Board are significant. For the County, the contemplated transaction provides a path forward that allows for the monetization of assets based on a fair and competitive process. For Hydro One, the commercial transaction achieves the opportunity to realize cost and scale efficiencies intended to benefit ratepayers. For all parties, the transaction is another important step towards achieving the overarching public policy objectives of LDC sector consolidation, as described in the Ontario Distribution Sector Review Panel Report "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").

B. THE NO HARM TEST

Applications requiring merger, acquisition, amalgamation or divesture transaction approvals must meet the Board's "no harm test" as originally established in RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257 (the "Combined Hearing"). The Board has confirmed the "no harm test" applies in the present proceedings as noted in the Decision and Order dated January 24, 2014 ("SEC Decision") in the Motion filed by the School Energy Coalition ("SEC").

The "no harm test" considers whether a proposed transaction is expected to result in an overall adverse effect relative to the status quo and in relation to the Board's statutory objectives under section 1 of the *Ontario Energy Board Act*, 1998 ("the Act"). This test is assessed through consideration of two questions:

1. What impact will the transaction have on the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service?

2. What impact will the transaction have on economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and on the maintenance of a financially viable electricity industry?[1]

[1] RP 2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257, Page 5.

The SEC Decision clarifies that in the present circumstances the "no harm test" will be applied through the consideration of the likely effects of the transaction, namely, whether adverse effects are likely to arise in respect of the Board's objectives in section 1 of the Act.[2] Hydro One submits that this is achieved through: (1) consideration of prospective transaction cost structures and rates relative to the status quo; (2) consideration of the transaction on the financial viability of the acquiring utility relative to the status quo; and (3) consideration of non-financial impacts, including the adequacy and reliability of electricity service arising from the proposed transaction relative to the status quo.

The balance of this submission is organized to consider these three factors. In so doing, Hydro One will demonstrate that the evidentiary record before the Board strongly demonstrates that the "no harm test" is met and should thus allow the Board to approve and grant the relief sought.

C. APPLYING THE NO HARM TEST

1. Consideration of Prospective Transaction Cost Structures and Rates Relative to the Status Quo

(a) Prospective Cost Structure Comparative Analysis

Hydro One's amended Response to VECC Interrogatory #2[3] presented a comparative prospective cost structure analysis in Table 1 ("Table 1 Analysis") for the proposed transaction relative to the status quo extending out to the year 2023. Three case scenarios were presented. In Case 1, the low case scenario, the aggregate projected savings for the proposed transaction arising from reductions in OM&A and capital expenditures amounted to $38 million. In Cases 2 and 3, namely the medium and high case scenarios, aggregate projected savings totalled $48 and $58 million respectively. This evidence strongly supports the view that significant synergy savings are expected to result from the proposed transaction and that these savings will be more than sufficient to offset the costs associated with integration, as well as offset costs associated with the proposed NPDI 1% distribution rate reduction over the rate freeze period.

As noted in that same interrogatory response, one of the reasons that such significant savings are achievable is that Hydro One's existing service area is immediately adjacent to the NPDI

[2] *Ontario Energy Board Act*, 1998, Section 1(1).

[3] Exhibit I, Tab 2, Schedule 2.

service area. This 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 NPDI's. 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.

The elimination of artificial electrical borders between contiguous distributors creates opportunities for operational efficiencies. These include the ability to: rationalize local space needs through the elimination or repurposing of duplicate facilities like service centres; increased efficiency in operating and maintenance work schedules and the dispatch of crews over a larger service area; and, increased efficiency in utilizing 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 these advantages provide the potential to realize operating and capital savings, both in the short and long term, and all of which benefit ratepayers relative to the status quo.

Four functional areas where costs savings are expected due to efficiency and effectiveness improvements relative to the status quo are taken into account in the Table 1 Analysis. These are:

1. Savings Due to Hydro One's Asset Management Systems
2. Savings Due to Staff Integration
3. Operational Savings
4. Financial Savings

(i) Savings Due to Hydro One's Asset Management Systems

One of the key attributes in the Table 1 Analysis concerns savings resulting from the integration of the NPDI assets into the existing asset management programs that Hydro One utilizes for its existing distribution facilities. There is no dispute that NPDI's distribution assets are of the same class and type as Hydro One's distribution assets.[4] This provides the opportunity for these

[4] EBN IRR to HONI Interrogatory 1a).

assets to be managed using Hydro One's existing analytical methodology and tools in a manner that is consistent with how Hydro One's existing distribution system is managed.

Hydro One's cost savings expectations shown in the Table 1 Analysis are in sharp contrast to the only party that has presented contrary evidence in this proceeding, EBN. EBN's participation in this proceeding is made on behalf of three regulated distribution companies, namely Essex Powerlines Corporation, Bluewater Power Distribution Corporation and Niagara-on the Lake Hydro Inc. EBN's Evidence is in the form of a report prepared by a consultant with the firm BDR. BDR is purported to be a "consultant specializing in rate designs, cost and financial analysis, business planning and energy market restructuring".[5] The professional qualifications of Ms. Paula Zarnett, the author of the BDR Report, are consistent with BDR's area of specialization. She holds CMA and MBA designations but no qualifications or experience in the area of engineering and which pertains to the day to day operation and asset management of an electric distribution utility.[6] The BDR Report indicates that Ms. Zarnett was assisted by Mr. John A. McNeil. Mr. McNeil's qualifications are wanting of any experience in the engineering or operational areas that relate to distribution utility asset management. Mr. McNeil is a lawyer by training and an independent investment banker by profession.[7]

The opinions expressed in the EBN Evidence therefore are not based upon persons having experience in the area of electric distribution facility asset management, or their operations and care. This is an important consideration given that Hydro One's cost saving expectations are based on its actual collective experience in these areas and in respect of the very distribution system that the NPDI assets will become a part of.

Notwithstanding these deficiencies, EBN's evidence has raised allegations intended to cast doubt on Hydro One's ability to obtain cost efficiencies from the transaction by accusing Hydro One of not showing "*any significant reductions in costs related to field operations and capital work that can be attributed to the transaction and that potential harm may occur as a result of the planned capital program reductions*".[8] The EBN Evidence goes on to make a further and

[5] EBN Evidence Page 6 of Paula Zarnett Curriculum Vitae.
[6] EBN Evidence Pages 1-8 of Paula Zarnett Curriculum Vitae.
[7] EBN Evidence Page 1 of John A. McNeil Curriculum Vitae.
[8] EBN Evidence, Page 3.

equally unsubstantiated claim that Hydro One's "*savings estimate is overstated, and that the benefits that are achievable would not be achieved immediately*".[9]

Hydro One disagrees with these perspectives. A fundamental problem underlying EBN's Evidence, is that its authors have misunderstood the ramifications associated with having the NPDI assets operationally integrated and made subject to the same asset management and maintenance programs that are in place and used for Hydro One's existing distribution assets.

The Table 1 Analysis takes into account integrating NPDI's assets with the Hydro One distribution system and utilizing a common application of its existing asset management and maintenance programs. These programs are utilized by Hydro One to maintain system reliability and quality of service requirements for its much larger distribution system. None of the cost savings shown in the Table 1 Analysis will be realized unless this transaction proceeds and thereby allowing the NPDI assets to be included into Hydro One's existing asset management and maintenance programs.

Given this, it is entirely unclear how EBN's consultants have cogently reached the conclusion that the savings forecast in the Table 1 Analysis are in some way "*overstated*" or do not materialize as a result of the transaction. The savings are not "*overstated*" - they are the outcome of NPDI's assets being incorporated and assessed in Hydro One's existing asset management programs in the same manner as Hydro One's existing distribution assets. The savings materialize because of scale efficiencies and the consistent application of those programs, but they will do so only if the transaction is allowed to proceed and asset integration can occur.

Hydro One utilizes an Asset Risk Assessment ("ARA") process built on the foundation of the Asset Condition Assessment approach previously filed in proceeding EB-2009-0096.[10] This process determines the state of Hydro One's distribution system, identifies current asset needs, and creates a line of sight to future needs, which enables an in-depth view of asset risk, and improved decision-making.[11] The ARA incorporates field asset assessment including visual inspections and evaluation.[12] These are not matters that readily fall under the areas of

[9] EBN Evidence, Page 3.
[10] EB-2009-0096, Exhibit D1, Tab 2, Schedule 1, Page 1.
[11] EB-2013-0416, Exhibit A, Tab 17, Schedule 7, Page 1.
[12] EB-2013-0416, Exhibit A, Tab 17, Schedule 7, Page 2.

accounting, law or investment banking. This process allows Hydro One to assess the state of its assets and assess the risks that those assets pose and to develop appropriate plans in order to ensure reliability and service quality standards are met.[13] The risk factors used in this methodology are described in Exhibit A, Tab 17, Schedule 7 of EB-2013-0416. The ARA process was used to assess the capital asset needs of serving the NPDI service territory. The assessment conveyed the state of the NPDI distribution system, identified current asset needs, and created a line of sight to future asset needs. Using the ARA process has enabled Hydro One to project the NPDI OM&A and capital expenditure requirements and the resulting potential savings, as shown in the Table 1 Analysis. Contrary to EBN's opinion that reduced capital expenditures ultimately lead to reduced reliability and quality of service, Hydro One believes that efficient and effective system planning that identifies the needs of the system, such as the ARA process, is more prudent in determining asset needs that drive capital spending. This process resulted in the reduced capital expenditure forecast for the NPDI service territory as referenced above.

(ii) Savings Due to Staff Integration

The savings shown in the Table 1 Analysis are also based on a reduction in the number of positions that are currently used to manage and operate the affairs of NPDI. As discussed in Exhibit I, Tab 5, Schedule 26, Hydro One expects to eliminate 30 of the 46 positions. This change results in a projected annual staff savings of approximately $2 million, while still allowing the affected staff to be absorbed within Hydro One and help address its aging workforce and the large number of retirements expected to occur in its existing business.[14]

Hydro One's evidence states that sixteen direct staff currently with NPDI will be transitioned to Hydro One's Simcoe Operating Centre ("Centre") where they will form part of the Centre's pool of resources working within a larger service area that incorporates NPDI's existing territory. This will allow more efficient scheduling of work by avoiding duplicate efforts that arise from artificial electrical borders as mentioned in the amended Interrogatory Response to VECC #2.[15] Smaller utilities, like NPDI, require staff in management, back-office and support functions – including some provision for turnover and back-fill that would not be required once the utility is

[13] EB-2013-0416., Exhibit A, Tab 17, Schedule 7.

[14] Exhibit I, Tab 5, Schedule 30 and EB-2013-0416, Exhibit C1, Tab 3, Schedule 1, Page 2.

[15] Exhibit I, Tab 2, Schedule 2.

integrated into Hydro One. Hydro One is able to eliminate the need to carry NPDI's indirect staff as it can draw upon its existing workforce.

By absorbing NPDI staff, Hydro One will also realize savings by gaining knowledgeable, experienced utility staff, avoiding training costs and avoiding recruitment costs associated with hiring new staff.

In EBN's Evidence, Hydro One's projected overall salary savings are examined and the conclusion reached is that "*the Applicants' savings estimate is overstated, and that such benefits which may be achievable would not be achieved immediately. Furthermore, if HONI is in fact able to eliminate 30 positions within NPDI, while maintaining its own level of FTEs at levels determined for its legacy service territory and customers, it suggests that HONI's resources are above the efficient levels to serve the legacy service territory and customers*".[16]

The basis of Ms. Zarnett and Mr. McNeil's opinion must again be seriously questioned. These opinions are not made by persons having experience in the running of the day to day affairs of an electrical distribution utility, let alone the experience of actually carrying out the asset integration of a small distribution utility into an organization such as Hydro One. This is the fundamental weakness to the EBN Evidence.

Hydro One maintains that salary savings do exist. The ability to achieve these savings has nothing to do with the efficiency levels of its existing business. As noted above, NPDI staff absorbed within Hydro One will not create incremental positions but instead will fill existing positions vacated due to retirement and attrition.[17]

EBN's response to Board Interrogatory #2.1 suggests that with regard to field staff requirements, only marginal savings should be expected because only two staff reductions are contemplated and this reduction will in any event be offset by higher Hydro One compensation levels. Yet the problem with EBN's response and analysis is that apparently no regard should be given to the $2 million annual savings that Hydro One expects to result from the elimination of the NPDI positions and the integration of the functional responsibilities with existing Hydro One staff positions or full time equivalents. Why integration and the resulting $2 million annual savings arising from it may properly be ignored, has simply not been explained.

[16] EBN Evidence, Page 16.

[17] Exhibit I, Tab 5, Schedule 26.

Moreover, when EBN was asked in Board Staff Interrogatory #2.2 to identify savings projected by Hydro One that are not achievable, reference was made to a table in section 2.3.2 of EBN's Evidence. This table outlined functions including items such as: CDM reporting, financing and accounting activities, call centre, separate rate schedules, etc. Hydro One currently has staff and processes in place to complete these functions and any corresponding reporting needs for its existing business. Therefore, Hydro One believes that the workload in performing these incremental back office functions for the NPDI service territory will not represent a material impact on existing staff. Reliance on Table 2.3.2 does not provide any cogent basis for Hydro One's projected $2 million annual savings to be ignored or viewed as unachievable.

(iii) Operational Savings

A third area of cost savings taken into account in the Table 1 Analysis concerns anticipated operational savings. Hydro One's evidence is that operational savings can be achieved from the elimination of electrical borders which results in:

- Savings due to the elimination of redundant administrative and processing functions.
- Savings from scheduling efficiencies as Hydro One crews travel the same roads and drive by the same facilities as the existing line crews from NPDI.
- Savings from the elimination of duplicate back office systems (i.e., billing, outage, finance, security, etc.) and corresponding savings from the allocation of the costs of the remaining back office systems over a larger customer base.

As previously noted, Hydro One submits that the elimination of electrical borders also allows for more rational and efficient planning and development of the distribution system.[18] This conclusion is entirely consistent with the Drummond Report.[19]

Other operational savings will transpire from reduced: Board of Director costs; membership fees to energy associations; regulatory filing expenses; CDM program administration costs, and

[18] Exhibit I, Tab 2, Schedule 2, Page 2.
[19] The Drummond Report, Page 332.

overall industry benefits to various agencies within the Ontario energy industry.[20] In addition, Hydro One cited in Response to VECC Interrogatory #3, efficiencies expected to be achieved using existing systems, processes and corporate shared services within Hydro One.[21]

Efficiencies from the consolidation of Hydro One and NPDI's operating business centres were also described in Response to Board Staff Interrogatory #4.[22] Consolidation of these functional operations will allow Hydro One to use space within NPDI's existing facility and thereby mitigate Hydro One's incremental cost to lease, refurbish or construct new office space to house its existing Dundas Field Business Centre under a status quo scenario.

EBN's evidence questioned Hydro One's ability to obtain the proposed operational savings. Contrary to EBN's conclusion in response to Board Staff Interrogatory #1.1 "*that HONI has not provided support for its ability to achieve savings in this specific transaction*", Hydro One submits that adequate evidence was provided to support how savings specific to this transaction will be achieved both from the elimination of electrical borders and overall operational savings. What is remarkable in this EBN Response is notwithstanding the view that inadequate information was provided by Hydro One, EBN went on to effectively recant its response by agreeing "*there is potential (i.e. that it is possible) to gain operational savings from the elimination of electrical borders between contiguous distributors in general*"[23]. EBN's changed stance appears to be that while cost savings are possible, they have not been demonstrated to arise in the evidence filed by Hydro One. With respect, such a position is entirely inconsistent with the evidence filed by Hydro One, and in particular, Hydro One's amended Response to VECC Interrogatory #2.[24]

(iv) Financing

The fourth area of prospective and comparative cost structure savings concerns financing costs. NPDI customers will realize a benefit by accessing lower cost debt. This result can be achieved in the context of this transaction given that Hydro One's long-term weighted average cost of

[20] Exhibit I, Tab 2, Schedule 2, Page 5.
[21] Exhibit I, Tab 2, Schedule 3.
[22] Exhibit I, Tab 1, Schedule 4.
[23] EBN IRR to Board Staff, Page 2.
[24] Exhibit I, Tab 2, Schedule 2.

debt is based on a larger portfolio of debt instruments as compared to NPDI's long-term debt issuances.

EBN's evidence questions benefits arising from financing costs:

> *"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.*
>
> *Even if Hydro One's costs of capital could be shown to be significantly lower today (which has in fact not been demonstrated), there is no evidence that this will continue into the future, when its cost of capital may be impacted both by increasing demands for borrowing to fund infrastructure and by the effects of having borrowed to fund the premiums of acquisition which may or may not be repaid to the shareholder through cost efficiencies."*[25]

Hydro One submits that EBN's consultant report has drawn incorrect conclusions on the comparison of NPDI's debt rates with Hydro One. This concern was Hydro One's reason for asking EBN to provide a response to Hydro One Interrogatory #2. EBN's response to this request demonstrates a failure to recognize that 46% of NPDI's debt is from bank loans (with a higher interest rate than Hydro One's long term debt) and it has failed to distinguish the difference in effective terms between Hydro One's corporate bonds and NPDI's serial bonds. The debt portfolio accessible to Hydro One provides a lower overall cost of borrowing and mitigates the refinancing risk associated with serial debt that is repaid more frequently.

EBN's Evidence makes reference to Hydro One's debt issuance, Infrastructure Ontario lending rates to local municipalities and NPDI long-term debt cost. In doing so, it inferred that NPDI had access to lower cost debt and commented that municipal LDCs had access to lower interest rates from Infrastructure Ontario than Hydro One's financing rates.[26] However, in EBN's response to Hydro One Interrogatory #2a, EBN states, "*it was not BDR's intention to analyze or compare the existing loans or embedded cost of debt of HONI or NPDI. The intention of the*

[25] EBN Evidence, Page 18.

[26] EBN Intervenor Evidence, Page 17.

comparison was to establish that NPDI, as a municipally owned utility, has access to a source of low cost debt funding which will be lost with approval of the acquisition". Hydro One fails to understand why these rates were included in EBN's evidence if the intent was not to compare debt rates.

As shown in NPDI's 2012 financial statements, NPDI's bank loans, which as noted above account for 46% of the total long-term debt, carry a higher interest rate (ranging from 6.12% to 7%)[27] than Hydro One's long-term debt.[28] With respect to NPDI's entire long term debt portfolio, the 2012 weighted average long-term debt rate of NPDI is 5.59%[29] compared to Hydro One Distribution's rate of 5.24%.[30] This result confirms that Hydro One has a lower cost of debt. As such, Hydro One reasserts that there are financing savings available from this transaction as outlined in Hydro One's Response to VECC Interrogatory #2.

(b) Rate Freeze Commitments

Hydro One's commitment to reduce and freeze NPDI's existing distribution delivery rate for a five-year period is strong evidence in support of the view that no harm will accrue to customers impacted by this transaction.[31] The evidence is that the distribution delivery rate charged to NPDI's customers will be reduced by 1% and then frozen for a five-year period. The present value of the customer benefit from the 1% rate reduction is approximately $490,000.[32] This does not take into account the 5-year rate freeze and the fact that NPDI's status quo rates would have increased under the Board's IRM rate-making regime. Hydro One Distribution's customer rates are also protected from price effects of this transaction. Recall that Hydro One Distribution filed a five-year cost of service application on December 19, 2013.[33] This application was based on Hydro One's existing customer base and those applied-for rates do not include any capital or OM&A costs associated with serving the NPDI service territory.[34]

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[27] Includes stamping fees.
[28] Exhibit A, Tab 3, Schedule 1, Attachment 8, Page 61.
[29] EB-2011-0272 Draft Rate Order, Revenue Requirement Work Form, Cost of Capital Tab.
[30] EB-2013-0416, Exhibit B2, Tab 1, Schedule 2, Page 3.
[31] Exhibit A, Tab 2, Schedule 1, Page 1.
[32] Exhibit I, Tab 3, Schedule 7.
[33] EB-2013-0416.
[34] Exhibit A, Tab 2, Schedule 1, Page 5.

In the long term, because fixed costs of operations will be spread over a wider customer base, Hydro One's evidence is that it reasonably expects its customers to see a small benefit with respect to their rates resulting from the proposed transaction.[35] The spreading of fixed costs over a wider customer base is a reasonable and cogent expectation for this conclusion.

2. Consideration of the Transaction on the Financial Viability of the Acquiring Utility Relative to the Status Quo

As noted above, the second element or issue taken into account in the "no harm test" is whether the purchase price is set at a level that would create a financial burden on the acquiring utility and whether any premium in the purchase price will find its way into rates.

The evidence before the Board in respect of this matter is clear. Based on the 2012 audited financial statements filed as Attachment 7 in the pre-filed evidence, Hydro One Inc. ("HOI") has total assets of $20.8 billion. The value of the proposed transaction is $93 million, which includes the assumption of NPDI's $27 million of long-term debt. This obligation amounts to less than 1 percent of HOI's long-term debt. Based on these calculations alone there is no reasonable basis to suggest that the proposed transaction will have a material adverse impact on the financial viability of HOI.

EBN's evidence however, adopts a different perspective. Recall that EBN's initial position was that, "*the Applicants have not provided any information to show that the excess premiums involved in this transaction, aggregated with the premiums from other transactions in the works or planned, will not affect the capacity of Hydro One to borrow, or increase its cost to do so*".[36]

EBN then appears to have changed this position in response to Board Staff Interrogatory 3 when it stated, "*it is not BDR's position that this transaction alone is of sufficient magnitude to affect financing capability or cost for HONI or its parent*".[37]

The crux of EBN's issue appears to be that the "no harm test" must require an applicant to not only address transactions that are before the Board, but it must also provide sufficient evidence about its future commercial endeavours and to disclose such information to parties, including

[35] Exhibit A, Tab 2, Schedule 1, Page 2.
[36] EBN Evidence, Page 4-5.
[37] EBN IRR to Board Staff, Page 6.

those like EBN who may be competing in such future transactions. EBN's position is a convenient way to have the Board request the dissemination of commercially sensitive and competitive market information. In Hydro One's view, EBN's position does not comport with the overarching principles of the "no harm test". The disclosure of, or inquiry into, yet to be consummated transactions would unnecessarily impede transactions from being freely negotiated by willing buyers and willing sellers. The issue of whether a transaction causes financial burden to an acquiring utility is intended to be transaction-specific, and only based on the transaction then before the Board. This is the proper context in which the "no harm test" was developed; and the context in which it should continue to be applied.

3. Consideration of Non-Financial Impacts

(a) Adequacy, Reliability and Quality of Electricity Service

Hydro One maintains that the service quality and reliability of NPDI will not be negatively impacted as a result of this transaction. As referenced in Hydro One's response to Board Staff Interrogatory #5:

> *"Hydro One's reliability in its Simcoe Operations area, which consists of the balance of Norfolk County not served by Norfolk Power, is already equal to or better than the reliability experienced by Norfolk Power customers….With the acquisition of NPDI, Hydro One will control all of the electricity distribution assets across the county. This will allow more efficient operations and will optimize the use of existing facilities and equipment resulting in the provision of equal and/or better service. One such example includes the ability to optimize supply to the Village of Delhi. Both Hydro One and Norfolk Power own separate 27.6 kV feeders in the area. There is an option to eliminate the radial feed to Delhi, thus improving on reliability".*

EBN argues:

> *"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 been countered by evidence from the Applicants. Based on the Service Quality Indicators (SQIs) reported by HONI in the 2012 Statistical*

> *Yearbook, the overall standard of service by HONI for reliability and emergency response is lower than the standard of service of NPDI. There is no evidence that HONI plans to maintain the historic local service levels in its service to NPDI customers. If HONI allows the level of service to deteriorate to the levels that it maintains for its legacy customers, the NPDI customers will be harmed by the transaction".*[38]

Hydro One has repeatedly made the point that the use of the 2012 Statistical Yearbook provincial average data is not a true reflection of the local service quality to be expected by NPDI customers after the transaction. Rather, the SQIs of Hydro One's feeders within the area of NPDI should be utilized for comparison purposes, as provided in Hydro One's response to EBN Interrogatory #10 and #12.

D. CONCLUSIONS

Based on the foregoing, Hydro One submits that the evidence before the Board weighs strongly in favour of granting the requested relief.

The transaction is the result of a negotiated outcome between willing buyers and willing sellers. The transaction ensures a local presence within NPDI's office on Simcoe Street for three years and, during that three-year period, Hydro One's Dundas Field Business Centre will be relocated to the Town of Simcoe. An Advisory Committee will be established to provide a forum for communication between Hydro One and the county.[39] Hydro One is the natural consolidator in the Norfolk area, given that its existing service territory is contiguous to the distribution service area of NPDI.[40] The transaction provides NPDI customers with a 1% reduction in distribution delivery rates and freezes those rates for five years. Hydro One is able to provide job security for all NPDI staff.

The transaction has been demonstrated not to cause adverse effects in terms of the financial and non-financial factors identified in the Board's objectives. The evidentiary record demonstrates that NPDI and Hydro One ratepayers will in fact benefit from the transaction. Comparison of prospective cost structures to status quo cost structures demonstrates that cost

[38] EBN Evidence, Page 4.

[39] Exhibit A, Tab 2, Schedule 1, Page 2.

[40] Exhibit I, Tab 2, Schedule 2, Attachment 1.

savings are expected and at levels that exceed the costs associated with the transaction, and notwithstanding the commitments made to reduce and freeze rates. Evidence concerning non-financial factors, namely reliability and quality of electricity service is equally compelling. As the owner and operator of the largest electricity distribution system in the Province there are compelling reasons to expect Hydro One to continue to ensure the ongoing safety and system integrity of the combined distribution system such that the quality and reliability of electricity service provided to ratepayers is maintained.

As discussed at the outset of this submission, the "no harm test" analysis addresses the following two questions:

1. What impact will the transaction have on the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service?

2. What impact will the transaction have on economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and on the maintenance of a financially viable electricity industry?[41]

In Hydro One's respectful submission and based on the foregoing, the transaction has been demonstrated to favourably impact the interest of consumers with respect to price and maintain reliability and quality of electricity service requirements. Likewise, the transaction has been demonstrated to promote the economic efficiency and cost effectiveness in the distribution of electricity, and will have no adverse effect on the maintenance of a financially viable electricity industry.

[41] RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257, Page 5.

All of which is respectfully submitted this 4th day of April 2014.

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