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BY E-MAIL

September 11, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Board Staff Interrogatories
Applications by Hydro One Inc. and Woodstock Hydro Services Inc.
EB-2014- 0213**

In accordance with Procedural Order No. 1, please find attached Board Staff's interrogatories with respect to the above referenced applications.

Yours truly,

Original signed by

Judith Fernandes
Project Advisor
Applications Division

Attachment

cc: All Parties to the Proceeding



Board Staff Interrogatories

APPLICATION BY HYDRO ONE INC. FOR LEAVE TO PURCHASE ALL OF THE ISSUED AND OUTSTANDING SHARES OF WOODSTOCK HYDRO HOLDINGS INC.

APPLICATION BY WOODSTOCK HYDRO SERVICES INC. SEEKING TO INCLUDE A RATE RIDER IN ITS 2014 ONTARIO ENERGY BOARD APPROVED RATE SCHEDULE TO GIVE EFFECT TO A 1% REDUCTION RELATIVE TO 2014 BASE ELECTRICITY DELIVERY RATES (EXCLUSIVE OF RATE RIDERS)

APPLICATION BY WOODSTOCK HYDRO SERVICES INC. FOR LEAVE TO TRANSFER ITS DISTRIBUTION SYSTEM TO HYDRO ONE NETWORKS INC.

APPLICATION BY WOODSTOCK HYDRO SERVICES INC. FOR LEAVE TO TRANSFER ITS DISTRIBUTION LICENCE AND RATE ORDER TO HYDRO ONE NETWORKS INC.

EB-2014-0213

September 11, 2014

INTERROGATORY NO. 1

Reference: Exhibit A, Tab 3, Schedule 1, Page 14, Section 1.8.2:

The premium paid over the book value on the transaction will not have a material impact on HOI financial viability. In addition, the premium paid over the net book value of the assets will not be recovered through Hydro One rates.

- 1.1 The application indicates that the premium paid will not be recovered through rates. Please confirm that the premium paid will not impact any component of a future Hydro One Networks Inc.'s ("HONI") or HONI Woodstock's revenue requirement.
- 1.2 Please provide information supporting the claim that the premium paid will not affect the financial viability of HONI or Hydro One Inc. ("HOI") and indicate whether, and if so how and by when, HONI expects to recover the premium paid.
- 1.3 Please describe how the premium paid will be accounted for in HONI's books of accounts, i.e. whether it will be written off or recognized as goodwill.
- 1.4 Please describe how the premium paid will be treated for regulatory purposes, i.e. whether it will be written off or recognized as goodwill as part of PP&E.

INTERROGATORY NO. 2

Reference: Exhibit A, Tab 2, Schedule 1, Page 2, Lines 8-11:

Hydro One that the resultant cost structures from proceeding with the transaction will result in ongoing operations, maintenance and administrative ("OM&A") savings of approximately \$3.0 million per year and reductions in capital expenditures of approximately 1.0 million per year. These savings will result in downward pressure on WHSI's cost structure which would tend to decrease rates relative to the status quo. Quantitative savings will be realized through cost synergies in the following areas, which will be discussed in more detail in the section following:

Reference: Exhibit A, Tab 2, Schedule 1, Page 7, Lines 1-10:

Hydro One utilizes an ARA process. 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. The ARA incorporates field asset assessment including visual inspections and evaluation. 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 are met. This assessment considered the state of the WHSI distribution system, identified current asset needs, and created a line of sight to future asset needs.

- 2.1 Please provide a breakdown of the cost savings for each of the areas identified in Exhibit A, Tab 2, Page 2, Lines 16-26 and Page 3, Lines 1-4.
- 2.2. Please provide details of the ARA assessment process including the assumptions, analysis and calculations used to arrive at the projected net annual savings amounts.
- 2.3. Please identify any factors that may affect the achievement of the expected efficiencies and the recovery of costs associated with the proposed transaction in the timelines projected.
- 2.4. Please describe the changes or reductions in capital investments that are proposed as a result of the ARA assessment process in comparison to WHSI's original plans. Please provide reasons for proposed changes.

INTERROGATORY NO. 3

Reference: Exhibit A, Tab 3, Schedule 1, Page 11-12, Section 1.6.5:

As industry rates evolve over the next five-plus years, Hydro One expects to file a rate application consistent with the OEB rate-making principles (e.g. fair, practical, clear, rate stability and effective cost recovery of revenue requirement). The rate application at that time may propose: (i) to create new acquired customer rate classes; (ii) to move acquired customers to an appropriate Hydro One rate class existing at that time; or (iii) some other option. Hydro One will assess which of these approaches will be adopted at the time of setting new rates for the current WHSI, considering the bill impact on both legacy and acquired customers. Some considerations in deciding on rate strategies include the number and characteristic of the acquired utilities, customer growth in the acquired utilities and potential development within the electricity regulatory arena in Ontario.

- 3.1. Please confirm that, at the time of rebasing, HONI's proposed rate classes for Woodstock Hydro Services Inc. ("WHSI") customers will reflect the costs to serve the WHSI service area, as impacted by the productivity gains due to the consolidation.
- 3.2. Please confirm that HONI's rate harmonization plan will include measures to address the rate differentials, with particular focus on potential rate shock for WHSI customers. Please provide a description of these measures.

INTERROGATORY NO. 4

Reference: Exhibit A, Tab 2, Schedule 1, Page 10, Lines 12-17:

The proposed transaction protects WHSI customers through a commitment to freeze base electricity distribution delivery rates for a period of five years from closing of this transaction. In addition, WHSI is seeking approval to implement a negative rate rider that will result in a further 1% reduction of 2014 base delivery rates as approved by the OEB in EB-2013-0182. The cost of providing this rate rider will be obtained from the synergies that are generated from consolidating WHSI's operations into Hydro One.

Reference: Exhibit A, Tab 1, Schedule 1, Page 5, Lines 12-14:

Hydro One is applying for approval to continue to track costs to the regulatory asset accounts currently approved by the OEB for WHSI and to seek disposition of their balances at a future date.

- 4.1 Please provide the cost of providing the proposed rate reduction per annum, including the analysis, assumptions and calculations used.
- 4.2 According to WHSI's RRR 2.1.7 filings as of December 31, 2013, it had a credit balance of approximately \$1.4 million in its Group 1 accounts, and a debit balance of approximately \$1.6 million in its Group 2 accounts. Based on the 2013 kWh delivered by WHSI, it meets the threshold criteria for disposition of Group 1 accounts.
 - a. Please confirm if HONI is planning to request the disposition of WHSI's Group 1 accounts before its next rebasing. Please comment on HONI's plans for proposing disposition of the deferral and variance accounts, in general.
 - b. Please confirm if HONI is planning to maintain records of WHSI's deferral and variance accounts separately from its own balances.
 - c. Please confirm whether HONI will request for the disposition of the balances up to the date of acquisition to the service area where they originated.

INTERROGATORY NO. 5

Reference: Exhibit A, Tab 2, Schedule 1, Page 19, Lines 26-28; Page 20, Lines 1-7:

Hydro One requests approval to utilize USGAAP for accounting purposes in relation to Hydro One Woodstock. Approval to use USGAAP for Hydro One Woodstock will simplify any future rate integration to HONI Distribution; will avoid incremental costs or productivity losses by simplifying processes and avoiding the need for workarounds; and will facilitate Hydro One Inc.'s consolidated reporting for securities filing purposes (possibly including future U.S. Securities and Exchange Commission), thus avoiding incremental costs and/or reduced productivity. By using one uniform standard of reporting, Hydro One seeks to achieve integration and scale efficiencies. Given the relative small size of the WHSI operations (when compared to Hydro One), Hydro One believes it would be inefficient and costly to maintain two equally robust yet distinct accounting regimes for divisions within Hydro One.

- 5.1. Please confirm that HONI's plan to use USGAAP for WHSI will not impose additional cost to WHSI's customers. If this cannot be confirmed, please provide the details of expected costs and whether recovery of these costs will be sought from customers.