

**Hydro One Networks Inc.**

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

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



**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs

BY COURIER

September 22, 2014

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

Dear Ms. Walli:

**EB-2014-0213 – Hydro One Networks Inc. MAAD S86 to Purchase Woodstock Hydro Services Inc. – Hydro One Networks’ Responses to Interrogatory Questions**

Please find attached an electronic copy of responses provided by Hydro One Networks Inc. to Interrogatory questions. Two (2) hard copies will be sent to the Board shortly.

Below is the Tab numbers for each intervenor:

Tab	Intervenor
1	Ontario Energy Board (Board Staff)
2	School Energy Coalition (SEC)
3	Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)
4	Township of Zorra (TOZ)

An electronic copy of the Interrogatories, have been filed using the Board’s Regulatory Electronic Submission System and a copy of the successful submission confirmation is attached.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

cc. Intervenors

1                                    **Ontario Energy Board (Board Staff) INTERROGATORY #1**

2  
3                                    **Interrogatory**

4  
5                                    **Reference:** Exhibit A, Tab 3, Schedule 1, Page 14, Section 1.8.2:

6  
7                                    *The premium paid over the book value on the transaction will not have a material impact*  
8                                    *on HOI financial viability. In addition, the premium paid over the net book value of the*  
9                                    *assets will not be recovered through Hydro One rates.*

- 10  
11                                    1.1    The application indicates that the premium paid will not be recovered through rates.  
12                                           Please confirm that the premium paid will not impact any component of a future  
13                                           Hydro One Networks Inc.'s ("HONI") or HONI Woodstock's revenue requirement.  
14  
15                                    1.2    Please provide information supporting the claim that the premium paid will not  
16                                           affect the financial viability of HONI or Hydro One Inc. ("HOI") and indicate  
17                                           whether, and if so how and by when, HONI expects to recover the premium paid.  
18  
19                                    1.3    Please describe how the premium paid will be accounted for in HONI's books of  
20                                           accounts, i.e. whether it will be written off or recognized as goodwill.  
21  
22                                    1.4    Please describe how the premium paid will be treated for regulatory purposes, i.e.  
23                                           whether it will be written off or recognized as goodwill as part of PP&E.

24  
25                                    **Response**

- 26  
27                                    1.1    Hydro One confirms that any premium paid for the assets of WHSI will not impact  
28                                           any future revenue requirement(s). Upon integration, only the net book value of  
29                                           WHSI's assets plus associated working capital will be included in rate base.  
30  
31                                    1.2    The premium paid to acquire the outstanding shares of WHHI will have no material  
32                                           impact on HOI, whose total assets per the 2013 Financial Statements are \$21.6  
33                                           billion. As stated in Exhibit A, Tab 3, Schedule 1, section 1.8.2, the premium paid  
34                                           will not be included in any future revenue requirement(s) and thus will not be  
35                                           funded by ratepayers.  
36  
37                                    1.3    The premium paid will be recorded as goodwill in the Financial Statements of  
38                                           Hydro One Networks Inc.  
39  
40                                    1.4    For regulatory purposes, the premium paid (i.e. goodwill) will not be recognized as  
41                                           part of PP&E in Hydro One's rate base.



**Table 1**

<b>Savings / Synergy Category</b>	<b>Annual Range (\$ million)</b>	
Back-Office Staff	0.8	1.0
Senior Management / Corporate Governance	0.6	0.7
IT Costs (e.g. maintenance fees)	0.2	0.3
Smart Grid / Regulatory / Insurance / Net Other	<u>1.1</u>	<u>1.3</u>
<b>Total OM&amp;A</b>	<b>2.7</b>	<b>3.3</b>
<b>Total Capital (including Reprioritization &amp; IT Costs)</b>	<b>0.5</b>	<b>1.3</b>

Hydro One wishes to emphasize that these forecast savings were not based on a bottom up forecast approach in respect of the synergy categories. Rather, the overall expected savings described in Exhibit A, Tab 2, Schedule 1 page 2 at Line 10 (i.e. \$4 million per year) is based upon Hydro One comparing WHSI, remaining as a stand-alone distribution utility, to having the WHSI operations becoming integrated with Hydro One's existing operations.

2.2 Hydro One's integration projections are based on its overall operations. The ARA process encompasses the assessment of a multitude of applicable asset categories. In the WHSI integration case, Hydro One looked at 11 specific categorical functions outlined below:

- Vegetation
- Lines Maintenance and Refurbishment
- Demand
- Wood Pole Replacement
- Stations
- Environment
- Other Sustainment
- Customer Connections / Upgrades
- System Reinforcement
- Distributed Generation
- Other Development

Field assessment and visual inspections and evaluations were completed and asset information was collected on existing WHSI assets such as asset age, asset manufacturer, number of assets, asset condition, etc. This data was entered into the ARA model which then provided an overall level of spending to serve the existing WHSI service territory as was provided in Hydro One's pre-filed evidence referenced in Exhibit A, Tab 2, Schedule 1. The aggregate spend generated by the model was then compared to the WHSI's aggregate spend to project the net annual savings provided. Hydro One's ARA process is further described in Exhibit D1,

1 Tab 2, Schedule 1 of EB-2009-0096 and Exhibit A, Tab 17, Schedule 17 of EB-  
2 2013-0416.

3  
4 The ARA process uses a series of algorithms via the Asset Analytics solution as  
5 described in Exhibit A, Tab 17, Schedule 3 of EB-2013-0416. The Asset Analytics  
6 solution provides a common understanding of asset risk and comparability between  
7 assets of the same type along with standardized reports and dashboards. Asset  
8 Analytics provides Hydro One with a unified geospatial view of multiple data  
9 sources, providing insight into the condition, demographics, performance,  
10 utilization, economics and criticality of specific assets. This assists asset  
11 investment planners in assessing and generating and evaluating potential investment  
12 alternatives as the algorithms compare the inputted set or series of sets of data to  
13 historical asset information accumulated from Hydro One's existing operations.  
14 The model then uses a complex series of equations and assumptions and calculates  
15 a statistically significant probability analysis that is then used to produce the  
16 expected operating costs for the entered data set. Assumptions used in the ARA  
17 process are dependent upon the individual algorithms used in each particular  
18 analysis undertaken. In the Applicant's view, a listing of all assumptions and  
19 individual formulas used in the ARA process would not provide any tangible or  
20 useful information as it concerns the exercise at hand. Instead, Hydro One relies on  
21 the fact that ARA process is relied upon by Hydro One for its ongoing operations  
22 throughout the province in respect of developing operating and maintenance cost  
23 expectations and schedules for all existing assets. The accuracy of this modelling  
24 information is continuously improved by and through continued input of actual  
25 results. Doing so is part of Hydro One's ongoing operating activities.

26  
27 2.3 Factors that may affect the achievement of the expected efficiencies include:

- 28
- 29 • Environmental concerns such as the presence or release of hazardous or other  
30 harmful substances that could lead to necessary actions such as investigating,  
31 controlling and remediating the effects of these substances
  - 32 • Risks of natural and other unexpected occurrences (e.g., natural disasters, or  
33 some other catastrophic event)
  - 34 • Risks associated with the integration of information technology infrastructure
  - 35 • Modifications to the distribution system, including necessary investments to  
36 support renewable generation activities
  - 37 • Market and credit risk associated with procurement needs (e.g., foreign  
38 exchange rates)
  - 39 • Unforeseen changes in law, changes in provincial energy policy and/or  
40 regulatory policy changes that may result in increased spending requirements
  - 41 • Unanticipated changes in electricity demand or costs.
- 42

43 These factors are not necessarily exclusive to this transaction and can be anticipated  
44 in most, if not all, MAAD applications. That said, Hydro One has an Enterprise

1 Risk Management (ERM) Program, as described in Exhibit A, Tab 13, Schedule 1,  
2 Attachment 2 of EB-2013-0416 that aims at balancing these business risks and  
3 returns. Key elements of the ERM Program enable Hydro One to identify, assess  
4 and monitor risks effectively. Risk identification is considered as a part of each  
5 business decision.

6

7 2.4 Please refer to Exhibit I, Tab 1, Schedule 2.1 and Exhibit I, Tab 2, Schedule 33.







- 1 4.2 WHSI's Group 1 balances as at December 31, 2013, are inclusive of the December  
2 31, 2012 amounts that were subsequently approved by the Board for disposition in  
3 the WHSI 2014 IRM Decision and Order dated March 13, 2014 (EB-2013-0182).  
4 The total approved disposition amount was a credit of \$888,536 and is to be  
5 disposed of, via a rate rider, between May 1, 2014, and April 30, 2015. This rider  
6 will continue to be applied to WHSI ratepayer accounts until April 30, 2015 as  
7 intended by the Board. As such, the Group 1 balance remaining after disposition of  
8 the aforementioned approved 2012 balances is a credit amount of \$414,674 which is  
9 below the threshold.
- 10
- 11 a. Hydro One will monitor the balance as it accumulates in WHSI's Group 1  
12 accounts. Where the annual balance exceeds the Board's threshold, Hydro One  
13 will explore the establishment of a rate rider. This review will occur outside  
14 normal annual rate setting processes, as WHSI rates will be under a five year  
15 base distribution rate freeze.
- 16 b. Confirmed.
- 17 c. Confirmed. Hydro One will propose disposition of the regulatory account  
18 balance through a rate rider applied to the customers in the service areas where  
19 the costs originated.





1                                    **School Energy Coalition (SEC) INTERROGATORY #2**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 1 / Schedule 1 / Page 3**

6  
7                                    Please confirm that WHSI's rates were declared interim as of May 1, 2014. If they were  
8                                    not, please describe the mechanics proposed to apply the 1% retroactively to be effective  
9                                    as of that date.

10  
11                                   **Response**

12  
13                                   WHSI's current rates are effective from May 1, 2014 (EB-2013-0182). Therefore, interim  
14                                   rates are not required. The 1% reduction in base distribution delivery rates would not be  
15                                   effective retroactively, but rather, be effective upon OEB approval.







1 **School Energy Coalition (SEC) INTERROGATORY #6**

2  
3 **Interrogatory**

4  
5 **Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5**

6  
7 Please explain why, in light of the 2013 overearnings of WHSI relative to Board-  
8 approved ROE, the ratepayers should not expect a 2015 rate application seeking a net rate  
9 reduction in excess of the proposed 1% rate rider. Please provide detailed data, such as  
10 budgets and calculations, to show that the 1% rate rider will be a net benefit to WHSI  
11 ratepayers.

12  
13 **Response**

14  
15 WHSI's Board approved 2013 ROE was 9.58%.

16  
17 As per Exhibit I, Tab 2, Schedule 5, WHSI's 2013 ROE, excluding unrealized gains on  
18 interest rate swaps, is 13.26%. 2013 was an atypical year as it included the following;

- 19  
20 1. increased revenue from a colder than average winter and warmer than average  
21 summer,  
22 2. a decrease in current tax due to a retroactive tax ruling relating to the IFRS  
23 treatment of wood poles, and  
24 3. recognition in 2013 of the Scientific Research and Experimental Development  
25 (SR&ED) rebates relating to 2011 and 2012.

26  
27 As such, the 2013 results would not be characteristic of a revenue requirement and ROE  
28 associated with a rebase year.

29  
30 WHSI estimates the ROE for 2013 would have be approximately 9.1% if the three items  
31 listed above were removed from WHSI's results in 2013. In calculating this estimate of  
32 ROE for 2013, WHSI removed the impact of the unusual weather from the results by  
33 using a normalization factor of 1.25%, and removed the one-time impact of items 2 and  
34 3.

35  
36 Please see Exhibit I, Tab 3, Schedule 3 and 4 for further details on how the proposed base  
37 distribution rate freeze and the further 1% rate rider reduction will benefit WHSI  
38 ratepayers.

39





1                                    **School Energy Coalition (SEC) INTERROGATORY #8**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5**

6  
7                                    Please advise what securities or other regulatory bodies, such as the Ontario Securities  
8                                    Commission, have given their consent to the use by WHSI of USGAAP.

9  
10                                   **Response**

11  
12                                   Hydro One, on behalf of WHSI, has not approached any regulatory bodies to request use  
13                                   of USGAAP by WHSI. Hydro One has received approval from the OEB and Ontario  
14                                   Securities Commission to use USGAAP, and as a United States Securities and Exchange  
15                                   registrant Hydro One is required to use USGAAP.

1                                    **School Energy Coalition (SEC) INTERROGATORY #9**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5**

6  
7                                    Please provide any evidence in the possession of the Applicant or WHSI demonstrating  
8                                    that the ratepayers of WHSI “will be held harmless”.

9  
10                                   **Response**

11  
12                                   Throughout Exhibit A, Tab 2, Schedule 1, Hydro One has addressed how the proposed  
13                                   transaction meets the MAAD requirements and detailed both quantitative and qualitative  
14                                   savings expected as a result of this transaction.

1                                    **School Energy Coalition (SEC) INTERROGATORY #10**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 2**

6  
7                                    Please explain how the savings in OM&A costs of \$3.0 million per year will benefit the  
8                                    WHSI ratepayers, in addition to the 1% rate rider. If there are no savings beyond that,  
9                                    please advise.

10  
11                                   **Response**

12  
13                                   The referenced cost savings are a projection. Hydro One is taking the risk in the five year  
14                                   period that savings will in fact materialize. The benefit provided to WHSI ratepayers is  
15                                   the certainty of a 1% reduction on base distribution delivery rates, frozen over the next  
16                                   five years, and, in addition, the protection against potential rate increases over that same  
17                                   period if the transaction had not proceeded. As confirmed in Exhibit I, Tab 1, Schedule  
18                                   3, WHSI future rates will reflect the cost to serve these customers. Therefore, ongoing  
19                                   OM&A savings will result in downward pressure on WHSI ratepayers cost structure  
20                                   which would tend to decrease future rates.



1                                    **School Energy Coalition (SEC) INTERROGATORY #12**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 8**

6  
7                                    Please confirm that Hydro One is planning to reduce investment in local electricity  
8                                    infrastructure relative to WHSI's original plans. Please provide detailed justifications for  
9                                    those reduced investments.

10  
11                                   **Response**

12  
13                                   Hydro One confirms that following completion of the transaction, it is planning to meet  
14                                   or exceed all necessary safety and reliability standards by spending a lower amount than  
15                                   what WHSI would have otherwise spent. The ability to meet or exceed all necessary  
16                                   standards is based on Hydro One's ability to achieve efficiencies and economies of scale  
17                                   by integrating WHSI into its existing operations. Details concerning where and how  
18                                   Hydro One intends to achieve these cost savings are described in its Application. For  
19                                   example, please see Exhibit A, Tab 2 Schedule 1, pages 2-10 of the Application.



1                                    **School Energy Coalition (SEC) INTERROGATORY #14**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 10 and 15**

6  
7                                    Please confirm that the statement “In the long term, because the company’s fixed costs of  
8                                    operations will be spread over a wider customer base, Hydro One’s existing customers  
9                                    are expected to obtain a small price benefit” will also apply to WHSI customers. If that is  
10                                   not confirmed, please explain how WHSI customers will benefit “in the long term”. In  
11                                   either case, please confirm that this statement has also been true in the case of all past  
12                                   acquisitions of LDCs by Hydro One.

13  
14                                   **Response**

15  
16                                   Confirmed, WHSI’s customers can also expect to obtain the benefit of having fixed costs  
17                                   spread over a wider customer base.

18  
19                                   In EB-2013-0187/EB-2013-0196/EB-2013-0198, the Board confirmed that past  
20                                   acquisitions are outside the scope of a MAAD application (see Exhibit I, Tab 2, Schedule  
21                                   11).





1                                    **School Energy Coalition (SEC) INTERROGATORY #16**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 12**

6  
7                                    Please advise whether Hydro One would consider it appropriate for the Board to make  
8                                    Hydro One's commitments a) "to maintain or improve reliability", and b) to meet or  
9                                    exceed specific service levels for reliability and customer service" conditions of Hydro  
10                                    One's distribution licence. If Hydro One does not consider that appropriate, please  
11                                    explain why.

12  
13                                    **Response**

14  
15                                    Licensed distributors are required to meet all applicable safety and reliability standards as  
16                                    found under the applicable legislation and regulations. Hydro One will continue to meet  
17                                    these requirements, should this application be approved.



1                                    **School Energy Coalition (SEC) INTERROGATORY #18**

2  
3                    **Interrogatory**

4  
5                    **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 18**

6  
7                    Please advise how Hydro One proposes to set rates for WHSI customers in 2020 and  
8                    beyond. If the choice between the options is not yet known, please advise how Hydro  
9                    One proposes to ensure that WHSI customers will, in 2020 and beyond, enjoy some of  
10                   the benefits of the efficiencies arising from the transactions.

11  
12                   **Response**

13  
14                   Hydro One has not performed any analysis or made any decisions regarding future rates  
15                   for WHSI's customers. Please see Exhibit I, Tab 2, Schedule 13.

16  
17                   As noted in the pre-filed evidence at Exhibit A, Tab 2, Schedule 1, page 19, Hydro One  
18                   proposes to establish rates for WHSI customers that will reflect the cost to serve them as  
19                   impacted by the productivity gains (i.e. efficiencies) due to this transaction.

1                                    **School Energy Coalition (SEC) INTERROGATORY #19**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 18**

6  
7                                    Please explain how Hydro One plans to comply with the following guidance from the  
8                                    Norfolk case:

9  
10                                   *“Concerning the setting of future rates, it is the Board’s expectation that at the time of*  
11                                   *rate rebasing HONI will propose rate classes for NPDI customers that reflect costs to*  
12                                   *serve the NPDI service area, as impacted by the productivity gains due to the*  
13                                   *consolidation.” [p.14]*

14  
15                                   **Response**

16  
17                                   Hydro One intends to take into account the Board’s stated expectations when it develops  
18                                   its future rate rebasing application. Any future rate applications will be subject to OEB  
19                                   approval and will satisfy the Board’s *Filing Requirements for Electricity Distribution*  
20                                   *Rate Applications*. Those applications will reflect the costs to serve these customers as  
21                                   impacted by the productivity gains due to consolidation.

1 **School Energy Coalition (SEC) INTERROGATORY #20**

2  
3 **Interrogatory**

4  
5 **Reference: Exhibit A / Tab 2 / Schedule 1 / Page 19 and**  
6 **Exhibit A / Tab 3 / Schedule 1 / Attachment 11 / Page 24**

7  
8 Please provide all material impacts on the costs of WHSI from changing from CGAAP to  
9 USGAAP. Please provide all material impacts on the costs of WHSI from using  
10 USGAAP rather than IFRS starting in 2015.

11  
12 **Response**

13  
14 Hydro One does not believe there to be any material impacts on the costs of WHSI as a  
15 result of changing from Canadian Generally Accepted Accounting Principles (CGAAP)  
16 to United States Generally Accepted Accounting Principles (USGAAP) as there are no  
17 significant underlying differences between these two sets of accounting standards.

18  
19 The significant areas which may have material impacts on the costs of WHSI from using  
20 USGAAP rather than International Financial Reporting Standards (IFRS) starting in 2015  
21 are:

22  
23 (i) Rate regulated accounting: IFRS does not currently recognise rate regulated  
24 accounting balances. The International Accounting Standards Board (IASB) has  
25 approved a proposed interim standard, IFRS 14 'Regulatory Deferral Accounts' to  
26 allow organisations to adopt IFRS and bring onto their books any current rate  
27 regulated accounting balances. Hydro One's understanding is that the IASB is  
28 continuing its comprehensive rate-regulated activities project, which could result in a  
29 standard on rate regulation or alternatively a decision not to develop any specific  
30 requirements related to Rate Regulation. When the IASB issued IFRS 14, it indicated  
31 that the final outcome of the comprehensive rate-regulated activities project would  
32 not be biased or influenced by the fact that an interim standard had been issued. As  
33 such, if the final outcome is not to issue a separate standard upon completion of the  
34 comprehensive rate-regulated activities project, then entities that elect to adopt IFRS  
35 14 may be faced with a scenario where regulatory deferral account balances may need  
36 to be derecognized or written-off from their financial statements.

37  
38 Under USGAAP, rate-regulated entities apply Accounting Standards Codification  
39 980, "Regulatory Operations" as issued by the US Financial Accounting Standards  
40 Board, which allows for the recognition of rate-regulated assets and liabilities. Under  
41 USGAAP, WHSI will be able to maintain its current accounting treatment for rate-  
42 regulated assets and liabilities.

Filed: 2014-09-22

EB-2014-0213

Exhibit I

Tab 2

Schedule 20

Page 2 of 2

- 1 (ii) Accounting for Property, Plant & Equipment (PPE): Under the prevailing IFRS  
2 standards that govern the costing of PPE (IAS 16), many of the expenditures that may  
3 be capitalized under USGAAP, do not meet IFRS capitalization criteria. IFRS  
4 specifically states that administration and other general overhead costs are not eligible  
5 for capitalization and currently, these costs have been captured by WHSI in a  
6 regulatory deferral account. Under USGAAP, WHSI will be able to continue to  
7 capitalize these expenditures.









1                                    **School Energy Coalition (SEC) INTERROGATORY #24**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Page 16**

6  
7                                    Please explain the relevance in this Application of the sentence “The transaction was  
8                                    completed on a commercial basis between a willing seller and a willing buyer.” Please  
9                                    explain how such a transaction protects ratepayers of the seller.

10  
11                                   **Response**

12  
13                                   The context of the quoted sentence is important. It was made in partial response to  
14                                   Section 1.9.4 of the Board’s standard Application form for Applications made under  
15                                   section 86 of the Act.

16  
17                                   The Section asks applicants to provide the Board with any other information that is  
18                                   relevant to the application having due regard to the Board’s objectives in relation to  
19                                   electricity. This part of the Applicant’s response was simply intended to reflect that the  
20                                   parties involved in the transaction have acted in a commercially reasonable and prudent  
21                                   manner. It was not made in the context of this Interrogatory request, namely,  
22                                   “protection” to ratepayers of the seller.

**School Energy Coalition (SEC) INTERROGATORY #25**

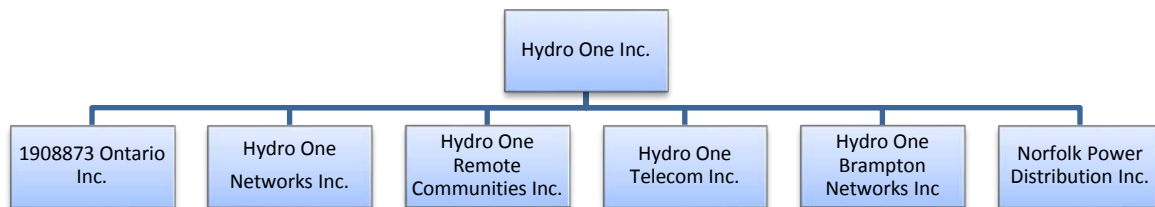
**Interrogatory**

**Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 4**

Please revise this Corporation structure to include 1908873 Ontario Inc.

**Response**

The revised corporate structure, inclusive of 1908873 Ontario Inc. is provided below.



1                                    **School Energy Coalition (SEC) INTERROGATORY #26**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 3**

6  
7                                    Please provide the Exclusivity Agreement referred to.

8  
9                                    **Response**

10  
11                                    The Applicants decline to provide the Exclusivity Agreement as it is not relevant to the  
12 sought relief. By way of background, this agreement was entered into on October 8,  
13 2013 and pertains to the terms and conditions upon which the parties engaged in the  
14 commercial process used to negotiate the terms and conditions of the Share Purchase  
15 Agreement. The Share Purchase Agreement is the relevant agreement underlying this  
16 transaction. Reference to the Exclusivity Agreement as found in the definition of  
17 “Confidential Agreement” pertains to the basis upon which commercially sensitive and  
18 confidential information was exchanged by the parties in this process and the mutual  
19 decision of the parties to have such information remain confidential. The Applicants do  
20 not see the terms on which the parties entered into, in order to negotiate the Share  
21 Purchase Agreement, including the information shared or the terms protecting the  
22 confidentiality of such information, to be relevant to the matters at hand.



1                                    **School Energy Coalition (SEC) INTERROGATORY #28**

2  
3                    **Interrogatory**

4  
5                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 4**

6  
7                    Please provide access, on a confidential basis, to the Data Room.

8  
9                    **Response**

10  
11                    The internet sites described in the Share Purchase Agreement reference (Exhibit A, Tab  
12 3, Schedule 1, Attachment 6, Page 4) were used to allow the commercial parties access to  
13 commercially sensitive and all confidential information needed to carry out due diligence  
14 into the transaction. The Applicants disagree that the current proceeding is to be  
15 interpreted as one that would be tantamount to SEC carrying out its own due diligence  
16 exercise into the transaction. The conduct of the parties and the analysis which they have  
17 used to enter into this transaction is not an issue relevant to the MAAD Approval process.  
18 The information made available in the electronic data room concerns only the Vendor's  
19 existing business, including financial and non-financial information. The information  
20 included in the electronic data room did not relate to the cost structure that Hydro One  
21 intends to introduce as a result of the transfer transaction being approved. Adequate  
22 information has been placed on the public record in this proceeding to afford all parties a  
23 full understanding of the Vendor's existing cost structure. For these reasons, the  
24 Applicants decline to provide the requested access

1                                    **School Energy Coalition (SEC) INTERROGATORY #29**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 15**

6  
7                                    Please advise what adjustments, if any, apply as between the Purchaser and the Vendor in  
8                                    the event that the OEB approves a Negative Rate Rider that is greater than the one  
9                                    proposed by the Applicant.

10  
11                                   **Response**

12  
13                                   A Negative Rate Rider that is greater than the one percent rate reduction proposed by  
14                                   Hydro One is not contemplated as part of this transaction.





1                                    **School Energy Coalition (SEC) INTERROGATORY #31**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 32**

6  
7                                    Please explain the meaning of the term “Tax Bump” in s. 5.9.

8  
9                                    **Response**

10  
11                                    Hydro One is subject to the Payment-in-Lieu of Tax (“PILs”) regime under the  
12                                    *Electricity Act, 1998*. The PILs regime includes tax legislation (paragraph 88(1)(d) of the  
13                                    *Income Tax Act* (Canada)), that allows a parent company (1908873 Ontario Inc.) to  
14                                    increase, within certain limits, the cost to it of certain capital property (in this scenario,  
15                                    the shares of Woodstock Hydro Services Inc.) received from a subsidiary (Woodstock  
16                                    Hydro Holdings Inc.) on its winding-up or amalgamation.

17  
18                                    This treatment avoids creating unnecessary tax costs to the parties to the transaction and  
19                                    will not create any impact on ratepayers of either utility.

1                                    **School Energy Coalition (SEC) INTERROGATORY #32**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 32**

6  
7                                    Please confirm that WHSI employees will be eligible for compensation levels for  
8                                    equivalent positions and seniority at Hydro One. Please provide an estimate of the  
9                                    incremental cost of increasing total compensation for those employees to Hydro One  
10                                    levels.

11  
12                                    **Response**

13  
14                                    Aggregate total compensation amounts for WHSI employees will be dependent upon  
15                                    several factors. In the short term, former WHSI employees will remain situated in their  
16                                    current locations and subject to existing compensation levels. In the future, former  
17                                    WHSI employees will be integrated into the Hydro One organization. For former WHSI  
18                                    employees who become represented by either the PWU or Society of Energy  
19                                    Professionals, they will be placed in an existing PWU or Society represented job and  
20                                    compensation will be in accordance with the applicable collective agreement. Former  
21                                    WHSI employees who remain unrepresented will be placed in an appropriate Hydro One  
22                                    Management Compensation Plan (MCP) job and compensation band level. Hydro One,  
23                                    at this time, is unable to estimate this incremental cost.



1

**Table 1**

	<b>HONI WHSI</b>	<b>Average Imputed Cost* (\$M)</b>
Sustaining (e.g. Wood Poles)	11%	\$0.4
Demand (e.g. Trouble Calls, New Connects)	21%	\$0.8
Station Upgrades	3%	\$0.1
System Reinforcement (e.g. Voltage Conversions)	22%	\$0.9
Commerceway TS true-up	39%	\$1.5
Other	4%	\$0.2
<b>Total</b>	<b>100%</b>	<b>\$3.8</b>

*\* Based on annual \$3.8 million capital expenditure*

2

3 The \$3.8 million average imputed cost compares to Hydro One's status quo capital  
 4 forecast of WHSI's capital forecast of \$4.0 million. Capital and operating cost differences  
 5 between WHSI remaining as a stand-alone operation vs. being integrated into Hydro  
 6 One's operation has been evaluated in order to assess the overall cost savings and  
 7 efficiencies. The outcome of that assessment is presented in Exhibit A, Tab 2, Schedule  
 8 1, Table 2. Differences between Hydro One's forecast and the WHSI status quo forecast  
 9 reflect Hydro One's ability to achieve not only capital efficiencies, but also OM&A  
 10 efficiencies as a result of this transaction.

1                                    **School Energy Coalition (SEC) INTERROGATORY #34**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Schedule 3.1(N)**

6  
7                                    Please provide documents 22 and 25.

8  
9                                    **Response**

10  
11                                    The Applicants decline to provide the requested documents as the granularity of such  
12 information is not relevant to the issues involved in this proceeding. Document 22  
13 described in Exhibit A, Tab 3, Schedule 1, Attachment 6, Schedule 3.1(N) Contracts and  
14 Commitments, refers to a transaction that took place between Hydro One Networks Inc.  
15 and Woodstock Hydro Services Inc. in September 2013 involving the purchase and sale  
16 of minor distribution infrastructure assets, including one feeder, 3 poles and less than 1  
17 km of conductor and associated hardware. The total value of this transaction was \$6,200.  
18 This transaction was approved by the OEB under docket EB-2013-0042.

19  
20                                    Document 25 pertains to the ‘Annual Status Report For Eliminating Existing Load  
21 Transfer Arrangements’ as submitted to the Board by WHSI, for 2012, regarding WHSI’s  
22 current LTLT status and arrangements with Hydro One, as required under the  
23 Distribution System Code.



1                                    **School Energy Coalition (SEC) INTERROGATORY #36**

2  
3                                    **Interrogatory**

4  
5                                    **Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 11/ Page 13**

6  
7                                    Please confirm that the Applicant is proposing to leave WHSI's stranded meters in rate  
8                                    base, and continue to collect the weighted average cost of capital on those meters.

9  
10                                   **Response**

11  
12                                   Confirmed.







1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #1**

3  
4                    **Interrogatory**

5  
6                    Hydro One has indicated that rates will be reduced and frozen for Woodstock Hydro  
7                    customers for a period of 5 years. Once a merger of rates for Woodstock Hydro  
8                    customers with Hydro One rates is completed, please explain how Woodstock customers  
9                    will benefit from the transaction given the results of a rate comparison below (which  
10                    compares Woodstock and Norfolk rates with Hydro One Urban rates and Medium  
11                    density)?  
12

800 kWh	HONI Urban Impacts		
Community	Distribution	Difference	% Change
Woodstock	\$ 45.80	\$ 8.66	19%
Norfolk	\$ 53.23	\$ 1.23	2%
HONI UR	\$ 54.46		
800 kWh	HONI Medium Density Impacts		
Community	Distribution	Difference	% Change
Woodstock	\$ 45.80	\$ 23.90	52%
Norfolk	\$ 53.23	\$ 16.47	31%
HONI MED	\$ 69.70		

13  
14                    **Response**

15  
16                    Hydro One disagrees with the comparison as presented above. As indicated in Exhibit A,  
17                    Tab 2, Schedule 1, pages 18-19, Hydro One has not determined the rate harmonization  
18                    strategy that will be put forward at the time of the next rebasing of rates, currently  
19                    expected in 2020. Hydro One understands the concerns of the CSASWH, and ascertains  
20                    that the rates that will be applied to the former WHSI customers will be subject to OEB  
21                    approval, will satisfy the Board's *Filing Requirements for Electricity Distribution Rate*  
22                    *Applications* and will reflect the cost to serve these customers as impacted by the  
23                    productivity gains due to consolidation. As indicated in the application, this may be done  
24                    by: (i) creating new acquired customer rate classes; (ii) moving acquired customers to an  
25                    appropriate Hydro One rate class existing at that time; or, (iii) some other option.

1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #2**

3  
4                    **Interrogatory**

5  
6                    It is clear from the preceding table that, while Norfolk customers would see a minor  
7                    increase in rates upon merger with Hydro One's, the citizens of Woodstock will be struck  
8                    with a significant increase by comparison. Based on the rate increases detailed in  
9                    question 1 above and the number of current Woodstock Hydro customers, our calculation  
10                    is that the Woodstock Hydro customers will see a rate increase of approximately \$120 per  
11                    year, at a minimum. Put another way, collectively, Woodstock Hydro customers will see  
12                    an increase of approximately \$2,000,000 annually. Please reconcile how this change in  
13                    rates described above satisfies the OEB's no harm test given the large increase in rates  
14                    Woodstock Hydro customers can expect following the five-year freeze?

15  
16                    **Response**

17  
18                    As indicated in Exhibit I, Tab 3, Schedule 1, Hydro One does not agree with the table  
19                    presented and as such disagrees with the speculated rate increases proposed above.

20  
21                    Hydro One's application provides information describing the basis upon which it believes  
22                    the Board's "no harm test" is satisfied in these circumstances. Please see Exhibit A, Tab  
23                    2, Schedule 1. Rate matters beyond the five year freeze period are not the subject-matter  
24                    of this application. These matters will be considered in subsequent applications and  
25                    require approval from the Board before they are implemented. At this time, and  
26                    assuming the transaction is approved, Hydro One's evidence is that cost savings are  
27                    expected in the long-term due to efficiencies associated with integrating WHSI into the  
28                    operations of Hydro One.

1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #3**

3  
4                    **Interrogatory**

5  
6                    Hydro One has indicated that all Woodstock Hydro staff will be guaranteed employment  
7                    for a period of one year and that significant efficiencies will be realized by merging their  
8                    operations after that time. Given the referenced efficiencies, detailed in Table 1 of the  
9                    application, how will the customers of Woodstock Hydro share in the projected annual  
10                   savings of \$1,312,946 per year?

11  
12                   **Response**

13  
14                   WHSI customers share in the savings through a commitment to freeze base electricity  
15                   distribution delivery rates for a period of five years from closing of this transaction. In  
16                   addition, approval is sought to implement a negative rate rider that will result in a further  
17                   1% reduction of 2014 base distribution delivery rates. The cost of providing this rate  
18                   reduction will be recovered from synergies generated from consolidating WHSI's  
19                   operations into Hydro One. In addition, Hydro One cost savings are a forecast amount  
20                   and Hydro One bears all risk with achieving those cost savings.

21  
22                   Hydro One expects long-term cost savings beyond the rate freeze period which would  
23                   benefit WHSI rate payers. Any future proposed rate applications will reflect the cost to  
24                   serve former WHSI customers as impacted by productivity gains due to consolidation.

1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #4**

3  
4                    **Interrogatory**

5  
6                    How will the customers of Woodstock Hydro benefit from the projected savings when  
7                    the 1% reduction in distribution rates is effectively a rebate of approximately \$78,000 per  
8                    year or only 6% of the projected annual savings (\$5 per year per customer)? A savings  
9                    which will be borne on the backs of for Woodstock Hydro staff and citizens of the City of  
10                    Woodstock. It appears from all the information filed that other than the 1% reduction or  
11                    approximately \$390,000 the customers of Woodstock Hydro will receive no other benefit  
12                    from the dismantling of its utility.

13  
14                    **Response**

15  
16                    Hydro One is concerned with the fundamental premise underlying this question. The  
17                    premise appears to be that cost savings are certain. To be clear, cost savings are a  
18                    forecast amount and Hydro One bears all risk with achieving those cost savings. These  
19                    risks are not passed on to ratepayers. The benefit provided to WHSI ratepayers is the  
20                    certainty of a 1% reduction on base distribution delivery rates, frozen over the next five  
21                    years, and, in addition, the protection against potential rate increases over that same time  
22                    period if the transaction had not proceeded. Additional spin-off benefits associated with  
23                    this transaction includes the continued employment of current WHSI staff and may  
24                    include the leasing and/or construction of facilities within the geographic region of  
25                    Woodstock. Further benefits that WHSI customers receive as a result of this transaction  
26                    are detailed in Hydro One's application. Please refer to Exhibit I, Tab 3, Schedule 3.

1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #5**

3  
4                    **Interrogatory**

5  
6                    As referenced in the previous questions, Woodstock Hydro customers will see a minor  
7                    decrease in its rates of \$5/year for five years and a substantial increase in its rates of  
8                    \$120/year in perpetuity following the merger of rates after year 5. As an example,  
9                    looking out 10 years with the above rate scenarios, a typical Woodstock Hydro customer  
10                   will see a rate increase of \$575 (a decrease of \$25 for the first five years and an increase  
11                   of \$600 for the next 5). Therefore, collectively, all Woodstock Hydro customers will be  
12                   looking at a rate increase of \$9,200,000 after a 10-year period. Please explain how the  
13                   substantial rate increases described above satisfies the OEB's no harm test?

14  
15                   **Response**

16  
17                   Hydro One disagrees with the speculative analysis presented. Please see responses to  
18                   Exhibit I, Tab 3 Schedules 1 and 2.

1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #6**

3  
4                    **Interrogatory**

5  
6                    In its application Hydro One has pointed to the fact that Woodstock Hydro customers will  
7                    see benefits because of Hydro One's Enhanced call centre services. While the fact Hydro  
8                    One offers 24/7 service and automated notifications may be of some benefit to customers  
9                    please explain how it would overcome the publically documented deficiencies of Hydro  
10                   One's inability to timely and accurately bill its current customers?  
11

12                   **Response**

13  
14                   In May 2013, Hydro One transitioned to a new customer billing system. While the vast  
15                   majority of our customers have continued to receive normal bills, some of our customers  
16                   had a less than positive experience, such as persistent estimated bills or bills that were  
17                   delayed for 90 days or longer. Over the past few months, Hydro One has acted to not  
18                   only address the underlying technical and system issues, but also improve and enhance  
19                   the level of service we provide to our customers. At this time, less that 2% of Hydro  
20                   One's customers are still experiencing these billing issues, and the number continues to  
21                   dwindle as we address any remaining problems. By the time that the proposed sale is  
22                   approved by the Board and WHSI's operations are integrated with Hydro One's, our  
23                   billing and other customer service offerings will be restored to normal service levels.  
24                   The integration will be timed so that our new customers will be unaffected by any  
25                   previous billing issues, and will in fact benefit from the customer service improvements  
26                   we had implemented since then.



1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #7**

3  
4                    **Interrogatory**

5  
6                    Hydro One has agreed to pay the city of Woodstock \$200,000 if service reliability targets  
7                    are not met. Please indicate if this penalty is one time or imposed every year that Hydro  
8                    One fails to meet the reliability targets? Also please demonstrate that the cost of the  
9                    penalty is a significant enough deterrent to Hydro One to ensure that it would make every  
10                    reasonable effort to meet the targets as laid out in the agreement. Has Hydro One  
11                    included this provision in agreements with other acquired utilities and if so, have they  
12                    had to pay the penalty in those situations?

13  
14                    **Response**

15  
16                    The \$200,000 payment is a one-time event.

17  
18                    Please see response to Exhibit I, Tab 2, Schedule 22 for further information regarding the  
19                    amount of the payment.

20  
21                    It was not included in the NPDI acquisition and historic past transactions, as discussed in  
22                    Exhibit I, Tab 2, Schedule 11, are out of scope of this application.

1                    **Concerned Citizens Against the Sale of Woodstock Hydro (CSASWH)**  
2    **INTERROGATORY #8**

3  
4                    **Interrogatory**

5  
6                    Woodstock Hydro has been an industry leader in conservation initiatives within the  
7                    province of Ontario. They have realized more than one and a half times its targeted  
8                    energy savings to lead all utilities against their targets set by the Government. However,  
9                    Hydro One had only achieved 45% of its targets for the same timeframe. Please explain  
10                    (beyond the reference in the agreement that Hydro One will continue to provide CDM  
11                    activities) how the customers of Woodstock will continue to receive the industry leading  
12                    conservation initiatives delivered by Woodstock Hydro under the new merged  
13                    framework?  
14

15                    **Response**

16  
17                    Hydro One is committed to delivering industry leading conservation and demand  
18                    management (CDM) initiatives to current and new customers. In addition to making all  
19                    Province-Wide Programs available under a new merged framework, WHSI customers  
20                    would also benefit from Hydro One's leading edge research and local/regional program  
21                    development and pilot program offerings that go beyond the OPA's Programs. For  
22                    instance, WHSI customers may have access to the new Social Benchmarking and Green  
23                    Button pilot programs that Hydro One will be launching shortly. The Social  
24                    Benchmarking Pilot provides customers with personal reports that compare their use to  
25                    100 other similar customers with higher/lower electricity usage, and give them energy  
26                    savings tips. It is expected to be launched in late 2014. The Green Button Pilot, which is  
27                    expected to be launched in early 2015, would allow customers to access and share their  
28                    electricity consumption information securely with vendors who have apps or websites  
29                    that can provide the customer with ways to understand and interactively manage their  
30                    electricity consumption. WHSI would also be able to leverage Hydro One marketing  
31                    tools such as customer segmentation to better serve WHSI customers.









