#### 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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 1 Page 1 of 1

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

#### **Interrogatory**

**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.

# **Response**

1.1 Hydro One confirms that any premium paid for the assets of WHSI will not impact any future revenue requirement(s). Upon integration, only the net book value of WHSI's assets plus associated working capital will be included in rate base.

1.2 The premium paid to acquire the outstanding shares of WHHI will have no material impact on HOI, whose total assets per the 2013 Financial Statements are \$21.6 billion. As stated in Exhibit A, Tab 3, Schedule 1, section 1.8.2, the premium paid will not be included in any future revenue requirement(s) and thus will not be funded by ratepayers.

The premium paid will be recorded as goodwill in the Financial Statements of Hydro One Networks Inc.

1.4 For regulatory purposes, the premium paid (i.e. goodwill) will not be recognized as part of PP&E in Hydro One's rate base.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 2 Page 1 of 4

#### Ontario Energy Board (Board Staff) INTERROGATORY #2

# **Interrogatory**

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

Hydro One [projects] 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.

## **Response**

2.1 Anticipated on-going cost savings attributed to the individual synergy categories listed in Exhibit A, Tab 2, Schedule 1, pages 2 and 3, are identified in Table 1 below:

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 2 Page 2 of 4

Table 1

| Savings / Synergy Category Annual Ran                        |            | Range      |
|--|------------|------------|
|  | (\$ mi     | llion)     |
| 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> |
| Total OM&A   | 2.7        | 3.3        |
|  |            |            |
| <b>Total Capital</b> (including Reprioritization & IT Costs) | 0.5        | 1.3        |

2

4

5

6

7

1

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.

8 9 10

11

12

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:

13 14 15

16

17

18

19

20

21

22

23

24

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

252627

28

29

30

31

32

33

34

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,

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 2 Page 3 of 4

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

234

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

1

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

2526

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

272829

30

31

 Environmental concerns such as the presence or release of hazardous or other harmful substances that could lead to necessary actions such as investigating, controlling and remediating the effects of these substances

32 33 • Risks of natural and other unexpected occurrences (e.g., natural disasters, or some other catastrophic event)

34

• Risks associated with the integration of information technology infrastructure

35 36  Modifications to the distribution system, including necessary investments to support renewable generation activities

37

• Market and credit risk associated with procurement needs (e.g., foreign exchange rates)

38 39

• Unforeseen changes in law, changes in provincial energy policy and/or regulatory policy changes that may result in increased spending requirements

41 42

40

• Unanticipated changes in electricity demand or costs.

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 2 Page 4 of 4

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

5 6 7

1

2

3

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 3 Page 1 of 1

## Ontario Energy Board (Board Staff) INTERROGATORY #3

#### **Interrogatory**

**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.

#### Response

3.1 Please refer to Exhibit A, Tab 2, Schedule 1, Pages 18-19. Hydro One confirms that any future rate applications will be subject to OEB approval and will satisfy the Board's *Filing Requirements for Electricity Distribution Rate Applications* and will reflect the costs to serve these customers as impacted by the productivity gains due to consolidation.

3.2 Hydro One has not yet developed the application it will file regarding its rate harmonization plan. The specific measures to address any rate differentials have not been developed, however, if differentials exist, then Hydro One will include such measures to be in accordance with the Board's filing requirements in effect at that time.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 4 Page 1 of 2

## Ontario Energy Board (Board Staff) INTERROGATORY #4

#### *Interrogatory*

**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.

#### **Response**

4.1 Hydro One estimated the impact of the 1% reduction in rates for WHSI customers based on the assumption that Distribution Revenue is equal to approximately \$8 million per year. One per cent of this amount is equal to approximately \$80,000 per year. The cumulative value is approximately \$400,000 over the five year rate reduction period.

 Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 4 Page 2 of 2

WHSI's Group 1 balances as at December 31, 2013, are inclusive of the December 1 2 31, 2012 amounts that were subsequently approved by the Board for disposition in the WHSI 2014 IRM Decision and Order dated March 13, 2014 (EB-2013-0182). 3 The total approved disposition amount was a credit of \$888,536 and is to be 4 disposed of, via a rate rider, between May 1, 2014, and April 30, 2015. This rider 5 will continue to be applied to WHSI ratepayer accounts until April 30, 2015 as 6 intended by the Board. As such, the Group 1 balance remaining after disposition of 7 the aforementioned approved 2012 balances is a credit amount of \$414,674 which is 8 below the threshold. 9

10 11

12

13

14

15

16

17

18

19

- a. Hydro One will monitor the balance as it accumulates in WHSI's Group 1 accounts. Where the annual balance exceeds the Board's threshold, Hydro One will explore the establishment of a rate rider. This review will occur outside normal annual rate setting processes, as WHSI rates will be under a five year base distribution rate freeze.
- b. Confirmed.
- c. Confirmed. Hydro One will propose disposition of the regulatory account balance through a rate rider applied to the customers in the service areas where the costs originated.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 1 Schedule 5 Page 1 of 1

## Ontario Energy Board (Board Staff) INTERROGATORY #5

#### **Interrogatory**

**Reference:** Exhibit A, Tab 2, Schedule 1, Page 19, Lines 26-28; Page 20, Lines1-7:

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.

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.

## Response

Based on Hydro One's current understanding of USGAAP standards, Hydro One believes using USGAAP for WHSI will not impose any additional cost on WHSI's customers.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 1 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #1

| 1 |  |
|---|--|
| 2 |  |

#### **Interrogatory**

345

# Reference: Exhibit A / Tab 1 / Schedule 1 / Page 2

6 7

Please provide details of the role of 1908873 Ontario Inc. in the transactions. Please provide a copy of any memorandum or similar document setting out the nature, components, and/or value of the "tax efficient integration" being used.

9 10 11

8

## **Response**

12 13

14

1908873 Ontario Inc. is the Hydro One Inc. entity purchasing the shares of Woodstock Hydro Holdings Inc. ("WHHI") from the City of Woodstock. This entity was used to take advantage of certain tax efficiencies as described in Exhibit I, Tab 2, Schedule 31.

15 16 17

18

19

20

Part of the acquisition due diligence process includes Hydro One's tax department investigating various corporate structures to determine the most tax efficient structure. There is no formal memorandum or other documents setting out the nature, components, and/or value of the "tax efficient integration" being used.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 2 Page 1 of 1

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

| 2 |        |
|---|--------|
| 3 | Interi |

## **Interrogatory**

4 5

1

# Reference: Exhibit A / Tab 1 / Schedule 1 / Page 3

6 7

8

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

10 11

## **Response**

12 13

14

15

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 3 Page 1 of 1

#### School Energy Coalition (SEC) INTERROGATORY #3

1 2 3

#### **Interrogatory**

4 5

## Reference: Exhibit A / Tab 1 / Schedule 1 / Page 3

6 7

Please provide details of the "asset transfer and integration steps" referred to.

8

## **Response**

10 11

Asset transfer is achieved in multiple steps as outlined below:

12 13

14

15

16

17

- During the period from closing through to integration WHSI will continue to operate separately from Hydro One with the shares owned by HOI.
- Once Hydro One is prepared to integrate WHSI customers and assets into Hydro One systems and processes, the shares of WHSI are then transferred from HOI to Hydro One. WHSI is then wound up into Hydro One. This essentially completes the integration process.

18 19 20

21

22

23

24

25

26

27

28

Integration is a complex exercise that involves the development and execution of integration plans for multiple lines of business. While the development of these plans is beyond the scope of this proceeding, there are three general components to integration: Customers, Assets and Employees. Integration of information concerning customers and assets is managed through Hydro One's finance, customer, work and outage management systems. These systems are highly integrated. Data will be transitioned from WHSI to Hydro One in several iterations of imports and validations as well as end to end testing cycles through Hydro One's systems/processes. Employee integration will occur following the integration of assets and customer information integration stages.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 4 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #4

#### **Interrogatory**

# Reference: Exhibit A / Tab 1 / Schedule 1 / Page 3

Please confirm that, during the five year rate freeze, WHSI does not wish to continue to have available the Incremental Capital Module (other than the existing rider) and Z factors during to the period to and including 2019. Please specify all circumstances in which the Applicant believes that WHSI rates can be changed prior to 2019.

## **Response**

Hydro One does not foresee a scenario whereby it will require the availability of a Z-factor treatment or an Incremental Capital Module (other than the existing rider) for the former WHSI over the rate freeze period.

Hydro One has committed to freeze distribution base rates over a 5-year period. However, other rates such as an increase in commodity rate, the expiry of the Ontario Clean Energy Benefit, changes to the Debt Retirement Charge, and any other OEB mandated rate changes could drive a change to the overall customer bill over this period.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 5 Page 1 of 1

# School Energy Coalition (SEC) INTERROGATORY #5

| 2 |                      |
|---|----------------------|
| 3 | <b>Interrogatory</b> |

# Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5

5 6 7

4

1

Please confirm that the ROE for WHSI in 2013, calculated on a regulatory basis, was approximately 17%. If that figure is not correct, please provide a detailed calculation of the actual ROE of WHSI in 2013, calculated on a regulatory basis.

10 11

8

## **Response**

12 13

WHSI does not know where SEC has sourced the 17% ROE figure provided.

14 15

16

17

The regulatory ROE for 2013 is equal to the 26.17% which includes unrealized gains on interest rate swaps, or 13.26% excluding those gains. The deemed ROE from WHSI's Cost of Service is 9.58%.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 6 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #6

#### **Interrogatory**

## Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5

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

#### Response

WHSI's Board approved 2013 ROE was 9.58%.

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

1. increased revenue from a colder than average winter and warmer than average summer.

summer 22 2. a decr

2. a decrease in current tax due to a retroactive tax ruling relating to the IFRS treatment of wood poles, and

3. recognition in 2013 of the Scientific Research and Experimental Development (SR&ED) rebates relating to 2011 and 2012.

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

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 7 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #7

1 2 3

#### **Interrogatory**

4 5

# Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5

6 7

8

Please advise what separate regulatory accounts, if any, will be established to record costs and/or assets and liabilities of the former WHSI, separate from the Applicant, during the period until 2020.

10 11

## **Response**

12

14

15

16

17

Hydro One does not plan to establish new regulatory accounts for recording any of the former WHSI costs and/or assets and liabilities. As per Exhibit A, Tab 2, Schedule 1, page 21, Hydro One will keep separate financial records of the former WHSI in a separate business unit, similar to the Hydro One Distribution and Transmission businesses.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 8 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #8

| 1 |  |
|---|--|
| 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 Commission, have given their consent to the use by WHSI of USGAAP.

9 10

8

## Response

11 12

14

15

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 9 Page 1 of 1

# School Energy Coalition (SEC) INTERROGATORY #9

| 2 |  |    |  |
|---|--|----|--|
|   |  | -  |  |
| • |  | 14 |  |

## **Interrogatory**

4 5

1

# Reference: Exhibit A / Tab 1 / Schedule 1 / Page 5

6 7

Please provide any evidence in the possession of the Applicant or WHSI demonstrating that the ratepayers of WHSI "will be held harmless".

8 9 10

## Response

11 12

13

14

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 10 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #10

#### **Interrogatory**

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 2

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

#### Response

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 11 Page 1 of 1

#### School Energy Coalition (SEC) INTERROGATORY #11

#### **Interrogatory**

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 4

Please provide evidence to demonstrate that the proposed transactions will result in economies of scale. Please provide evidence to demonstrate that the past acquisitions by Hydro One have resulted in economies of scale. If they have not, please provide details of how this transaction is different from those past transactions. If Hydro One believes that the past transactions have resulted in economies of scale, please reconcile that claim with the determination of the Board that Hydro One is currently the second least efficient distributor in Ontario (from the 2013 PEG calculations), and has had negative productivity for at least the last decade [see EB-2010-0379, Report of the Board on Empirical Work, December 4, 2013, p. 14].

#### Response

Hydro One has provided evidence demonstrating how the proposed transaction will result in economies of scale throughout Exhibit A, Tab 2, Schedule 1.

The Applicants decline to respond to the Request as it relates to information pertaining to past acquisitions and mergers, as those consolidations occurred prior to the Board's development and articulation of the "no harm" test and its *Report on Rate-making Associated with Distributor Consolidation*. This position is consistent with the Board's Decision and Order dated January 24, 2014 into SEC's Motion made in respect of the Hydro One Inc. and Norfolk Power Distribution Inc. applications pertaining to Proceedings EB-2013-0196, EB-2013-0187 and EB-2013-0198 (please refer to page 5 of the Decision).

The only other transaction that Hydro One has been involved with subsequent to the Board's development of its "no harm test" concerned Norfolk Power Distribution Inc. SEC canvassed theories pertaining to Hydro One's efficiencies and economies of scale during this proceeding which were rejected by the Board. The transaction was approved by the Board on July 3, 2014. Hydro One has no additional information pertaining to this Request regarding the NPDI transaction and maintains the view that for the reasons set out in that record (a) economies of scale are likely; (b) no harm will accrue to ratepayers and (c) SEC's allegations of Hydro One being the second least efficient distributor in Ontario are based on inappropriate comparisons. Specifically, this conclusion is based on Hydro One's overall distribution system operations and these operations do not fairly compare to the nature and system associated with the transaction at hand.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 12 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #12

#### **Interrogatory**

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 8

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

## **Response**

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 13 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #13

#### **Interrogatory**

## Reference: Exhibit A / Tab 2 / Schedule 1 / Page 9

Please confirm that, if they were to be placed in Hydro One rate classes today, all WHSI residential customers would be in the UR class, GS<50 customers in the UGe class, and GS>50 customers in the UGd class. If that is not the case please provide the numbers of customers that would be in each class, and provide a cost per customer comparison with respect to the other classes in which those customers would be placed. With respect to customers that would be in the UR, UGe, and UGd classes today, please confirm that the Hydro One cost per customer for each of those classes in 2019 as set out in EB-2013-0416 [Ex. G1/4/2, Attachment 5] is \$409.59 for UR [\$89,547,964 allocated cost divided by 218,631 customers], \$1,398.37 for UGe [\$25,117,570/17,962] and \$18,338.33 for UGd [\$35,337,954/1,927].

#### Response

Hydro One has not to date performed any analysis or made any decisions regarding integration of the former WHSI customers into either, i) a currently established Hydro One Distribution rate class or, ii) a newly created rate class for those aforementioned customers. Per the Board's Decision in EB-2013-0196/EB-2013-0187/EB-2013-0198:

"Concerning the setting of future rates, it is the Board's expectation that at the time of rate rebasing HONI will propose rate classes for NPDI customers that reflect costs to serve the NPDI service area, as impacted by the productivity gains due to the consolidation."

Future rates for WHSI customers will be addressed at Hydro One's next cost of service application.

Hydro One confirms that the 2019 cost per customer values calculated in this interrogatory and sourced from the May 30, 2014 update to the information in EB-2013-0416, are mathematically accurate for the Hydro One Distribution system as a whole.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 14 Page 1 of 1

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

# **Interrogatory**

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 10 and 15

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

## Response

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 15 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #15

#### **Interrogatory**

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 12

Please confirm that the ICM rate rider is recovering a payment made by WHSI to Hydro One. Please confirm that, if the Applicant's proposal is accepted, the ratepayers in the future will be paying Hydro One to cover the cost of a payment made to itself.

#### Response

Correct, the ICM rate rider is predominantly recovering a payment made by WHSI to Hydro One Transmission with respect to the Woodstock East Transmission Line Upgrade Project (EB-2009-0079).

The statement that "ratepayers in the future will be paying Hydro One to cover the cost of a payment made to itself" is incorrect. The project, consistent with the requirements of the Transmission System Code, required a capital contribution from both WHSI and Hydro One Distribution be made to Hydro One Transmission. Therefore, the ICM rate rider is recovering a capital contribution paid to Hydro One Transmission.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 16 Page 1 of 1

# School Energy Coalition (SEC) INTERROGATORY #16

1 2 3

#### **Interrogatory**

4 5

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 12

6 7

8

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

11 12

10

#### Response

13 14 15

16

17

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 17 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #17

1 2 3

#### **Interrogatory**

4 5

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 13

6 7

Please confirm that Hydro One will be closing the Beachville Operating Centre. Please provide details of the operational impacts of that closing.

8 9 10

## Response

11 12

The Beachville Operating Centre ("the Centre") is nearing end of its useful life and replacement of the facility is being considered. The current Centre is small and ill configured and is unable to accommodate future growth.

14 15 16

17

18

19

20

The functions currently provided at the Beachville Operating Centre may be moved to an existing Hydro One facility or may be relocated to a new unbuilt facility. The assessment of these options is still ongoing. The movement of any operating centre takes into account operational, customer and employee impacts. Hydro One would not anticipate any operational impacts resulting from the Beachville Operating Centre relocation.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 18 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #18

| 2 |             |
|---|-------------|
| 3 | Interrogate |

<u>Interrogatory</u>

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 18

6 7 8

1

4

5

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

10 11

# **Response**

12 13 14

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

15 16 17

18

19

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 19 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #19

#### **Interrogatory**

# Reference: Exhibit A / Tab 2 / Schedule 1 / Page 18

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

"Concerning the setting of future rates, it is the Board's expectation that at the time of rate rebasing HONI will propose rate classes for NPDI customers that reflect costs to serve the NPDI service area, as impacted by the productivity gains due to the consolidation." [p.14]

# **Response**

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 20 Page 1 of 2

## School Energy Coalition (SEC) INTERROGATORY #20

# **Interrogatory**

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

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

## **Response**

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

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

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 20 Page 2 of 2

1

2

3

4

5

6

7

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 21 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #21

1 2 3

#### **Interrogatory**

4 5

# Reference: Exhibit A / Tab 3 / Schedule 1 / Page 7

6 7

8

10

11

Please confirm that adding the WHSI residential customers to the UR class will increase the size of the class by more than 10%. Please provide a pro forma calculation showing the impact of that combination on allocated costs and rates. Please confirm that adding the WHSI GS>50 customers to the UGd class would increase the size of that class by about 16%. Please provide a pro forma calculation showing the impact of that combination on allocated costs and rates.

12 13 14

## Response

15 16

17

18

Hydro One has not performed any analysis pertaining to future rate classes or any hypothetical impacts. Please refer to Hydro One's response to Exhibit I, Tab 2, Schedule 13 for additional detail.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 22 Page 1 of 1

#### School Energy Coalition (SEC) INTERROGATORY #22

#### *Interrogatory*

Reference: Exhibit A / Tab 3 / Schedule 1 / Page 8 and Schedule 6 / Page 34

Please confirm that a \$200,000 payment by Hydro One is not material. Please advise how a penalty of that amount will provide an incentive to meet reliability and customer service standards. Please confirm that this payment is the Vendor's sole remedy for breach of this commitment.

## **Response**

SEC mischaracterizes the \$200,000 payment amount referenced at Exhibit A, Tab 3, Schedule 1, page 8 and 9 (under section 12.4.1(f)). The context of this payment is described in part (f) and relates to the three year average for service reliability and customer service standards of the current WHSI operations. The commercial parties have agreed that if current service and reliability standards are not maintained or increased, then Hydro One must make a payment to the Corporation of the City of Woodstock of \$200,000 which amount would then be used for community purposes, including charities. The Applicants believe the recipients would find such an amount, if paid, to be material. The transparent payment of such amount would also likely give rise to further inquiry as to the rationale behind any reduction in service and reliability standards.

The Applicants decline to respond to the request concerning the legal remedies that may or may not be available to the Vendor. This question is not relevant to the "no harm test". Any response would be entirely hypothetical as it would be dependent upon the assumed set of facts and circumstances.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 23 Page 1 of 1

#### School Energy Coalition (SEC) INTERROGATORY #23

# **Interrogatory**

## Reference: Exhibit A / Tab 3 / Schedule 1 / Page 14

Please provide the valuation required by section 1.8.1. Please provide the report of Henley International, if it is not the valuation requested.

## **Response**

Valuation of the shares is described in the terms and conditions set forth in the Share Purchase Agreement (Exhibit A, Tab 3, Schedule 1 Attachment 6). See in particular Article II.

Section 1.8 of Exhibit A, Tab 3, Schedule 1 found at page 14 asks for a description of the financial viability of the transaction and information concerning how valuation of the proposed share transfer was determined.

The Applicants have responded by indicating that the Vendor retained the services of an independent financial advisor to assist in evaluating the financial offer made from Hydro One. This fact is intended to assist the Board and parties to understand that the Vendor was supported in this transaction with the assistance of a third party advisor. The principal of Henley International Inc. is Mr. Larry Murphy. Mr. Murphy has over 20 years of experience in the Ontario electricity industry.

The Vendor will not provide detailed accounts or information regarding the advice provided by its independent financial advisor, Henley International Inc. The Applicants do not agree that the provision of such information is a "requirement" as has been suggested in this Interrogatory Request. Financial advice concerning the valuation exercise is highly commercially sensitive information and in any event does not relate to the issue at hand, namely, whether the present transaction is likely to cause adverse effects to ratepayers relative to a status quo (i.e. no transaction) scenario.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 24 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #24

#### **Interrogatory**

# Reference: Exhibit A / Tab 3 / Schedule 1 / Page 16

Please explain the relevance in this Application of the sentence "The transaction was completed on a commercial basis between a willing seller and a willing buyer." Please explain how such a transaction protects ratepayers of the seller.

## **Response**

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 25 Page 1 of 1

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

1 2 3

## **Interrogatory**

4 5

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

6 7

Please revise this Corporation structure to include 1908873 Ontario Inc.

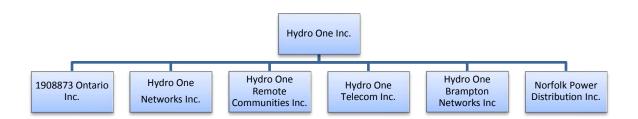
8

## Response

10 11

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

12



Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 26 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #26

#### *Interrogatory*

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

Please provide the Exclusivity Agreement referred to.

## Response

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 27 Page 1 of 1

#### School Energy Coalition (SEC) INTERROGATORY #27

## **Interrogatory**

## Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 3 and 27

Please provide a list of the contents of the Confidential Disclosure Schedule [if it contains anything more than is described in s. 3.1(aa)] with sufficient particularity so that we can understand a) relevance and materiality in this proceeding, if any, and b) reason for confidentiality.

## **Response**

The referred to term "Confidential Disclosure Schedule" is used in the Share Purchase Agreement to describe certain confidential and commercially sensitive information provided by the Vendor to the Purchaser in accordance with representations and warranties set out in Clause 3.1(t) and (x). The Confidential Disclosure Schedule also includes information required from the Vendor made in accordance with Clause 3.1(r).

The Applicants decline to provide the Confidential Disclosure Schedule. The granularity of the information set out in the Employment Fact Sheet (i.e. personal and employment information, such as individual employee name, compensation, years of service, specific title, union/non-union employment status) is information that is not relevant to the issues at hand, namely whether the proposed transaction meets the no harm test.

Similarly, environmental information provided in respect of Clause 3.1(t)(i) concerns the environmental condition of the Vendor's property. This information, again, does not touch upon areas relevant to this Board's mandate and the sought relief.

The Applicants confirm that the Confidential Disclosure includes information provided in accordance with Clause 3.1(aa).

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 28 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #28

## **Interrogatory**

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

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

#### Response

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 29 Page 1 of 1

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

| 2 |           |
|---|-----------|
| 3 | Interroge |

1

4

5

10

11 12

## <u>Interrogatory</u>

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

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

## **Response**

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 30 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #30

1 2 3

## **Interrogatory**

4 5

## Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 21

6 7

8

Please confirm that, as of the date of closing, WHSI will have no future obligations to employees for other post-employment benefits. If such obligations will be in existence at that time, what is the estimated amount of those obligations, and who has responsibility for those liabilities under this Agreement?

10 11

## **Response**

12 13 14

15

16

17

18

19

20

Not confirmed. On closing, WHSI will have future obligations for other postemployment benefits only to employees who elect to retire from WHSI before the business of WHSI is fully integrated into Hydro One Networks Inc. At the present time, Hydro One cannot reasonably estimate this future liability as it is contingent on several items, which may include: number of employees that will retire, years of service of each employee, level of benefits etc. As such Hydro One has no way of estimating this future liability as it is based on these future contingent outcomes.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 31 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #31

1 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

## Response

10 11

12

14

15

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

16 17 18

19

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 32 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #32

#### **Interrogatory**

## Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 32

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

## **Response**

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 33 Page 1 of 2

## School Energy Coalition (SEC) INTERROGATORY #33

#### **Interrogatory**

Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Page 33 and Schedule 6.7

Please provide a breakdown of each year's capital budget, and highlight any differences by category between the agreed capital budget and the previous capital budget of WHSI for those years.

## **Response**

The parties are not able to provide the analysis requested.

The CAPEX forecast found in Schedule 6.7 to the Share Purchase Agreement describes a dollar value obligation that the Purchaser is expected to meet as per Clause 6.7 of the Agreement found at page 33. Hydro One's acceptance of this obligation was not based upon a detailed review of WHSI's previous capital expenditure budgets including individual line item amounts. That is because those budgets were established under the operating assumption that WHSI would continue to operate on a stand-alone basis. That is a fundamentally different operating assumption than what Hydro One intends to achieve going forward with this transaction, namely, fully integrating WHSI's operational affairs.

The CAPEX forecast found in Schedule 6.7 was developed based on the underlying assumption of integration. The amounts shown take into account Hydro One's evaluations of the incremental cost of operating and maintaining the WHSI service territory (i.e. overall geographic area and number of customers, proximity of WHSI to existing Hydro One service territory). This capital cost estimate was not developed using an assessment of WHSI's historic capital cost budget items. As such, Hydro One has no way to conduct a breakdown of its incremental CAPEX forecast to compare to the cost categories used by WHSI in its previous capital budgets. A category breakdown of the CAPEX, on a 5 year average of the years provided in Schedule 6.7, is shown in Table 1 below.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 33 Page 2 of 2

Table 1

|   | HONI<br>WHSI | Average<br>Imputed<br>Cost*<br>(\$M) |
|---|--------------|--------------------------------------|
| 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                                |
| Total   | 100%         | \$3.8                                |

<sup>\*</sup> Based on annual \$3.8 million capital expenditure

2

4

5

7

8

9

10

1

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 34 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #34

#### **Interrogatory**

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

Please provide documents 22 and 25.

#### Response

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 35 Page 1 of 1

## **School Energy Coalition (SEC) INTERROGATORY #35**

| 2 |       |     |
|---|-------|-----|
| 2 | Inter | roa |

1

5 6

7 8

11

12

13

14

**Interrogatory** 4

Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 6 / Schedule 6.8

Please complete the rest of the table, for the years 2015 to 2020.

## **Response**

9 10

> The 2014 Service Charges and Variable Charges shown in Schedule 6.8 will not change from 2015 to 2019. The 1% reduction in rates will be accomplished via fixed and variable riders as shown in the proposed rate schedules provided at Exhibit A, Tab 3, Schedule 1, Attachment 15.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 36 Page 1 of 1

#### **School Energy Coalition (SEC) INTERROGATORY #36** 1 2 **Interrogatory** 3 4 Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 11/ Page 13 5 6 Please confirm that the Applicant is proposing to leave WHSI's stranded meters in rate 7 base, and continue to collect the weighted average cost of capital on those meters. 8 9 **Response** 10 11 Confirmed. 12

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 37 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #37

#### **Interrogatory**

## Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 11/ Page 16

Please confirm that WHSI has a balance in Account 1575 or 1576 owing to ratepayers of \$1,110,647, plus accrued interest, as of December 31, 2013. Please confirm that WHSI is proposing to defer clearance of that balance until 2020. Please provide a projection of the balance in the account as of the time WHSI expects to clear the account.

## **Response**

The balance as at December 31, 2013 in account 1576, IFRS-CGAAP Transitional PP&E Amounts, is \$1,110,647. The WHSI account balance does not include interest carrying charges. This is consistent with the guidance provided from the Board in, 'Ontario Energy Board Accounting Procedures Handbook Frequently Asked Questions July 2012' whereby Appendix A; Account Description of Account 1576 (page 26), part "C", provides that "No interest carrying charges or a rate of return is permitted in this account."

Confirmed. Hydro One is proposing to defer clearance of that balance until the next rebasing of rates, currently expected in 2020.

WHSI will continue to track variances between IFRS and CGAAP in this account until the closing of the proposed transaction. If, for example, the proposed acquisition of WHSI by Hydro One closes on December 31, 2014, the forecast principal balance of the deferral account is approximately \$1.6 million. From the closing date forward, no new principal is expected to be added to the Deferral Account balance.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 2 Schedule 38 Page 1 of 1

## School Energy Coalition (SEC) INTERROGATORY #38

#### **Interrogatory**

## Reference: Exhibit A / Tab 3 / Schedule 1 / Attachment 11/ Page 18

Please advise which of the listed debt instruments being assumed by the Purchaser will be replaced by lower cost Hydro One debt, and in what years.

## Response

All of the listed debt instruments will be assumed by the Purchaser. The debt assumed will be replaced by Hydro One debt as it is repaid upon maturity or upon early termination, based on termination provisions of the debt. Replacement debt will be issued by Hydro One Inc. on a cost effective basis within the context of managing its \$9 billion debt portfolio.

As discussed in Exhibit A, Tab 2, Schedule 1, page 4 on lines 16 to 20, "Hydro One's cost of borrowing is typically lower than that of local LDCs, leading to savings in financing costs over time. These savings arise from Hydro One's ability to refinance WHSI debt upon maturation at a lower rate". Note as discussed on page 18 of Exhibit A, Tab 3, Schedule 1 Attachment 11, there are scheduled principal repayments of debt in every year as the long term debt is an amortizing debt instrument.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 1 Page 1 of 1

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

## **Interrogatory**

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

| 800 kWh   | HONI Urban Impacts          |           |     |         |          |
|-----------|-----------------------------|-----------|-----|---------|----------|
| Community | Dis                         | tribution | Dif | ference | % Change |
| Woodstock | \$                          | 45.80     | \$  | 8.66    | 19%      |
| Norfolk   | \$                          | 53.23     | \$  | 1.23    | 2%       |
| HONI UR   | \$                          | 54.46     |     |         |          |
|           |                             |           |     |         |          |
| 800 kWh   | HONI Medium Density Impacts |           |     |         |          |
| Community | Dis                         | tribution | Dif | ference | % Change |
| Woodstock | \$                          | 45.80     | \$  | 23.90   | 52%      |
| Norfolk   | \$                          | 53.23     | \$  | 16.47   | 31%      |
| HONI MED  | \$                          | 69.70     |     | •       |          |

#### Response

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 2 Page 1 of 1

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

## **Interrogatory**

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

### Response

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 3 Page 1 of 1

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

## **Interrogatory**

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

## **Response**

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 4 Page 1 of 1

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

## **Interrogatory**

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

#### **Response**

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 5 Page 1 of 1

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

## **Interrogatory**

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

#### Response

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 6 Page 1 of 1

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

## **Interrogatory**

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

## **Response**

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 7 Page 1 of 1

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

## **Interrogatory**

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

## Response

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

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

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 3 Schedule 8 Page 1 of 1

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

2 3 4

1

## **Interrogatory**

5 6

7

8

10

11

12

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

13 14 15

#### Response

16 17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

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

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 4 Schedule A Page 1 of 1

#### Township of Zorra (TOZ) INTERROGATORY A

## **Interrogatory**

Has there been a comprehensive review of response times to areas currently serviced by Hydro One's Beachville Operations Centre? How will Hydro One Inc. mitigate response times if they are found to be outside of normal acceptable times, once the operations centre has been relocated?

## **Response**

Hydro One is in full compliance with response time requirements as are set out in its Distribution License. As such, Hydro One has not had reason to conduct a comprehensive review of response times to areas currently serviced by Hydro One's Beachville Operations Centre.

Response times are a function of the fault event (e.g., storms) and the number of staff to respond to the outage. Geographic location of the operation centre is not the primary driver for outage response times but rather accessibility to the outage from the Hydro One crews' physical location (e.g., field work site or home location for after-hour calls). Responses to utility outages are not like other types of emergency responses, e.g., firefighting or ambulance service, in which responders depart from a central location. Other than leaving the initial work location in the morning, outage response would be similar to a police-type response where a dispatch may be taken at any location in which the utility outage responder is located at that point in time.

Exhibit I, Tab 2, Schedule 17 provides additional information on the potential relocation of the Beachville Operations Centre.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 4 Schedule B Page 1 of 1

#### Township of Zorra (TOZ) INTERROGATORY B

## **Interrogatory**

Has a site been selected by Hydro One Inc. for a new operations centre? Was a business case prepared for the cost of purchasing property, construction of new centre, decommissioning of the Beachville site and any other costs associated with the proposed new site? If so, please provide documentation of the business case and the timing of its approvals. If not, how did Hydro One determine that agreeing to the new location as part of its agreement with the Town of Woodstock was cost effective and was in the best interest of its current customers.

## Response

No final decision has been made into the relocation of the Beachville Operations Centre, as such, a business case has not been prepared. As noted in Exhibit I, Tab 2, Schedule 17, the Beachville Operations Center is nearing the end of its useful life. The overall need to replace the existing Centre is the main rationale that Hydro One relied upon in order to make the commitment it has to have the Centre relocated to within the City of Woodstock, under the assumption that this transaction proceeds forward. Hydro One believes that the cost to relocate the Beachville Operations Centre is not expected to be materially different than the cost to relocate the Centre to a comparable serviced property that meets Hydro One's siting requirements. It should be noted that Hydro One already serves a large portion of the City of Woodstock and a new operating centre may in fact be located within the existing Hydro One service territory.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 4 Schedule C Page 1 of 1

#### Township of Zorra (TOZ) INTERROGATORY C

## **Interrogatory**

Have the costs associated with the service centre questioned above been factored into the rates for present Woodstock customers? If so, how will Hydro One be recovering this cost from its customers and what is the impact to its customers, for both Hydro One and Woodstock Hydro customers?

## **Response**

No, the cost for any new operating centre has not been included in WHSI's customer's current rates which were determined before this transaction occurred.

The distribution costs associated with the Beachville Operating Centre are currently recovered in Hydro One Distribution's approved rates. In its current rate application (EB-2014-0418) Hydro One Distribution has sought approval to recover costs to upgrade its operations facilities. If approved, such amounts will also be recovered from Hydro One Distribution's existing rate customers.

In 2020, Hydro One Distribution will be required to file a new rates application. Hydro One would reasonably expect that the costs associated with the new operations centre, provided it is in-service, that benefitted both former WHSI and existing Hydro One Distribution customers, would be recovered by those customers through the approved rates they are charged. Allocation of costs between these two customer groups has not been considered at this stage. This would be considered as part of the development of the rate application following the five year rate freeze period.

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 4 Schedule D Page 1 of 1

#### Township of Zorra (TOZ) INTERROGATORY D

## **Interrogatory**

4 5

In the proposed rental agreement between the Town of Woodstock and Hydro One for the Nellis St. Property, the rental rate is listed as \$2 per year for a period of up to 8 years. Municipalities are not permitted to provide below market rental rates which contravenes Section 106 of the Municipal Act. Accordingly The City of Woodstock therefore cannot rent property to Hydro One at below market costs. Is Hydro One and The Town of Woodstock aware of this requirement? If so how does it impact the economics of the agreement and are there any potential impacts to the City of Woodstock ratepayers.

## Response

The Form of Standard Vacant Land Lease at Schedule 5.6 to the Share Purchase Agreement provides that the use of the Nellis St. Property by Hydro One would be limited to "storage of material and equipment including wood and steel utility poles for the installation and maintenance of the electrical system within Tenant's service area." Compensation for use of the Nellis St. Property is adequately covered by the purchase price for the shares of WHHI.

However, section 5.6 of the Share Purchase Agreement provides (in part) that "The Vendor will use its best efforts to obtain sufficient rights from the County of Oxford to permit Vendor to lease the lands to Purchaser (or its assignee) which Vendor covenants to do upon successful Closing, on the terms of Schedule 5.6 for a lease term of three (3) years with five consecutive options to extend the term by one (1) year each, at no cost to Purchaser. If Vendor is unable to secure such rights 30 days or more prior to Closing, then the Vendor will make available similar lands, suitable for the purpose, at no cost to Purchaser, for the same term, and otherwise in accordance with Hydro One Networks Inc.'s standard form vacant land lease".

Filed: 2014-09-22 EB-2014-0213 Exhibit I Tab 4 Schedule E Page 1 of 1

#### Township of Zorra (TOZ) INTERROGATORY E

## **Interrogatory**

Currently Woodstock Hydro bills water and sewer services to customers in the town of Woodstock. Once the transition period is completed the County of Oxford (including The Township of Zorra) will be required to find new arrangements for billing its water and sewer customers. This will be an incremental cost to the county and will negatively impact all customers of the county. Was there any consideration given to compensating the county for this change to its future costs?

## **Response**

Hydro One Inc. confirms that it has made a separate proposal to provide water and sewer billing services to the City of Woodstock and that these services are currently provided by WHSI. The cost of providing water and sewer billing services would remain a non-regulated activity and would not be recovered through distribution electricity rates. Hydro One understands that this proposal remains under review by the City of Woodstock. That said, the proposal is distinct from the terms and conditions of the current application, namely, whether there would be any harm caused to WHSI rate payers if the proposed share acquisition transaction is approved.