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**BY E-MAIL**

October 7, 2014

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

Dear Ms. Walli:

**Re: Board Staff Interrogatories  
Applications by Hydro One Inc. and Haldimand County Hydro Inc.  
EB-2014- 0244**

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

Yours truly,

*Original signed by*

Judith Fernandes  
Project Advisor  
Applications Division

Attachment

cc: All Parties to the Proceeding



## **Board Staff Interrogatories**

**APPLICATION BY HYDRO ONE INC. FOR LEAVE TO PURCHASE ALL OF THE ISSUED AND OUTSTANDING SHARES OF HALDIMAND COUNTY UTILITIES INC.**

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

**APPLICATION BY HALDIMAND COUNTY HYDRO INC. FOR LEAVE TO TRANSFER ITS DISTRIBUTION SYSTEM TO HYDRO ONE NETWORKS INC.**

**APPLICATION BY HALDIMAND COUNTY HYDRO INC. FOR LEAVE TO TRANSFER ITS DISTRIBUTION LICENCE AND RATE ORDER TO HYDRO ONE NETWORKS INC.**

**EB-2014-0244**

**October 7, 2014**

## INTERROGATORY NO. 1

**Reference:** Exhibit A, Tab 3, Schedule 1, Page 15, Section 1.8.2:

The premium paid over the book value on the transaction will not have a material impact on HOI's 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 Please provide the net book value of the assets being acquired by HOI.
- 1.2 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 revenue requirement of Hydro One Networks Inc. ("HONI") or of the Haldimand business segment, once acquired by HOI.
- 1.3 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.
- 1.4 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.
- 1.5 Please describe how the premium paid will be treated for regulatory purposes, i.e. whether it will be written off or recognized as goodwill as part of PP&E.

## INTERROGATORY NO. 2

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

Hydro One projects that the resultant cost structures from proceeding with the transaction will result in ongoing operations, maintenance and administrative ("OM&A") savings of over \$4.0 million per year and reductions in capital expenditures of over \$1.5 million per year. These savings will result in downward pressure on HCHI'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:

- 2.1 Please provide a breakdown of the cost savings for each of the areas identified in Exhibit A, Tab 2, Page 2, Lines 15-27 and Page 3, Lines 1-5.

- 2.2. 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.

### INTERROGATORY NO. 3

**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 HCHI distribution system, identified current asset needs, and created a line of sight to future asset needs.

- 3.1 Please provide details of the ARA assessment process including the assumptions, analysis and calculations used to arrive at the projected net annual savings amounts.
- 3.2 Please describe the changes or reductions in capital investments that are proposed as a result of the ARA assessment process in comparison to HCHI's original plans. Please provide reasons for proposed changes.

### INTERROGATORY NO. 4

**Reference:** Exhibit A, Tab 2, Schedule 1, Page 5, Lines 7-11 and Table 2:

Hydro One will maintain the existing HCHI Operating Centre located in Caledonia and will add a new satellite operating centre located in Dunnville. Hydro One serves customers in the neighbouring operating areas of Dundas, Simcoe, and Lincoln surrounding Haldimand County and thus has crews that travel some of the same roads and drive by some of the same facilities as the existing line crews from HCHI.

- 4.1. Please provide the cost of the new operating centre and please confirm whether this cost is included in the projected expenditure outlays shown in Table 2.
- 4.2. Please confirm whether this new operating centre is expected to serve HCHI customers as well as those in the neighbouring areas of Dundas, Simcoe, and

Lincoln as well as any other customers. If so, please indicate which customers are expected be served by the new operating centre and also provide the total number of customers that are expected to be served by this centre.

- 4.3 Please provide a description of the relative distance of the new operating centre to HCHI's customers as compared to the existing HCHI operating centre located in Caledonia.

## **INTERROGATORY NO. 5**

**Reference:** Exhibit A, Tab 2, Schedule 1, Page 6, Lines 5-10 and Table 1:

The efficiencies attained through some of the activities discussed above, result in Hydro One's expectation to be able to consolidate 36 of the 52 positions, currently required to operate HCHI, into positions in Hydro One that would otherwise need to be filled due to retirements and attrition. As Hydro One already has an operating organization in place that provides the same functions (such as senior management, professional, and some union staff), certain positions will no longer be required to serve HCHI.

- 5.1. Please indicate the number of senior management positions that are expected to be eliminated. Please confirm whether this is reflected in the annual overall salary savings of \$1.9 million.
- 5.2 Please confirm that the projected salary savings in Table 1 could be lower than this anticipated amount if many of the 36 positions that are to be consolidated are eventually transitioned to other positions within HONI.
- 5.3 On the basis of the best available information at this time, please indicate what proportion of the 36 positions to be consolidated are expected to be transitioned into other positions within HONI once integration is complete.

## **INTERROGATORY NO. 6**

**Reference:** Exhibit A, Tab 2, Schedule 1, Page 11, Lines 12-17:

The proposed transaction protects HCHI customers through a commitment to freeze base electricity distribution delivery rates for a period of five years from closing of this transaction. In addition, HCHI

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-2013-0134. The cost of providing this rate rider will be recovered from synergies that are generated from consolidating HCHI's operations into Hydro One.

- 6.1 Please provide the cost of providing the proposed rate reduction per annum, including the analysis, assumptions and calculations used.

## INTERROGATORY NO. 7

**Reference:** Exhibit A, Tab 1, Schedule 1, Page 5, Lines 9-11:

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

- 7.1 According to HCHI's RRR 2.1.7 filings as of December 31, 2013, it had a credit balance of approximately \$1.6 million in its Group 1 accounts, and a credit balance of approximately \$0.5 million in its Group 2 accounts. After adjusting for dispositions in HCHI's 2014 rate proceeding (where its 2012 balances were cleared), its 2013 balances as of December 31, 2013 reflect a credit of \$1.3 million in its Group 1 accounts and a debit of \$0.1 million in its Group 2 accounts. Based on its metered kWh for 2013, HCHI meets the threshold criteria for disposition of Group 1 accounts.
- a. Please confirm if HONI is planning to request the disposition of HCHI'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 HCHI's deferral and variance accounts separately from its own balances.
  - c. Please confirm whether HONI will request for the disposition of the balances up to the date of acquisition to the service area where they originated.

## INTERROGATORY NO. 8

**Reference:** Exhibit A, Tab 2, Schedule 1, Page 21, Lines 9-10:

Hydro One requests approval to utilize USGAAP for accounting purposes in relation to Hydro One Haldimand.

- 8.1. Please confirm that HONI's plan to use USGAAP for HCHI will not impose additional cost to HCHI'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.