

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF the application by Hydro One Inc. for leave to purchase all of the issued and outstanding shares of Haldimand County Utilities Inc. under section 86(2)(b) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application by Haldimand County Hydro Inc. for leave to dispose of its distribution system to Hydro One Networks Inc. under section 86(1)(a) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application by Hydro One Networks Inc. seeking to include a rate rider in the 2014 Ontario Energy Board approved rate schedule of Haldimand County Hydro Inc. to give effect to a 1% reduction relative to 2012 base electricity delivery rates (exclusive of rate riders) under section 78 of the *Ontario Energy Board Act, 1998*.

INTERROGATORIES

FROM THE

SCHOOL ENERGY COALITION

Exhibit A – Administrative Documents

SEC - 1 [A/1/1, p. 2]. Please provide details of the role of 1908872 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.

SEC - 2 [A/1/1, p. 3] Please confirm that HCHI’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.

SEC - 3 [A/1/1, p. 3] Please provide details of the “asset transfer and integration steps” referred to.

SEC - 4 [A/1/1, p. 3] Please confirm that, during the five year rate freeze, HCHI 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 HCHI rates can be changed prior to 2019.

- SEC - 5 [A/1/1, p. 5] Please advise what separate regulatory accounts, if any, will be established to record costs and/or assets and liabilities of the former HCHI, separate from the Applicant, during the period until 2020.
- SEC - 6 [A/1/1, p. 5] Please advise what securities or other regulatory bodies, such as the Ontario Securities Commission, have given their consent to the use by HCHI of USGAAP.
- SEC - 7 [A/1/1, p. 5] Please provide any evidence in the possession of the Applicant or HCHI demonstrating that the ratepayers of HCHI “will be held harmless”.
- SEC - 8 [A/1/1, p. 5] Please confirm that the goal to “eliminate the duplication of effort” would be equally achievable by sale of Hydro One territories to other LDCs, including HCHI. Please confirm that Hydro One has no parts of its franchise area currently for sale.
- SEC - 9 [A/2/1, p. 2] Please explain how the savings in OM&A costs of \$4.0 million per year will benefit the HCHI ratepayers, in addition to the 1% rate rider. If there are no savings beyond that, please advise. Please provide a quantitative response, including details of how the savings achieved will flow into the rates charged to HCHI ratepayers.
- SEC - 10 [A/2/1, p. 2] Please provide details of all disclosures of these proposed transactions that were provided on the record in EB-2013-0134 up to and including April 16, 2014, the day the Board issued its decision in that matter. If no disclosure of the new plans for capital and operating costs was made, please explain why the Board was allowed to proceed to a decision based on information that HCHI knew at the time was unlikely to be true.
- SEC - 11 [A/2/1, p. 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].
- SEC - 12 [A/2/1, p. 5] Please provide all Hydro One planning and other documents dealing with the location of field business centres in and surrounding the HCHI service territory. If there is an overall plan for the organization of field services in the larger area of the Niagara Peninsula, please provide. If there is no such plan, please explain the basis on which decisions are being made with respect to the location and staffing of field business centres.
- SEC - 13 [A/2/1, p. 7] Please provide full details of the compensation (direct and indirect) differences between HCHI and Hydro One for the 16 local staff that will be retained in

the area, and for the 36 indirect staff that will be relocated to other areas in Hydro One.

SEC - 14 [A/2/1, p. 9] Please confirm that Hydro One is planning to reduce investment in local electricity infrastructure relative to HCHI's original plans. Please provide detailed justifications for those reduced investments.

SEC - 15 [A/2/1, p. 9] Please provide the five year distribution system plan for HCHI, as filed in EB-2013-0134, and the new five year distribution system plan that will be implemented after the proposed transactions.

SEC - 16 [A/2/1, p. 9] Please provide a detailed breakdown of the "Status Quo" and "Hydro One" OM&A budgets for each of years 1 through 10, including the "lower OM&A" and "Higher OM&A" bands. Please provide a detailed breakdown of the "Status Quo" and "Hydro One" Capital budgets for each of years 1 through 10, including the "lower OM&A" and "Higher OM&A" bands.

SEC - 17 [A/2/1, p. 10] Please confirm that, under the Board's most recent efficiency assessments, Hydro One's total costs averaged 47.8% above predicted costs over the last three years, and HCHI's costs averaged 22.2% below predicted costs over the last three years. Please explain how it can benefit the customers of HCHI (as opposed to the customers of Hydro One) for an inefficient utility like Hydro One to buy the assets of an efficient utility like HCHI. Please explain how an acquisition in these circumstances is compliant with provincial and Board policy.

SEC - 18 [A/2/1, p. 10] Please confirm that, if they were to be placed in Hydro One rate classes today, all HCHI residential customers would be in the R1 class, GS<50 customers in the GSe class, and GS>50 customers in the GSd 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 R1, GSe, and GSd 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 \$703.83 for R1 [\$325,085,521 allocated cost divided by 461,880 customers], \$1,869.34 for GSe [\$177,145,864/94,764] and \$26,550.65 for GSd [\$171,464,116/6,458].

SEC - 19 [A/2/1, p. 11 and 16] 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 HCHI customers. If that is not confirmed, please explain how HCHI 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.

SEC - 20 [A/2/1, p. 12] 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.

SEC - 21 [A/2/1, p. 18] Please explain the following sentence, and how it impacts the Board's consideration of these proposed transactions:

"In a merger or acquisition, net ratepayer and system benefit, relative to the status quo, based on the no-harm test, rather than lower incremental cost to serve, is the key factor in determining whether the transaction is in the public interest."

Please advise whether Hydro One agrees that, if the overall cost to serve all customers, including both Hydro One customers and HCHI customers, goes down, but the costs to be charged to HCHI customers goes up, and the costs to be charged to Hydro One customers go down by a greater aggregate amount, the transactions are in the public interest.

SEC - 22 [A/2/1, p. 19] Please advise how Hydro One proposes to set rates for HCHI customers in 2020 and beyond. If the choice between the options is not yet known, please advise how Hydro One proposes to ensure that HCHI customers will, in 2020 and beyond, enjoy some of the benefits of the efficiencies arising from the transactions.

SEC - 23 [A/2/1, p. 19] 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]

SEC - 24 [A/2/1, p. 20] Please explain how the proposed approach "will consider the bill impact on both legacy and acquired customers". Please explain how the approach will differ in that respect from Hydro One's previous harmonization of legacy and acquired rates.

SEC - 25 [A/2/1, p. 20] Please provide all material impacts on the costs of HCHI from changing from CGAAP/IFRS to USGAAP. Please provide all material impacts on the costs of HCHI from using USGAAP rather than IFRS starting in 2015. Please confirm that all costs of HCHI for conversion to IFRS that have been recovered from ratepayers will be refunded to the ratepayers.

SEC - 26 [A/3/1, p. 9] Please confirm that a \$100,000 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.

SEC - 27 [A/3/1, p. 15] Please provide the valuation required by section 1.8.1. Please provide the report of Norton Rose Fulbright, if it is not the valuation requested.

SEC - 28 [A/3/1, p. 17] 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.

SEC - 29 [A/3/1, Attach 6, p. 12] 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.

SEC - 30 [A/3/1, Attach 6, p. 17] Please confirm that, as of the date of closing, HCHI 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?

Respectfully submitted on behalf of the School Energy Coalition this 7th day of October, 2014

Jay Shepherd
Counsel for the School Energy Coalition