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BY COURIER

October 20, 2014

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

Dear Ms. Walli:

EB-2014-0244 – Hydro One Networks Inc. MAAD S86 Application to Purchase Haldimand County Utilities Inc. – Interrogatory Responses

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 are the Tab numbers corresponding to each intervenor:

Tab	Intervenor
1	Ontario Energy Board (Board Staff)
2	Linda J Rogers
3	School Energy Coalition (SEC)

An electronic copy of the Interrogatories, have been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Joanne Richardson

cc. Intervenors for EB-2014-0244 (electronic only)

Attach.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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 Halidmand 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.

Response

1.1 The net book value of HCHI's Property Plant and Equipment being acquired by Hydro One is approximately $51 million, per HCHI's 2013 Financial Statements filed as Exhibit A, Tab 3, Schedule 1, Attachment 11, page 3.

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

1.3 The premium paid to acquire the outstanding shares of HCHI 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 to the account of ratepayers.

1.4 The premium paid will be recorded as goodwill in the financial statements of Hydro One Networks Inc.

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

Ontario Energy Board (Board Staff) INTERROGATORY #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:

Interrogatory

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.

Response

2.1 Anticipated ongoing 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:

Table 1

Savings / Synergy Category	**Annual Range** ($ million)	
Back-Office Staff	1.4	1.6
Senior Management / Corporate Governance	0.9	1.0
IT Costs (e.g. maintenance fees)	0.2	0.3
CDM / Regulatory / Insurance / Net Other	1.4	1.6
Total OM&A	**3.9**	**4.5**
Total Capital (including Reprioritization & IT Costs)	**0.7**	**2.4**

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 Lines 9 and 10 (i.e. $5.5 million per year) based upon Hydro One comparing HCHI, as a standalone distribution utility, with HCHI as integrated with Hydro One's existing operations.

2.2 Factors that may affect the achievement of the expected efficiencies include:

- 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
- Risks of natural and other unexpected occurrences (e.g., natural disasters, or some other catastrophic event)
- Risks associated with the integration of information technology infrastructure
- Modifications to the distribution system, including necessary investments to support renewable generation activities
- Market and credit risk associated with procurement needs (e.g., foreign exchange rates)
- Unforeseen changes in law, changes in provincial energy policy and/or regulatory policy changes that may result in increased spending requirements
- Unanticipated changes in electricity demand or costs.

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 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.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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.

Response

3.1 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 HCHI integration case, Hydro One looked at the categorical functions outlined below:

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

Field assessment and visual inspections and evaluations were completed and asset information was collected on existing HCHI 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 HCHI 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 HCHI's aggregate spend in order to project the net annual savings provided. Hydro One's ARA process is further described in Exhibit D1, Tab 2, Schedule 1 of EB-2009-0096 and Exhibit A, Tab 17, Schedule 17 of EB-2013-0416.

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 modeling information is continuously improved by and through continued input of actual results. Doing so is part of Hydro One's ongoing operating activities.

3.2 Please refer to Exhibit I, Tab 1, Schedule 2.1 and Exhibit I, Tab 3, Schedule 16.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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.

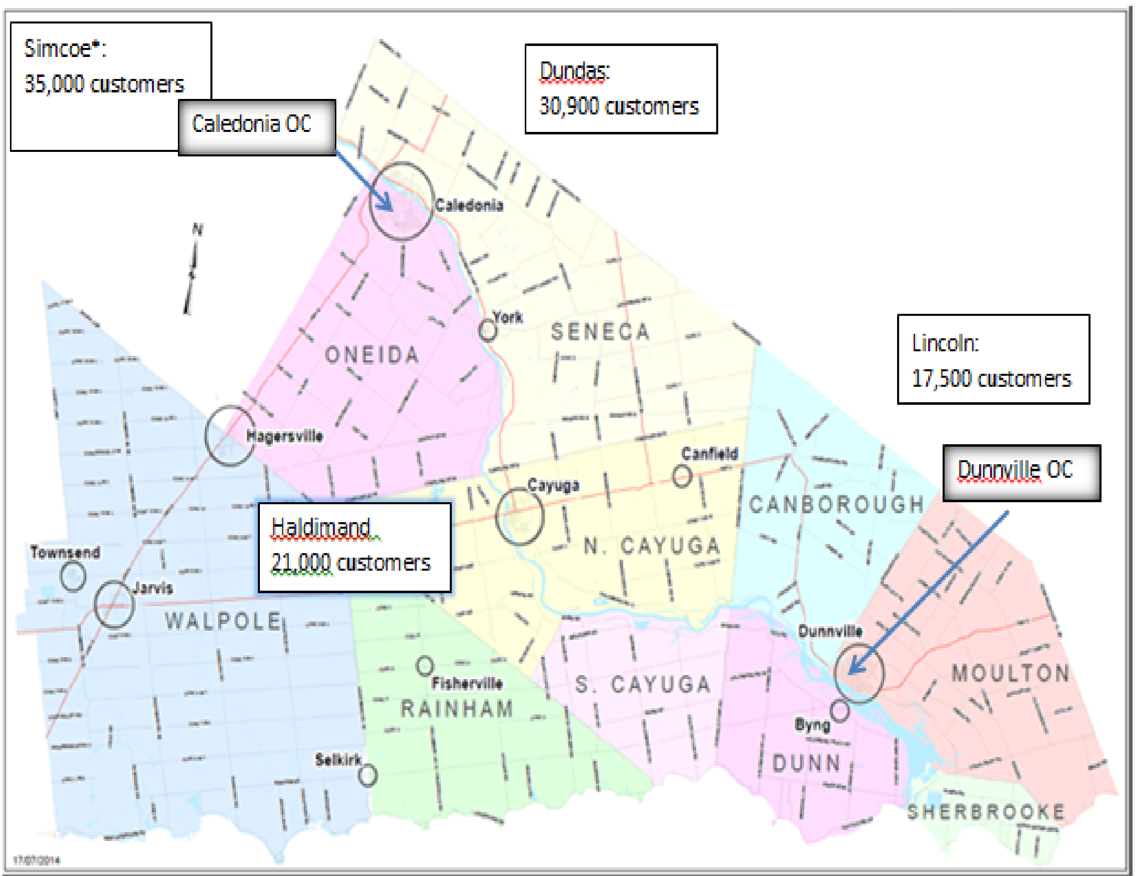
Response

4.1 Confirmed. The Hydro One capital forecast includes a new satellite operating centre at a cost of $2.5 million.

4.2 The new Dunnville Operating Centre will be a satellite of the existing HCHI Caledonia Operating Centre. HCHI has a large service territory geographically and this will allow for better response to customers' needs in the southern portion of the service territory.

The Caledonia Operating Centre is located in northwest Haldimand County while the new satellite operating centre is to be located in the southeast at a distance of approximately 44 km. The new satellite operating centre is closest to the former townships of South Cayuga, Canborough, Dunn, Moulton and Sherbrooke plus the eastern parts of Rainham and North Cayuga with a total customer count of approximately 8,000. The remaining 13,000 HCHI customers are closer to the existing Caledonia Operating Centre.

In addition, depending on operational realignments over the next few years the new satellite operating centre may serve a portion of the neighbouring Lincoln Operating Centre's customers based on demand requirements and facility availability at the time. The picture below outlines the towns and townships in Haldimand, the location of the existing Caledonia Operating Centre, the new satellite Dunnville Operating Centre, plus the neighbouring Hydro One operating areas with their approximate customer counts.



*includes recently acquired customers of the former Norfolk Power Distribution Inc.

4.3 Please refer to part 4.2 above.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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.

Response

5.1 Table 1 includes 5 senior management positions that have been included in the overall salary savings of $1.9 million.

5.2 The projected salary savings in Table 1 captures the total salary cost of the 36 indirect HCHI positions expected to be consolidated into Hydro One. The number of HCHI personnel transitioned to other positions within Hydro One was not a consideration in determining the projected salary savings.

Hydro One has answered this interrogatory assuming that Board Staff proposed to ask "if many of the 36 positions that are to be consolidated are eventually [**not**] transitioned to other positions within HONI".

Yes, Hydro One acknowledges that if fewer positions are consolidated into Hydro One, then the projected salary savings would be lower. However, Hydro One fully expects that all positions will be transitioned into Hydro One.

5.3 All HCHI personnel currently in these 36 indirect positions will have the opportunity to transfer to other positions with the Hydro One organization as described in Exhibit A, Tab 2, Schedule 1 page 6. Hydro One is planning for all staff to participate in the transition process as part of integration.

In the future, HCHI employees will be integrated into the Hydro One organization. For HCHI 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. HCHI employees who remain unrepresented will be placed in an appropriate Hydro One Management Compensation Plan (MCP) job and compensation band level.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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

Response

Hydro One estimated the impact of the 1% reduction in rates for HCHI customers based on the assumption that HCHI Distribution Revenue is equal to approximately $12 million per year. One per cent of this amount is equal to approximately $120,000 per year. The cumulative value is approximately $600,000 over the five year rate reduction period.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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.

Response

Hydro One confirms that HCHI's balance in its Group 1 accounts, as of December 31, 2013 has met the threshold criteria for disposition. At the time of closing of the transaction, Hydro One will review these balances and explore the establishment of a rate rider for disposition.

a. Hydro One will monitor the balance as it accumulates in HCHI'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 HCHI 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.

Ontario Energy Board (Board Staff) INTERROGATORY #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.

Interrogatory

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.

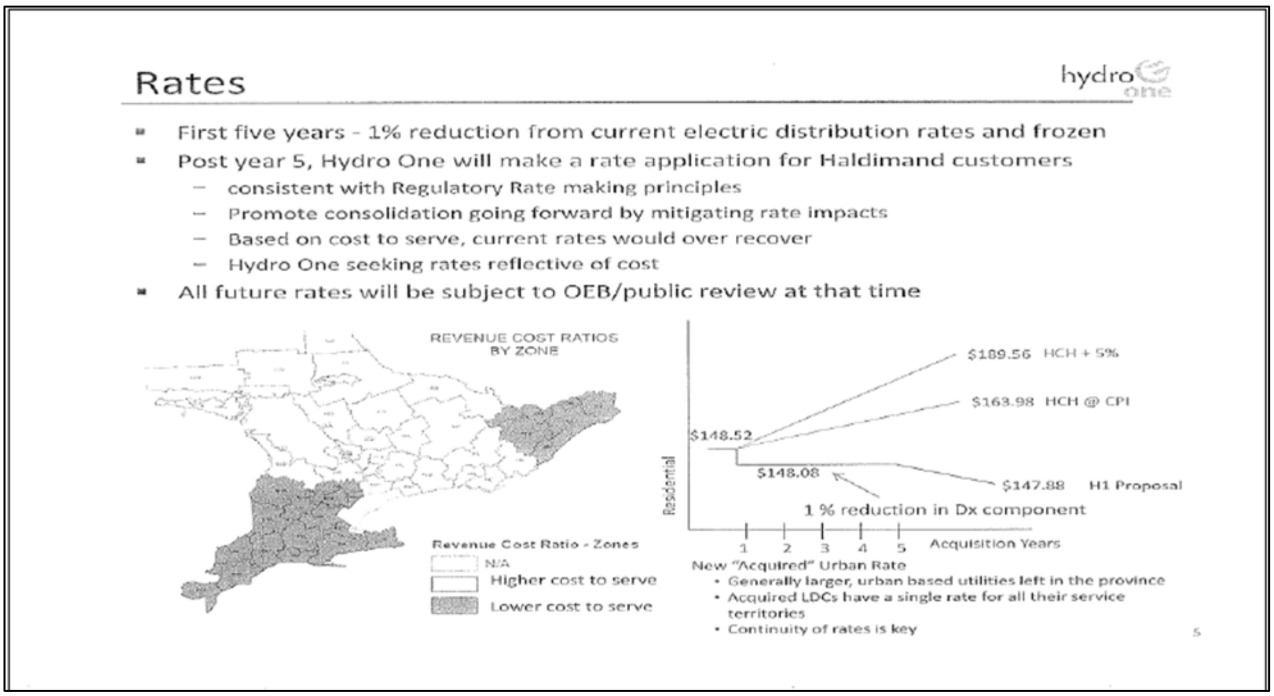
Response

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

Linda J Rogers INTERROGATORY #1

Interrogatory

In the presentation of the proposal to purchase HCHI made on December 10, 2013, for the benefit of Haldimand County council and public (see attachment Haldimand County Hydro One presentation- page 5 of 7) a graphic image was used to illustrate and highlight, one of the points to the claimed advantages of Hydro One's offer . This image gave a specific number that is presumed to be representative of an "average" bench mark Haldimand County Hydro electrical bill. It is as follows:



Residential = 148.52

Using the Ontario Energy Board website and the handy calculator app to calculate an average total cost representative for a residential electricity bill,

http://www.ontarioenergyboard.ca/oeb/Consumers/Electricity/Your%20Electricity%20Utility

and

Selecting Haldimand County Hydro Inc., as the utility for an average customer using 800 kW the predicted cost is:

Residential Total Cost is = **139.57**

http://www.ontarioenergyboard.ca/oeb/Consumers/Electricity/Your%20Electricity%20Utility

Now using the same calculator app and picking Hydro One (selecting a R1 medium density utility)

Residential Total Cost is = **157.09**

http://www.ontarioenergyboard.ca/oeb/Consumers/Electricity/Your%20Electricity%20Utility

Accepting that the rate of **148.52** from your proposal presentation to Haldimand County, was the more representative total bill cost for comparison purposes (NB: **148.52** being Hydro One's number, is *still* lower than the predicted total costs of **157.09** using the Ontario Energy Board calculator app on their website). Please provide an explanation as to why the higher total cost on the Ontario Energy Board web site should not be accepted as a reasonable estimated electrical bill cost for a member of the public.

Response

The key difference between the $148.52 average bill calculation from Hydro One's presentation and the $139.57 using the OEB's bill calculator is the Ontario Clean Energy Benefit. The OEB's bill calculator included the Ontario Clean Energy Benefit discount of $15.51 (a 10% discount) whereas Hydro One's presentation example excluded it, as the continuation of this discount is beyond the control of Hydro One. Other variances are a result of different rate assumptions (e.g. cost of power) at the time Hydro One made this presentation.

Post OEB-approval of this transaction, HCHI customers would continue to be billed based on HCHI's current distribution rates (effective May 1, 2014) for five years, less the 1% discount on base distribution charges, and not the $157.09 Hydro One R1 value that was produced by the OEB website average rate calculator.

Linda J Rogers INTERROGATORY #2

Interrogatory

Using the consolidated 2013 Scorecards for Electricity Distributors (Ontario) and exploring the section labelled "Operational Effectiveness" published numbers for comparison between HCHI and Hydro One;

http://www.ontarioenergyboard.ca/oeb/Industry/R4ules%20and%20Requirements/Electricity%20Distributor%20Scorecards

Scorecard - Haldimand County Hydro Inc.

9/24/2014

Performance Outcomes	Performance Categories	Measures		2009	2010	2011	2012	2013	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		96.70%	99.20%	97.00%	99.00%	93.20%	down	90.00%	
		Scheduled Appointments Met On Time		98.70%	98.30%	98.90%	99.70%	100.00%	up	90.00%	
		Telephone Calls Answered On Time		80.40%	88.80%	83.40%	85.50%	81.10%	down	65.00%	
	Customer Satisfaction	First Contact Resolution									
		Billing Accuracy									
		Customer Satisfaction Survey Results									
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Public Safety [measure to be determined]									
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted		4.01	2.77	8.34	2.22	9.69	up		at least within 2.22 - 8.34
		Average Number of Times that Power to a Customer is Interrupted		1.39	1.20	3.30	1.17	2.57	up		at least within 1.17 - 3.30
	Asset Management	Distribution System Plan Implementation Progress									
	Cost Control	Efficiency Assessment					2	2			
		Total Cost per Customer [1]		$621	$626	$665	$696	$681			
		Total Cost per Km of Line [1]		$7,469	$7,617	$8,078	$8,434	$8,310			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Annual Peak Demand Savings (Percent of target achieved) [2]				14.00%	13.00%	14.20%			2.85MW
		Net Cumulative Energy Savings (Percent of target achieved)				47.00%	69.00%	89.70%			13.30GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time				0.00%	11.11%	100.00%			
		New Micro-embedded Generation Facilities Connected On Time						100.00%		90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.85	1.48	1.79	1.78	1.66			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		0.40	0.31	0.35	0.42	0.36			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)			9.85%	9.85%	9.85%			
			Achieved			10.39%	7.60%	11.02%			

Notes:
1. These figures were generated by the Board based on the total cost benchmarking analysis conducted by Pacific Economics Group Research, LLC and based on the distributor's annual reported information.
2. The Conservation & Demand Management net annual peak demand savings do not include any persisting peak demand savings from the previous years.

Legend: up; down; flat; target met; target not met

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http://www.ontarioenergyboard.ca/documents/scorecard/2013/Scorecard%20-%20Haldimand%20County%20Hydro%20Inc..pdf

Scorecard - Hydro One Networks Inc.

9/24/2014

Performance Outcomes	Performance Categories	Measures		2009	2010	2011	2012	2013	Trend	Target: Industry	Target: Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time		90.50%	90.90%	92.00%	95.70%	97.40%	↑	90.00%	
		Scheduled Appointments Met On Time		93.50%	92.70%	93.90%	98.60%	98.40%	↑	90.00%	
		Telephone Calls Answered On Time		69.70%	69.70%	81.40%	83.40%	63.90%	↑	65.00%	
	Customer Satisfaction	First Contact Resolution						78.30%			
		Billing Accuracy						4.40%			
		Customer Satisfaction Survey Results						87%			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Public Safety [measure to be determined]									
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted		9.25	9.00	21.17	10.58	26.57	↑		at least within 9.00 - 21.17
		Average Number of Times that Power to a Customer is Interrupted		3.08	2.91	3.93	3.15	4.23	↑		at least within 2.91 - 3.93
	Asset Management	Distribution System Plan Implementation Progress						Under Review			
	Cost Control	Efficiency Assessment					5	5			
		Total Cost per Customer [1]		$989	$1,052	$1,072	$1,041	$1,046			
		Total Cost per Km of Line [1]		$9,775	$10,471	$11,064	$10,741	$10,682			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Annual Peak Demand Savings (Percent of target achieved) [2]				16.00%	20.00%	39.40%			213.66MW
		Net Cumulative Energy Savings (Percent of target achieved)				30.00%	45.00%	59.60%			1,130.21GWh
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time		100.00%	100.00%	95.79%	99.39%	100.00%			
		New Micro-embedded Generation Facilities Connected On Time						99.71%		90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.94	1.01	0.99	0.99	1.00			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.42	1.44	1.34	1.30	1.35			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)			9.66%	9.66%	9.66%			
			Achieved			8.80%	8.72%	8.00%			

Notes:
1. These figures were generated by the Board based on the total cost benchmarking analysis conducted by Pacific Economics Group Research, LLC and based on the distributor's annual reported information.
2. The Conservation & Demand Management net annual peak demand savings do not include any persisting peak demand savings from the previous years.

Legend: up; down; flat; target met; target not met

http://www.ontarioenergyboard.ca/documents/scorecard/2013/Scorecard%20-%20Haldimand%20County%20Hydro%20Inc.pdf

Bringing your attention to the reported Cost Control numbers and paying particular attention to the efficiency assessment ratings (Read as course as an inverse scale: i.e. lower the number a utility would be rated as being ***more*** efficient):

<u>Haldimand County Hydro Inc. Scorecard 2013</u>
Efficiency Assessment: 2
Total Cost per Customer: $681
Total Cost per Km of Line: $8 310

Cost Control	Efficiency Assessment				5	5
	Total Cost per Customer [1]	$989	$1,052	$1,072	$1,041	$1,046
	Total Cost per Km of Line [1]	$9,775	$10,471	$11,064	$10,741	$10,682

Compare with

<u>Hydro One Networks Inc. Scorecard 2013</u>
Efficiency Assessment: 5 (NB: only 4 other utilities out of 73, have scored this low)
Total Cost per Customer: $1 046
Total Cost per Km of Line: $10 882

Cost Control	Efficiency Assessment				2	2
	Total Cost per Customer [1]	$621	$626	$665	$696	$681
	Total Cost per Km of Line [1]	$7,469	$7,617	$8,078	$8,434	$8,310

Please provide an explanation as to how Hydro One has come to the conclusion that it is capable of bettering the performance markers and outcomes of HCHI, and why this publically published information should be disregarded by a customer.

Response

The consolidated *2013 Scorecards for Electricity Distributor*s displays data for all LDCs in Ontario. The LDCs range from small to large, from purely urban to rural and are physically located from northern to southern Ontario. While the data is useful, direct metric comparisons may be misleading.

For example, a basic comparison of the data from Haldimand County Hydro and Hydro One Networks from the *2013 Yearbook of Electricity Distributors* shows that in contrast to Haldimand County Hydro, Hydro One Networks has approximately:

- Sixty times the number of Total Customers (1,220,101 vs. 21,217)
- Five hundred times the Total Service Area in km (650,000 vs. 1,252)
- Seventy times the Total km of line (119,516 vs. 1,740)

In addition to these quantitative variances, HCHI is a single supplier located in one part of southern Ontario, compared to Hydro One, a multi-supplier, servicing topographically diverse territories across the entire province of Ontario. Therefore, considering these disparate infrastructures, comparisons of selected data from HCHI and Hydro One Networks is misleading. This is further corroborated by the Pacific Economics Group in its April 2007 report *Benchmarking the Costs of Ontario Power Distributors* which states that “Hydro One cannot be benchmarked accurately with unit cost metrics using Ontario data due to a lack of suitable peers” (page 55 of 91).

As per Exhibit A, Tab 2, Schedule 1, Page 13, Hydro One will endeavour to maintain or improve reliability and quality of electricity service for all of its customers. Based on reliability statistics for 2011 through to 2013, Hydro One customers in the vicinity of HCHI experienced a comparable level of service in terms of duration and frequency of interruptions as did HCHI customers. Hydro One anticipates that reliability will, at a minimum be maintained through the combination of a new satellite operating centre, elimination of electrical border for improved system planning and retention of local staff resources all being optimized in Haldimand County.

Linda J Rogers INTERROGATORY #3

Interrogatory

"As per EB-2013-0134, HCHI has 13 customers per kilometre in its overall [1] service territory, with [2] a 2014 forecast OM&A cost of $385/customer/month. This is comparable to Hydro One's [3] average 2015 forecast OM&A cost of $275/customer/month, which applies to R1 rate class [4] customers in communities with a customer density of at least 15 customers per kilometre. As [5] such, it is reasonable to believe that Hydro One's cost to serve HCHI's customers would be less [6] than HCHI's current costs of serving its customers."

(Exhibit A Tab 2 Schedule 1, page 10 of 23)

a) Please confirm if Hydro One's billing costs are included in the given forecast OM&A costs.
b) If indeed they are not included in your billing costs, please recalculate the comparison between OM & A of the two utilities in question for a clearer comparison of benefit.

Response

a) Confirmed, Hydro One's billing costs are included in the forecast OM&A costs referenced.

b) Not applicable.

Linda J Rogers INTERROGATORY #4

Interrogatory

Concerns about smart meter created electrical bills, and Hydro One's complaint resolution process is currently being investigated by the Ontario Ombudsman. This is in response to 1000s of claims of inaccurate billing by your customers.

a) Please give an estimated cost impact to your operations now and potentially in the near future.
b) Please describe how customers can be assured as service recipients that they will not face the same issues and challenges if Hydro One were to take over ownership and operations of HCNI.

Response

a) Any costs incurred by Hydro One during the period where Hydro One customer concerns were identified and action taken to resolve those issues, will not flow through to HCHI customers. Please refer to the response below in part b for futher details.

b) 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 than 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 the proposed sale is approved by the Board and HCHI'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 implemented since then.

Linda J Rogers INTERROGATORY #5

Interrogatory

Please discuss how the existing smart meters systems of the two utilities would be merged. Reviewing Ontario energy board documents it is noted the cost of smart meter is said to be from 110.00- 560.00 each (according to an OEB "Report of the Board, January 29, 2007")

Hydro One had a cost allocation of $700.54 per meter in one of their rate applications before the OEB.

a) If replacement smart meters would be required to harmonize the systems between the utilities, what would be the projected costs for the existing Haldimand County Hydro smart meters needed to be replaced?
b) In light of the complaints being generated over billing errors associated with smart meters and associated supporting systems used by Hydro One, what will be done to protect and ensure privacy of the data collected and transmitted?

Response

a) Detailed integration issues such as those described in this Interrogatory Request are matters of ongoing consideration, including assessment of how the HCHI smart metering network will be integrated into Hydro One's systems. Hydro One operates multiple smart metering systems (e.g. Trilliant, SmartSynch and MV90). Hydro One's long-term strategy is to utilize the evolving Trilliant smart meter system for the bulk of its metering requirements. Upon acquiring the HCHI system, it will be managed as part of the smart meter portfolio. Within the longer-term strategy the HCHI system will continue to be operated until an appropriate assessment is made regarding cost efficiency and platform migration.

b) Hydro One takes customer confidentiality issues seriously and takes all precautions to ensure the privacy of the data collected. Metering data transmitted over the smart metering system contains only meter consumption data and does not include other confidential customer information.

Linda J Rogers INTERROGATORY #6

Interrogatory

"In addition to the rate rider to reduce base distribution delivery rates, Hydro One requests approval to extend the existing HCHI funding adder for renewable energy generation to be in effect until the effective date of the next cost of service application."

a) What is the current HCHI funding adder rate for renewable energy generation that is currently in effect?

b) Has any consideration been given to alter this rate, if not why not?

Response

a) As per the Board approved HCHI 2014 rates, effective 1 May 2014, the HCHI renewable energy generation funding adder rate for Residential and GS<50kW classes is $0.0002 per kWh.

b) Hydro One is requesting to continue the rider at the previous Board-approved rate.

Linda J Rogers INTERROGATORY #7

Interrogatory

Hydro One has no identified "Urban Clients" in its service territory of 650 000 hectares square. Caledonia a town, within the current HCHI service territory has a higher population density than the surrounding rural lands. HCHI has if I understand correctly 8 classes for billing rates and Hydro One about 200.

Looking forward what rate class does Hydro One project they would place this town and others of similar characteristics into for billing purposes?

Response

Hydro One wishes to clarify the information provided in the preamble to this interrogatory. Hydro One Inc. serves over 300,000 urban customers, made up of approximately 170,000 customers in Hydro One Networks and approximately 140,000 in Hydro One Brampton. Additionally, Hydro One currently has 13 approved rate classes, not 200 as noted in the preamble.

Hydro One has not made any decisions regarding integration of the former HCHI customers into either i) a currently established Hydro One Distribution rate class, or ii) a newly created rate class for those aforementioned customers. Future rates for HCHI customers will be addressed at Hydro One's next cost of service application.

Linda J Rogers INTERROGATORY #8

Interrogatory

Using the 2013 Score cards and looking at the reported results labelled "customer focus", please explain how your utilities service based on these outcome measures, will be of a quality benefit for the customers in Haldimand.

Haldimand County Hydro Scorecard 2013:

Scheduled Appointments Met On Time	98.70%	98.30%	98.90%	99.70%	100.00%	↑	90.00%
Telephone Calls Answered On Time	80.40%	88.80%	83.40%	85.50%	81.10%	↓	65.00%

Hydro One Scorecard 2013:

Scheduled Appointments Met On Time	93.50%	92.70%	93.90%	98.60%	98.40%	↑	90.00%
Telephone Calls Answered On Time	69.70%	69.70%	81.40%	83.40%	63.90%	↑	65.00%

Response

Hydro One is committed to quality customer service, including answering our customers' telephone calls on time. Our target service level for this service is 80%, which exceeds the minimum benchmark of 65% set by the OEB. In 2011 and 2012 we exceeded our target of 80% and, although we have seen a dip in 2013 and likely 2014 due to impacts from replacing our CIS system, we fully expect to return to these high standards in 2015 for all of our customers, including those in Haldimand.

Quality benefits of Hydro One providing the telephone call answering service to the customers in Haldimand include:

- a larger resource pool that can better absorb swings in incoming call volumes, opposed to smaller resource centers, to provide consistent quality service
- economies of scale benefits
- award winning technology to service customer calls, such as our Integrated Voice Response (IVR) system
- Hydro One's innovation in the area of customer service, leading to such services such as Virtual Hold – an automated tool that eliminates the need for customers to wait on hold during busy times by offering callbacks when the next agent is available

Hydro One fully expects to maintain the existing HCHI appointments met metrics by leveraging the industry knowledge and expertise of the existing HCHI direct staff required to operate the current HCHI (as referenced in Exhibit A, Tab 2, Schedule 1), complemented by the knowledge and expertise of Hydro One's existing staff. Moreover, as Hydro One will now be planning the electricity needs of both Haldimand and Norfolk counties, it will be able to more efficiently manage the operating needs associated with servicing customers across the region.

Linda J Rogers INTERROGATORY #9

Interrogatory

Reviewing the performance markers in the 2013 Score Cards and excluding the results for 2013 due to reported notable storm events, and looking at the multiple year trend, with these parameters, based on the numbers why would Hydro One's performance be considered a benefit ?

Hydro One Scorecard 2013:

System Reliability	Average Number of Hours that Power to a Customer is Interrupted	9.25	9.00	21.17	10.58	26.57		at least within 9.00 - 21.17
	Average Number of Times that Power to a Customer is Interrupted	3.08	2.91	3.93	3.15	4.23		at least within 2.91 - 3.93

System Reliability

In 2013, seven storm events met the definition of major events, i.e. with over 10% of our distribution customers interrupted. The impact of these storms is considered beyond the day to day operations capability of the company. These events had a major impact on system reliability. The detailed event descriptions can be found in the notes of Hydro One's RRR document submitted to the OEB. By separating out the impact of these major events, the system reliability results are:

- With Loss of Supply - Annual SAIDI of 7.3 hours, annual SAIFI of 2.8 interruptions.
- Without Loss of Supply - Annual SAIDI of 6.9 hours, annual SAIFI of 2.5 interruptions

HCHI Scorecard 2013:

System Reliability	Average Number of Hours that Power to a Customer is Interrupted	4.01	2.77	8.34	2.22	9.69		at least within 2.22 - 8.34
	Average Number of Times that Power to a Customer is Interrupted	1.39	1.20	3.30	1.17	2.57		at least within 1.17 - 3.30

System Reliability

In 2013, Haldimand Couty Hydro is recording a service level of 9.69 for the "Average Number of Hours that Power to a Customer is Interrupted ("SAIDI")", which represents Haldimand County Hydro's highest service level since 2009. The increase is attributed directly to major storm events. In 2013 two storm events impacted the majority of our customers and put our reliability standards to the test. First in July, severe weather, including high winds and lightning, caused an outage impacting 10,000 of our 21,206 customers lasting more than 48 hours in some cases. Secondly, we won't forget anytime soon, the Ice Storm of 2013 which impacted 15,000 of our 21,296 customers in the order of 36 hours. These two storm events increased our five year rolling average of the number of hours that power to a customer is interrupted. Even though 9.69 marks the highest rating during the period 2009-2013, we are confident that this number was contained based on our response tactics which included utilizing our strong relationship with our contractors early in each event.

Response

The reliability numbers for Hydro One Networks in the *2013 Electricity Distributor Scorecards* are system averages and include results from all of Hydro One's diverse service area territories across the entire province of Ontario. This expansive service area, because of varying geography and topography, can produce a wide range of performance. Unlike most LDC's that serve more urbanized areas, the majority of Hydro One Networks system is rural, and therefore it is more appropriate to compare Hydro One Networks' performance in the vicinity of Haldimand County Hydro as shown in Table 4 on page 15 of Exhibit A, Tab 2, Schedule 1.

Linda J Rogers INTERROGATORY #10

Interrogatory

Hydro One make claims that the "local metrics" provide comparable conditions as the copied extract shows.

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The existing reliability metrics for HCHI and the local metrics for Hydro One for comparable conditions are provided in **Table 4** below.

Table 4

	2011 Hydro One	2011 Haldimand Hydro[2]	2012 Hydro One	2012 Haldimand Hydro	2013 Hydro One	2013 Haldimand Hydro
Excluding LOS[3]						
Duration (SAIDI)	6.43	8.34	3.28	2.22	6.93	9.69
Frequency (SAIFI)	2.59	3.30	1.24	1.17	2.44	2.57

Based on reliability statistics for 2011 through to 2013, Hydro One customers in the vicinity of Haldimand County experienced a comparable level of service in terms of duration and frequency of interruptions in comparison to HCHI customers. Hydro One anticipates that reliability will in fact improve through the combination of the satellite operating centre and broad staff resources being optimized in Haldimand County.

[2] Data-source is the OEB Yearbook
[3] Loss of Supply ("LOS") interruptions attributable to assets that are not part of the Hydro One Distribution System or the HCHI Distribution System

a) Please confirm what location was used for the above cited performance markers of Hydro One (Exhibit A, Tab 2, Schedule 1, page 15 of 23).
b) Please additionally confirm, if the cited results were achieved when Hydro One was actively managing the utility.

c) I see that you have used HCHI scorecard results from 2013 in Table 4 (Exhibit A, Tab2, Sched 1, page 15 of 23) One of the assertions made is that as a larger distributor, Hydro One is capable of delivering superior reliability. Putting the average results from the 2013 Score cards side by side illustrates a different conclusion. Please justify your position based on these performance markers and outcomes.

Revised modeling of Table 4:

	2011	2011	2012	2012	2013	2013
	Hydro One	HCHI	Hydro One	HCHI	Hydro One	HCHI
SAIDI	21.17	8.34	10.58	2.22	26.57	9.69
SAIFI	3.93	3.30	3.15	1.17	4.23	2.57

Response

a) Hydro One looked at contiguous electrical feeders in geographic locations that serve both Hydro One and HCHI customers. The feeders identified from conducting this analysis are:

- Areas served by feeder M3 and M6 out of CALEDONIA Transformer Station (TS)
- Areas served by feeder M2 out of DUNNVILLE TS.
- Areas served by feeder M3 out of JARVIS TS
- Areas served by feeder F2 and F3 out of LYTHMORE DS.

b) The cited results were based on the historical distribution reliability data for Hydro One assets and customers in the vicinity of HCHI service area.

c) Please see response to Exhibit I, Tab 2, Schedule 9

Linda J Rogers INTERROGATORY #11

Interrogatory

Hydro One: Total Debt (includes short-term and long term debt) to Equity ratio **= 1.35**
HCHI: Total Debt (includes short-term and long term debt) to Equity ratio **= 0.36**

Hydro One Scorecard 2013:

Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.94	1.01	0.99	0.99	1.00
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		1.42	1.44	1.34	1.30	1.35
		Profitability: Regulatory Return on Equity	Deemed (included in rates)			9.66%	9.66%	9.66%
			Achieved			8.80%	8.72%	8.00%

HCHI Scorecard 2013:

Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)		0.85	1.48	1.79	1.78	1.66
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio		0.40	0.31	0.35	0.42	0.36
		Profitability: Regulatory Return on Equity	Deemed (included in rates)			9.85%	9.85%	9.85%
			Achieved			10.39%	7.60%	11.02%

a) How does the Debt load currently carried by Hydro One justify an above market value premium to purchase the HCHI utility?
b) Hydro One has acquired several local distribution companies, (LDC) and is in process of seeking approvals for others. How is increasing the debt burden for Hydro One a benefit for the ratepayers?
c) Comparing with the management of HCHI debt to asset ratio please explain the path forward for improving Hydro One's financial performance.

Response

a) Hydro One manages its capital structure to be consistent with the OEB's deemed capital structure of 60% debt and 40% equity. Maintenance of the deemed regulatory capital structure is a factor considered when determining the amount of dividends to be paid to its shareholder. The OEB considers this deemed capital structure appropriate for all LDC's in Ontario. As such, the actual dollar amount of Hydro One debt can be considered appropriate.

b) Hydro One's capital structure and debt ratios are consistent with the OEB's deemed equity structure. The OEB requires all LDC's to use this ratio when determining the rates they charge to customers. The table below illustrates that Hydro One is operating at a debt level in line with, and in fact slightly below, the Board deemed debt ratio of 60% debt and 40% equity.

2013 Scorecard Analysis

Hydro One Distribution	Debt	Equity	Total	Debt to Equity	
Total Debt - Actual ($M's)	3,316	2,465	5,781	1.35	*
OEB Deemed Debt/Equity Ratio	60%	40%	100%		
Actual Debt/Equity Ratio	57%	43%	100%		

* Debt to Equity actual value agrees to the OEB 2013 Scorecard report for Hydro One

For reference, the values included in the above table on the line '*Total Debt - Actual ($M's)*' is sourced from Hydro One Distribution's 2013 Financial Statements, as provided in evidence as Exhibit A, Schedule 3, Tab 1, Attachment 9. Total debt includes both 'Long-term debt' ($3,140M), and the 'Long-term debt payable within one year' ($176M). Hydro One does not expect its capital structure or debt ratio to change significantly as a result of its acquisitions.

c) As mentioned, Hydro One maintains is capital structure to be consistent with the OEB's deemed levels. Please refer to part a) and b) above for further detail.

Linda J Rogers INTERROGATORY #12

Interrogatory

Overall Performance:

The scorecards for 2013 have 4 main sections being Customer Focus, Operational Effectiveness, Public Policy Responsiveness, Financial Performance, and subheadings of 9 Performance categories and 16 measures; Hydro One fails in direct comparison to HCHI in 13 of the 16 performance measures.

Please justify why Hydro One should be operating HCHI when based on these parameters it appears HCHI should be acquiring Hydro One?

Response

As described in detail in the Application, Hydro One will, if the Application is approved, be providing efficient, cost-effective, customer-focused, responsive service to all customers in HCHI's service territory, and will be doing so at rates that are one per cent below those now being paid by the customers. Hydro One therefore believes that the proposed transaction is in the public interest.

Linda J Rogers INTERROGATORY #13

Interrogatory

Reviewing the conditions of services it is noted that HCHI contract is **80 pages** of legalese and Hydro One's conditions of services is **134 pages**. This represents 54 extra pages. The fine print describes or imposes obvious different conditions of services.

a) Please detail the differences between the two services of condition documents in terms of reference suitable for the general public. What other conditions does Hydro On impose on their client base that would require so many extra pages? i.e.: What is in the fine print?

b) Have these conditions been fully disclosed to all parties and will they cause harm?

c) Are these changes in services conditions going to be of benefit to the customers?

Response

a) As the largest distributor in the province, Hydro One has many different customer classes and requirements necessitating more detailed conditions of service. For instance, customer-specific information related to sub-transmission customers and embedded generation facilities is not required in HCHI's conditions of service (these account for approximately 25 pages worth of information, inclusive of Appendix A, which speaks to provisions related to Hydro One expansions in the distribution system required to connect an embedded generation facility). Consequentially, the glossary of defined terms alone is seven pages longer than HCHI's conditions of service. The conditions of service of any distributor must be consistent with the Distribution System Code and all other codes and legislations including the Rate Handbook. Accordingly, conditions of service may be subject to review as part of any distributor's performance-based rates plan. And finally, a distributor shall provide advance public notice of any changes to its conditions of service in accordance with section 2.4.8 of the Distribution System Code. In practice, Hydro One has provided customers with advance notice of any changes, along with an opportunity to comment. Bill messages have been included in customer bills, and the updated conditions of service have been made available for public comment for a 90-day period. Hydro One's current conditions of service remain publicly available on its website.

b) Please refer to interrogatory response a) above. Hydro One does not expect any material harm to be caused to rate payers as a result of the transition to Hydro One's Conditions of Service.

c) Yes. As noted above, the Conditions of Service are designed to be of benefit to all customers. Hydro One does not expect any material harm to be caused to rate payers as a result of the transition to Hydro One’s Conditions of Service.

Linda J Rogers INTERROGATORY #14

Interrogatory

(Extract from Page 30 of Purchase Share Agreement signed June 10, 2014):

> 6.12 **Sentinel Lights.** Purchaser commits to provide sentinel light services for a minimum period of two (2) years following the Closing Date. Purchaser shall use commercially reasonable efforts to continue services at the similarly high level provided by HCUI prior to Closing. Should Purchaser contemplate changes to the service or contemplate discontinuing the service after two (2) years, Purchaser will consult with the Advisory Committee to ensure that their views have been considered in developing its plans.

Sentinel lighting is committed to be funded for 2 years, once this time period expires it would create a possible scenario where Haldimand County would be required to cover this expense at a future date. How would this be considered in the best interests of the residents of Haldimand?

Response

Hydro One notes that Sentinel Lights are not part of the regulated business of LDCs. Sentinel light services are provided by some Local Distribution Companies across Ontario. In the event that the decision is made by Hydro One after two years not to continue to directly or indirectly provide this service, a transition plan for current Sentinel Light Customers will be developed, in consultation with the utility-appointed Advisory Committee (which includes member representation appointed by Haldimand County), and any related customer needs at that time will be considered.

Linda J Rogers INTERROGATORY #15

Interrogatory

Reviewing the proposed merging of staffing between HCNI and Hydro One it appears it would create a minimum surplus of 28 positions for elimination. Aside from the assurances in your application that many could people could be considered for repositioning within Hydro One staffing positions, it is reasonable to assume that not all people would want to relocate and there is no further guarantee of employment given beyond the one year term for the current HCHI employees. It is also a reasonable assumption that senior management and/or highly trained professionals have negotiated clauses in their employment contracts that grant financial remedies as compensation for dismissal without cause, or termination of employment due to changes in the corporation's operational needs. In would be fair to speculate that such clauses could be quite significant in monetary expense if evoked.

Table 1

	HCHI Staffing and Salaries			Proposed Hydro One Haldimand Staffing and Salaries	
Staff Category	Direct	Indirect	Salary($)	Direct	Salary ($)
Management and Professional		16	1,401,605		
Inside Union		12	572,972		
Outside Union	16	8	1,604,990	16	1,661,267
Total	16	36	3,579,568	16	1,661,267
Projected Salary Savings					**$1,918,302**

Table 1 demonstrates that Hydro One anticipates overall salary savings of approximately $1.9 million annually, after accounting for differences between salary levels between HCHI and Hydro One.

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- Continued employment for all staff of acquired LDCs - Although duplicate functions performed by staff will be eliminated as part of the integration process leading to efficiency gains, Hydro One, due to its size and current staff retirement profile, is able to offer continued employment to staff of acquired LDCs. This is a benefit that smaller would-be acquirers may not be able to offer;

May I humbly suggest that due to the sensitive and confidential nature of such contract actual clauses and details that a report be made based on real numbers and be given for review to the Ontario Board members to truth the potential significance of the costs that could occur with the of termination of existing employment contracts?

Response

Hydro One is not terminating any existing employment contracts. Any HCHI staff not required to operate and maintain the existing HCHI service territory will fill vacant positions in Hydro One created through retirement and other attrition,which will provide for further savings by utilizing highly trained and experienced staff to take on roles within Hydro One. As a result, Hydro One respectfully submits that such a report would be of no probative value to the Board and of no relevance to the “no harm” test.

Linda J Rogers INTERROGATORY #16

Interrogatory

a) Please confirm Hydro One's offer was unsolicited.
b) The agreement was signed in June 2014, when did the actual communications commence for discussion of the potential for this transaction?

Response

While Haldimand County is not a party to this hearing, HCHI wishes to be responsive to your underlying questions and can indicate that LDC consolidation, that may include HCHI, has been a subject of consideration over the last few years.

Linda J Rogers INTERROGATORY #17

Interrogatory

a) Please confirm the application to purchase HCHI was made as the result of a single offer to purchase.
b) If the answer is yes, Please provide the rationale for not seeking other bids in a competitive sealed bid tender process.

Response

Please refer to Exhibit I, Tab 2, Schedule 16.

Linda J Rogers INTERROGATORY #18

Interrogatory

Examination of the "Agreement"

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>
> **"Agreement")**, under which the Vendor has agreed to sell, and the Purchaser has agreed to purchase, all of the issued and outstanding shares of HCUI (the **"Purchased Shares"**). The purchase price is $75.0 million, comprised of a cash payment of approximately $65.2 million for the Purchased Shares and the assumption of HCUI's short and long-term debt of approximately $9.8 million. The Agreement contemplates the transaction closing after all conditions precedent are met and within the 90 days following the Parties' receipt of all required approvals, including Ontario Energy Board (**"the Board"** or **"OEB"**) approval of this Application under sections 86(2) and 86(1) of the Act.

Should Haldimand County council complete the sale of HCHI to Hydro One there is anticipated to be a one-time payment of significant revenue with various added "sweeteners" to compliment the proposal. Once it is done the asset of the electrical utility is unlikely to ever be recoverable, HCHI is an asset that has demonstrated consistent superior performance to Hydro One in comparison.

Doing my simple number based evaluation of the sale I contemplate the following:

HCHI dividends were reported as:

2011= 716 750.00*
2012= 611 329.00*

*It is important to recognize that this is a revenue stream that would be indefinite if the utility continued to be well run and profitable. Once it is sold it ***would not*** be able to be recoverable.

Haldimand County Hydro Inc. Base Rate Value	= 52.3 million
Haldimand County Hydro Inc. short & long term debt	= 9.8 million
Market Value	42.5
The Premium offer to purchase price from Hydro One	= 75 million
Premium:	**32.5 million**

The agreement is ***a one-time*** opportunity to receive a large amount of money, but it will come with the cost of losing a substantial ongoing revenue stream for Haldimand County. Once it is done it is final.

a) What are the plans for Haldimand County to replace the lost dividend revenue stream from HCHI if the sale is completed?

b) How does monetizing the utility asset and trading an annual revenue stream for a finite cash payment, provide benefit and long term control and protection for the electricity rates of the residents of Haldimand?

Response

While Haldimand County is not a party to this hearing, HCHI is of the view that the transaction is in the best interest of HCHI rate payers, most of which are also Haldimand County taxpayers, and has many benefits to customers as per Exhibit A, Tab 3, Schedule 1, Section 1.6.2 - 1.7.1, inclusive.

School Energy Board (SEC) INTERROGATORY # 1

Interrogatory

[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

Response

1908872 Ontario Inc. is the Hydro One Inc. entity purchasing the shares of Haldimand County Utilities Inc. ("HCUI") from the The Corporation of Haldimand County. This entity was used to take advantage of certain tax efficiencies which are described below.

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 (1908872 Ontario Inc.) to increase, within certain limits, the cost to it of certain capital property (in this scenario, the shares of the subsidiaries of HCUI), received from HCUI on its winding-up or amalgamation. This treatment avoids creating unnecessary tax costs to the parties to the transaction and will not impact the ratepayers of the utility.

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.

School Energy Board (SEC) INTERROGATORY # 2

Interrogatory

[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.

Response

HCHI's current rates are effective from May 1, 2014 (EB-2013-0134). 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.

School Energy Board (SEC) INTERROGATORY # 3

Interrogatory

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

Response

Asset transfer is achieved in multiple steps as outlined below:

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

Integration 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 HCHI 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.

School Energy Board (SEC) INTERROGATORY # 4

Interrogatory

[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.

Response

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

Hydro One has committed to freeze distribution base rates (with the 1% base distribution rate reduction) for a 5-year period. However, other rates, such as an increase in the commodity rate, the expiry of the Ontario Clean Energy Benefit, changes to the Debt Retirement Charge, and any other OEB mandated rate changes that are beyond the control of the parties could drive changes to the overall customer bill over this period.

School Energy Board (SEC) INTERROGATORY # 5

Interrogatory

[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.

Response

Hydro One does not plan to establish new regulatory accounts for recording any of the former HCHI costs and/or assets and liabilities. As per Exhibit A, Tab 2, Schedule 1, page 22, Hydro One will keep separate financial records of the former HCHI in a separate business unit, similar to the Hydro One Distribution and Transmission businesses.

School Energy Board (SEC) INTERROGATORY # 6

Interrogatory

[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.

Response

Hydro One, on behalf of HCHI, has not approached any regulatory bodies to request use of USGAAP specifically by HCHI. However, 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.

School Energy Board (SEC) INTERROGATORY # 7

Interrogatory

[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".

Response

Throughout Exhibit A, Tab 2, Schedule 1, Hydro One has addressed how the proposed transaction meets the MAAD requirements and has detailed both quantitative and qualitative savings expected as a result of this transaction. The Application in its entirety addresses how ratepayers will be held harmless.

School Energy Board (SEC) INTERROGATORY # 8

Interrogatory

[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.

Response

The elimination of duplicative effort is an anticipated outcome of a merger of two entities.

The "no-harm" test, as derived from RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257 (the "Combined Proceeding") and expanded upon by the Board in the Hydro One-Norfolk MAAD Decision, requires consideration of the transaction before the Board and not other potential transactions. The test, and thus the evidentiary proceeding involved, are focused directly upon the present transaction and not other transactions – whether real or potential[1]. As a result, the information requested is not relevant to and in accordance with the "no harm" test to be applied by the Board.

[1] RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257, Decision, Page 6

School Energy Board (SEC) INTERROGATORY # 9

Interrogatory

[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.

Response

The referenced cost savings are a projection. Hydro One is taking the risk that savings will in fact materialize in the five-year period. The benefit provided to HCHI ratepayers is the certainty of a 1% reduction on base distribution delivery rates, frozen for 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 A, Tab 2, Schedule 1, section 2.0, HCHI's future rates will reflect the cost to serve these customers. Therefore, ongoing OM&A savings will result in downward pressure on the HCHI ratepayer's cost structure, which would tend to decrease future rates. These savings will be reflected in the lower than status quo OM&A costs, which will be allocated to HCHI ratepayers on then-current cost allocation methodologies.

School Energy Board (SEC) INTERROGATORY # 10

Interrogatory

[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.

Response

The potential sale transaction of HCHI to Hydro One was not included in the 2014 Cost of Service, EB-2013-0134, which was submitted to the OEB on November 15, 2013, or during the proceeding, as the proposed transaction was being negotiated and the completion of the transaction was far less than certain at that time. HCHI proceeded with the Cost of Service as a standalone LDC in accordance with the Renewed Regulatory Framework for Electricity ("RRFE") based on current circumstances that existed at the time of filing of EB-2013-0134 and during the proceeding.

School Energy Board (SEC) INTERROGATORY # 11

Interrogatory

[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].

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, and that canvassing was 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.

School Energy Board (SEC) INTERROGATORY # 12

Interrogatory

[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.

Response

The field business centre plans associated with adjacent areas to the HCHI service territory are discussed in the Hydro One Norfolk MAAD application, EB-2013-0187/0196/0198 (Exhibit A, Tab 2, Schedule 1 page 2). There is no plan to locate a field business centre in Haldimand. Further information on area operating centres can be found in Exhibit I, Tab 1, Schedule 4.2.

School Energy Board (SEC) INTERROGATORY # 13

Interrogatory

[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.

Response

The following table summarizes the aggregate compensation for direct and indirect staff at HCHI. It also includes the estimated Hydro One compensation for 16 direct positions and staff that will be integrated directly into Hydro One operations. The remaining 36 indirect staff are expected to be consolidated into other positions within Hydro One once integration is complete.

	HCHI Compensation ($M)			Proposed Hydro One Compensation ($M)		
	Direct Salary	Indirect Comp	Total Comp	Direct Salary	Indirect Comp	Total Comp
16 Direct Staff	$1.1	$0.3	$1.4	$1.7	$0.9	$2.6
36 Indirect Staff	$2.5	$0.6	$3.1	-	-	-

HCHI staff will have the opportunity to transition to other positions within Hydro One. At this point, prior to transaction closing and initiation of integration activities, the specific Hydro One positions that indirect staff will transition to, and the resulting compensation, are unknown.

While it is evident that compensation will increase for direct staff, it is important that the proper context is set. The overall compensation package at Hydro One is a product of historical factors as well as current and future challenges. The terms and conditions of employment, including compensation, are set by collective agreements for represented employees. Collective agreements are binding contracts that can be altered only by joint agreement between the parties. Hydro One is heavily unionized, and the work force is comprised of highly skilled and trained employees that work on both distribution and transmission work programs.

School Energy Board (SEC) INTERROGATORY # 14

Interrogatory

[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.

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 HCHI 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 HCHI into its existing operations. Details concerning where and how Hydro One intends to achieve these cost savings are described in its Application. See also Exhibit A, Tab 2 Schedule 1, pages 2-11 of the Application.

School Energy Board (SEC) INTERROGATORY # 15

Interrogatory

[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.

Response

The Haldimand County Hydro Distribution System Plan was filed in HCHI's last Cost of Service (November 15, 2013), EB-2013-0134, and can be found at the following link.

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/417121/view/Haldimand_APPL_2014_COS_Exhibit%202_Appendix%20A_DSP__20131115.pdf.PDF

A new five-year distribution system plan has not been developed.

School Energy Board (SEC) INTERROGATORY # 16

Interrogatory

[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.

Response

The Status Quo forecast found in Exhibit A, Tab 2, Schedule 1, Table 2 was developed under the operating assumption that HCHI would continue to operate on a stand alone basis. Years 1 through 5 are based on the HCHI 2014 Cost of Service (EB-2013-0134) and Distribution System Plan summarized in Table 1 below. Years 6 through 10 are high-level extrapolations of year 5 without further definition.

The Hydro One forecast found in Exhibit A, Tab 2, Schedule 1, Table 2, was developed based on the underlying assumption of fully integrating HCHI's operational affairs. The amounts shown take into account Hydro One's evaluations of the incremental cost of operating and maintaining the HCHI service territory (e.g. overall geographic area and number of customers, proximity of HCHI to existing Hydro One service territory). Hydro One's forecast was not based upon a detailed review of HCHI's stand alone basis budgets, including individual line item amounts. As such, Hydro One has no way to provide a similarly detailed breakdown of its incremental forecast to compare to the cost categories used by HCHI in its previous capital budgets. A category breakdown of Hydro One OM&A and Capital, on a 5-year average of both years 1 through 5 and years 6 through 10, is shown in Table 2 below.

The lower and higher bands are a 20% reduction or 20% increase respectively of the projected OM&A and Capital forecast totals with no further definition. The bands were applied in the same manner to both the Status Quo and Hydro One forecasts.

Table 1 – Status Quo Forecast Years 1 - 5

	2014 Test Year	**2015 Forecast**	**2016 Forecast**	**2017 Forecast**	**2018 Forecast**
System Operating & Maintenance	$ 3,022	$ 3,664	$ 3,722	$ 3,782	$ 3,842
Other Operating, Maintenance, & Administrative	$ 5,195	$ 4,684	$ 4,760	$ 4,836	$ 4,914
Total OM&A	**$ 8,217**	**$ 8,348**	**$ 8,482**	**$ 8,618**	**$ 8,756**
System Access	1,538	1,927	1,330	1,406	1,365
System Renewal	375	950	1,425	1,300	1,350
System Service	3,777	2,500	2,175	2,410	2,100
General Plant	680	698	489	437	464
Total Capital	**$ 6,370**	**$ 6,075**	**$ 5,419**	**$ 5,553**	**$ 5,279**
** 2014 Approved Test Year Capital and forecasted period for 2015 to 2018 included in "Table 2 Summary of Capital Expenditures" in Distribution System Plan updated to reflect changes to capital approved in Settlement Agreement*					

Table 2 – Hydro One Forecast Years 1 - 5 and Years 6 - 10

	HONI HCHI Years 1 - 5	**Average Imputed Cost* ($M)**	**HONI HCHI Years 6 - 10**	**Average Imputed Cost* ($M)**
OM&A				
Sustaining (e.g. Vegetation Management)	50%	$2.5	52%	$2.6
Demand (e.g. Trouble Calls, Locates & Disconnections)	25%	$1.2	23%	$1.2
Back Office and Other	25%	$1.2	25%	$1.3
Total OM&A	**100%**	**$4.9**	**100%**	**$5.1**
* Based on annual $4.9 million OM&A expenditure in years 1- 5 * Based on annual $5.1 million OM&A expenditure in years 6 -10				
Capital				
Sustaining (e.g. Wood Poles)	32%	$1.3	34%	$1.4
Demand (e.g. Trouble Calls, New Connects)	38%	$1.5	40%	$1.6
Station Upgrades	5%	$0.2	5%	$0.2
System Reinforcement	6%	$0.2	18%	$0.7
Satellite Operating Centre (note: one time expenditure in year 5)	13%	$0.5	-	-
Other	6%	$0.3	3%	$0.1
Total Capital	**100%**	**$4.0**	**100%**	**$4.0**
* Based on annual $4.0 million capital expenditure in years 1 - 5 and in years 6 - 10				

School Energy Board (SEC) INTERROGATORY # 17

Interrogatory

[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.

Response

Hydro One disagrees with the suggestion that Hydro One is one of the least efficient distributors in the province as the comparison is inappropriate due to the innate service territory and customer differences. Specifically, this conclusion is based on Hydro One's overall distribution system operations and these operations, which do not fairly compare to the nature and system associated with the transaction at hand.

Hydro One's overall distribution business faces unique challenges as a result of its large, predominantly rural service area that are not faced by other distributors. Hydro One operates across a diverse terrain with varying geographic, topographical and other operating conditions. Therefore, Hydro One's results in these econometric comparisons are skewed, as these results do not accurately represent the geology, prevalence of storms, and varying customer densities in Hydro One's service territory, nor do they accurately represent the blend of agricultural, forested, and urban areas that Hydro One serves. As described by the Pacific Economics Group in its April 2007 report *Benchmarking the Costs of Ontario Power Distributors* "Hydro One cannot be benchmarked accurately with unit cost metrics using Ontario data due to a lack of suitable peers." (page 55 of 91).

Benefits to HCHI customers are outlined throughout Exhibit A, Tab 2, Schedule 1, Section 1.1. There are resulting contiguity benefits from the elimination of artificial electrical borders that give rise to operational efficiencies, which will ultimately lead to lower capital spending. Additionally, Hydro One serves 1.2 million customers over a 650,000 sq. km service area. HCHI services approximately 21,000 customers over a 1,252 sq. km service area. As a result, HCHI's customers can expect to obtain the benefit of having fixed costs spread over a wider customer base and thereby achieve savings from economies of scale. A more in-depth discussion of anticipated HCHI customer benefits can be found in Exhibit A, Tab 2, Schedule 1, Section 1.1.

As described in Exhibit A, Tab 2, Schedule 1, Section 1.5, this transaction is in alignment with the recommendations of both recent provincial reviews discussing sector consolidation, notably, the findings of the Ontario Distribution Sector Review Panel *Renewing Ontario's Electricity Distribution Sector: Putting the Customer First,* and the recommendations of the Drummond Report, *The Commission on the Reform of Ontario's Public Services*, *"A Path to Sustainability and Excellence"*. In addition to the Board findings referenced in the aforementioned section of the pre-filed evidence, the proposed application facilitaties one of the Board's key objectives in its 2014-2017 business plan, namely, to "encourage distributors to realize operational or organizational efficiencies that benefit consumers"[1].

[1] Ontario Energy Board 2014-2017 Business Plan – Page 12

School Energy Board (SEC) INTERROGATORY # 18

Interrogatory

[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].

Response

Hydro One has not performed any analysis or made any decisions regarding integration of the former HCHI 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 HCHI 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.

School Energy Board (SEC) INTERROGATORY # 19

Interrogatory

[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.

Response

Confirmed, HCHI'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) and are not relevant to the transaction now before the Board.

School Energy Board (SEC) INTERROGATORY # 20

Interrogatory

[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.

Response

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 if this application is approved.

School Energy Board (SEC) INTERROGATORY # 21

Interrogatory

[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.

Response

One of the basic premises in this interrogatory, which begins with a hypothetical set of facts, is that "the costs to be charged to HCHI customers goes up." Initially, the rates payable by HCHI customers will decrease by one per cent (rather than increase) if the Application is approved. Also, as stated in Exhibit A, Tab 2, Schedule 1, page 11, Hydro One expects long-term cost savings as a result of this transaction, and these savings will benefit HCHI customers. Also as noted in the Application, Hydro One expects to file a future rate application that will reflect the cost to serve former HCHI customers as impacted by productivity gains resulting from consolidation.

School Energy Board (SEC) INTERROGATORY # 22

Interrogatory

[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.

Response

Hydro One has not performed any analysis or made any decisions regarding future rates for HCHI's customers in the period of 2020 and beyond. Please see Exhibit I, Tab 3, Schedule 18.

As noted in the pre-filed evidence at Exhibit A, Tab 2, Schedule 1, page 20, Hydro One proposes to establish rates for HCHI customers that will reflect the cost to serve them as impacted by the productivity gains (i.e. efficiencies) resulting from this transaction.

School Energy Board (SEC) INTERROGATORY # 23

Interrogatory

[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]

Response

Hydro One intends to take into account the Board's stated expectations when Hydro One 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 resulting from consolidation.

School Energy Board (SEC) INTERROGATORY # 24

Interrogatory

[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.

Response

Any bill impact on legacy customers will be considered to the extent that the approach adopted at the time of harmonizing acquired utility rates, impacts the revenues to be collected from the legacy rate classes. Please refer to Exhibit A, Tab 2, Schedule 1, page 4. Consistent with past practice, bill impacts on both legacy and acquired customers are always considered in any rate design.

School Energy Board (SEC) INTERROGATORY # 25

Interrogatory

[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.

Response

Hydro One does not believe there to be any material impacts on the costs of HCHI 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.

Based on our current understanding, the significant area that may have a material impact on the costs of HCHI from using USGAAP rather than International Financial Reporting Standards (IFRS) starting in 2015 is:

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 organizations 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 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, 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, HCHI will be able to maintain its current accounting treatment for rate-regulated assets and liabilities.

HCHI does not have a deferral account (i.e. 1508 sub-account) with respect to incremental one-time administrative costs caused by the transition to IFRS. Any costs incurred to date have not been in addition to our regular operations (i.e. they are managed primarily by internal staff as part of "regular" accounting duties). HCHI would have likely incurred greater incremental costs for the IFRS transition in Q4/2014, gearing up for a transition to IFRS effective January 1, 2015 had it not undertaken the subject merger with Hydro One. Such costs of transition to IFRS are no longer likely to be incurred due to the sale transaction with Hydro One Inc. and the adoption of USGAAP, which has already being undertaken by Hydro One.

School Energy Board (SEC) INTERROGATORY # 26

Interrogatory

[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.

Response

SEC mischaracterizes the $100,000 payment amount referenced at Exhibit A, Tab 3, Schedule 1, page 9 (under section 1.4.1(f)). The context on this payment is described in part (f) and relates to the five-year average for service reliability and customer service standards of the current HCHI operations. The 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 Haldimand County of $100,000 which would then be used for community purposes, including charities. The Applicants believe the recipients would find such an amount, if paid, to be material to the community. 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 and actions to address same.

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.

School Energy Board (SEC) INTERROGATORY # 27

Interrogatory

[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.

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. Norton Rose Fulbright Canada LLP were retained as legal advisors for HCHI on the transaction. All legal advice leading up to the transaction is irrelevant to the transaction now before the Board and is solicitor-client privileged.

The Vendor retained the services of Hopeson Financial Inc. to advise both the County and HCHI and is assured in its view that the transaction is in the best interests of, and presents an attractive business transaction for, ratepayers in accordance with the "no harm" test.

School Energy Board (SEC) INTERROGATORY # 28

Interrogatory

[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.

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.

School Energy Board (SEC) INTERROGATORY # 29

Interrogatory

[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.

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.

School Energy Board (SEC) INTERROGATORY # 30

Interrogatory

[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?

Response

HCHI will have obligations for certain post-employment benefits to six individuals whose entitlements date back to employment with former hydro-electric commissions which amalgamated to form HCHI. The current annual cost of the obligation is approximately $10,000.