EB-2014-0244
November 12, 2014

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
Attention: Board Secretary
Tel: 1-877-632-2727 ((toll free)
Fax: 416-440-7656
E-mail: Boardsec@oeb.gov.on.ca

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

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

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

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

AND IN THE MATTER OF an application by Haldimand County Hydro Inc. for leave to transfer its distribution licence and rate order to Hydro One Networks Inc. under section 18 of the *Ontario Energy Board Act, 1998.*

SUBMISSONS OF

Linda J Rogers

(Resident of Haldimand County & service recipient of Haldimand County Hydro Inc.)

Dear Ontario Energy Board Members,

I would like to take this opportunity to thank the Ontario Energy Board for allowing my voice to be heard as a member of the public at the written hearing for EB- 2014-0244. I have welcomed the opportunity to bring attention to the concerns surrounding the sale of Haldimand County Hydro Inc. (HCHI) and the opportunity to present my views and opinion’s for your consideration.

The sale of Haldimand County Hydro Inc. will have a direct impact on my wellbeing, my son and extended family and community, if it were to result in the price of electricity to rise without any benefits. The harm would also be extended if the costs associated with the sale are just transferred elsewhere and resulted in the recovering of costs through other taxation tools. Performance and the measurable outcomes set by the Ontario Energy Board are indicators of benefits to be achieved.

The sale of the utility called Haldimand County Hydro Inc.is at question and whether it occurs or not, the outcome will affect the rates paid for electricity.

Introduction:

Energy poverty is a term that is increasingly used to address issues and adverse impacts in regards to the electricity rate paid by consumers. The growing concerns and discussion are taking place in many different spheres such as main stream media and in governmental policy directives. One needs to go no further than to read the recent letter from Premier Wynne dated September 25, 2014, which details the priorities and guidance direction to the Honourable Bob Chiarelli, Minister of Energy. The Premier's letter outlines the government's mandate details and outlines the Ontario government's priorities for 2014. It is within the section titled "Mitigating Electricity Prices for Residential Customers" that clearly highlights the need and reasoning for the application of the "No Harm's Test" that is used by the OEB.
I have highlighted and bolded the following extract for emphasis from the recent letter on Energy Mandates 2014.

"Mitigating Electricity Prices for Residential Customers

- ***Continuing to help Ontarians by addressing the challenges they face from increasing electricity costs. You will continue to look for savings and efficiencies that will help keep electricity costs affordable for residential consumers.***

- ***Developing and implementing a new residential electricity assistance program to help make electricity more affordable, particularly for low-income families, who spend a proportionately higher percentage of their income on energy and electricity.***

- Working with the Ministry of Finance to deliver on our commitment to remove the Debt Retirement Charge from residential electricity bills after December 31, 2015. Residential ratepayers will benefit significantly from this change, and it is important that you ensure its effective implementation.

Mitigating Electricity Prices for Businesses

- ***Continuing to implement initiatives that support Ontario's businesses by helping them address rising energy costs.*** I ask that you lead our efforts to meet our commitment in the LTEP to ensure that — where possible and appropriate — industrial electricity rate mitigation programs help support a dynamic and innovative climate for business to thrive, grow and create jobs.

- Helping to reduce energy costs for small business owners by implementing a five-point business energy savings plan, including on-bill financing and the expansion of saveONenergy for Business programs.

- Working with the Ontario Power Authority to implement a new stream of the Industrial Electricity Incentive program. This will provide electricity cost relief to companies that are able to establish or expand operations in Ontario.

- Proceeding with expansion of the Industrial Conservation Initiative. This will allow more businesses to benefit from lower electricity rates by shifting energy use away from peak periods — which, in turn, will benefit all electricity consumers by decreasing the need for costly peak generation." [1]

The transactions involving change of ownership are to be weighted as per statutory authority, but the final decision is tempered with the present day realities of escalating electricity rates in Ontario.

This foundation is to be used in making a determination of merit for applications brought before the OEB is to be considered under its authority in making a decision and order, to grant, grant with conditions, or deny the application before it. Drawing on the decision and order made July 3, 2014 EB-2013-0196, EB-2013-187,EB-2013-0198 known as the Hydro One Inc. and Norfolk Power Inc. I draw attention to the following;

"The Board considers that the relationship between costs and rates is of prime importance in understanding the impact of the proposed acquisition." [2]

Another important developing theme for consideration in regards to the proposed sale of Haldimand County Hydro Inc. to Hydro One Network Inc., is the evolving environment of regulatory and policy changes. The anticipated implementation of the recommendations from

[1] See attached document: Appendix A; *Premier Wynne Energy Mandate letter September 25, 2014.*

[2] Decision & Order; EB-2013-0196, EB-2013-187,EB-2013-0198; July 3, 2014 . Pg 12 para. 5

the Advisory Council on Government Assets is expected in the spring of 2015. The items for action which are currently being signaled are the recommend separation of Hydro One's distribution and transmission assets, and also the endorsement for the proposed merger of IESO and OPA (final report from the Advisory Council is due spring 2015, to inform provincial budget process.

Goodwill "grows". So who picks up the costs at the end of the day? (Cumulative acquisitions on the pathway to consolidation)

(Exhibit 1 Tab1 Schedule 1 page 2 of 2. Lines 6 &7),
"1.4 The premium paid will be recorded as goodwill in the financial statements of Hydro One Networks Inc."

The sale of Haldimand County Hydro Inc. will considered using the Norfolk Power Distribution Inc. OEB decision and order as a filter and lens to view the unique circumstances surrounding the application under consideration. The Board stated;

"The Board considers that the relationship between costs and rates is of prime importance in understanding the impact of the proposed acquisition. Clearly increased or decreased costs would be expected to have a corresponding effect on future rates."[3]

The negative price rate and premium price proposed for payment of LCDs by HONI generates "Goodwill" and were assessed and considered in the decision of the NPDI sale in July 2013;

"In that decision, the Board stated that in assessing whether NPDI customers would ultimately be harmed by the transaction, the proposed 1% reduction in rates for 5 years has no determinative value. This conclusion recognized that the proposed 1% reduction in rates was not directly driven by any contemplated change in the underlying cost structure. Accordingly, it was not indicative of the level of costs that would underpin rates after the initial 5 year rate reduction."[4]

With the growing rate of goodwill generated by HONI as it acquires other LDCs for consolidation the question persists how it will impact the borrowing capacity and interest rates. This cost is not to be recovered through fees paid by the account of the rate payer; never the less Hydro One Networks Inc. is owned by the Province and by extension the people of Ontario. It has been the position taken that the premium paid for LCD acquisitions will have no material impact on HONI's financial viability but it is clear goodwill does not enhance Debt Equity ratios.

If indeed the sale of the distribution arm of HONI is to proceed it will be much more difficult to obtain value due to continued accumulation of goodwill costs. This would clearly have an influence the sale price that could be obtained, as investors do not like debt burden associated with their acquisitions.

[3] Decision & Order; EB-2013-0196, EB-2013-187,EB-2013-0198; July 3, 2014. Pg 12, para. 4
[4] Ibid Pg 12 para. 3

In my questions to HONI I asked a series of questions about their total debt (including short-term and long term debt) to Equity ratio which currently= 1.35 (see Exhibit 1 Tab2 Schedule 11 page 1 & 2 of 2)

The responses given fail miserably except to assert that,

"As such, the actual dollar amount of Hydro One debt can be considered appropriate."[5]

And further that,

"Hydro One does not expect its capital structure or debt ratio to change significantly as a result of its acquistions."[6]

It is indeed somewhat reassuring that Hydro One feels it has demonstrated its debt load is appropriate, but this alone fails to provide an answer ***how*** Hydro One will ***improve i***ts financial performance.

It also fails to provide insight into why a ratepayer, who is satisfied with the performance of its utilities superior performance ie: HCHI's Total Debt to Equity ratio that = 0.36. What would be the benefits to be achieved by accepting an increased level of debt equity of 1.35 representing HONI? Because you can do it, doesn't always follow that you should. In conclusion how does the goodwill obligation with the sale of HCHI to HONI reduce overall costs?

The decision rendered in the acquisition of NPDI in which the Board stated (bolded for emphasis),

"The Board also considers it important that its assessment of whether the proposed transaction would have an adverse effect take into account both current and forward looking considerations. ***For example, continuous improvement is a key regulatory policy consideration. The Board expects that the benefits of continuous improvement to customers should have no less potential of occurring as a result of a transaction. Otherwise there would be harm done to those customers."***[7]

<u>Overall Performance:</u>

In interrogatory #12 the question raised was based on the Scorecard 2013 results, where Hydro One failed in direct comparison in 13 out of 16 performance measures to HCHI.

"Please justify why Hydro One should be operating HCHI when based on these parameters it appears HCHI should be acquiring Hydro One."[8]

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[5] EB-2014-0244, Exhibit 1 Tab 2 Schedule 11, page 2 of 2: Response a), last line
[6] EB-2014-0244, Exhibit 1 Tab 2 Schedule 11, page 2 of 2: Response b), last line
[7] Decision & Order; EB-2013-0196, EB-2013-187,EB-2013-0198; July 3, 2014. Pg 12, para. 6
[8] Exhibit 1 Tab 2 Schedule 12 page 1 of 1

Complexity of operations due to scale is the rationale offered by HONI as to why it should not be compared to the performances of single entity LDC. The statement could be inversed and stated as that ***economy of scale brings with it a decrease in efficiency.***

The commentary provided by Mrs. Betty Ortt's letter is straight forward;

"The sale of neighboring Norfolk Power Inc. and possible sale of HCHI will be an additional onerous debt to HOI and its customers and the Scorecard already shows that HOI's costs per customer are greater than HCHI (almost twice the cost) and yet HOI states that there will be various savings to HCHI customers if the sale is approved.

Let me repeat: ***HOI is the province's second most costly distributor*** *as per the OEB's own Scorecard."*[9]

Costs:

HONI has stated it will be consolidating a number of staff positions with expected annual savings important message is contained in the HONI response to the Board in where it is acknowledged projected saving may not be achieved
(Please see extract below interrogatories in part as below)

"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

[9] Letter of comment; Betty Ortt, retrieved from OEB webdrawer; http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/453480/view/BOrtt_HONI_Haldimand_Ltr%20of%20Comment_redacted_20141021.PDF

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".*

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Exhibit I
Tab 1
Schedule 5
Page 2 of 2

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"

The anticipated contiguity between HONI's service area in Norfolk and the proposed Haldimand territory raises the issue of job position consolidations as a cumulative impact. One really has to question how many positions HONI can continue to absorb.

Costs and Board of Directors; "750 000 vs 70 000" in anticipated savings

Reference: Exhibit A Tab 2 Schedule 1 page 5 of 23 EB-2014-0244

States in part;

"For example, the functions
26 performed by senior management would be eliminated, and the HCHI Board of Directors would
27 no longer be required, representing savings of over $750,000 per year."

The people currently in these roles are to be offered an opportunity to transfer elsewhere

Reference:
http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/434078/view/BdStaff_Sub_HONI%20Norfolk_20140414.PDF

In EB-2013-0196/EB-2013-0187/EB-2013-0198 the Board Staff Submissions of April 14, 2014 (bottom of page 6 of 10)

"Reduction in the number of positions that are currently required to manage and operate NPDI's system. HONI expects to eliminate 30 of the 46 positions currently required to operate NPDI resulting in an expected annual staff savings of approximately $2 million. According to HONI, the Norfolk Power Board of Directors will no longer be necessary resulting in an estimated governance cost savings of $70,000 annually."

I recognize that comparing 750, 000 to 70, 000 is certainly apple to oranges economics, but it certainly suggests that the senior management costs will be eliminated.

The larger questions remain unanswered, which is where are all these senior staff are going to be placed? HONI certainly isn't asserting it has an infinite need for unfilled positions to be met? What would be the financial repercussion be, if senior staffs are not successfully relocated within HONI's operational needs?

Willing Seller and Willing Buyer, and the ARA process.

I had directed my questions in the interrogatories addressing a wrong entity (Haldimand County vs HCHI) with that said it is appreciated that HCHI did provide their responds as given. The owner of HCHI is Haldimand County Corp. Inc. and members of its council also sit on the Board of Directors for HCHI. In such a small community as Haldimand, I see the faces of the individuals involved not the roles or positions they are holding, on different parts of their work day.

The contracts in existence of the binding vendor of HCHI have had direct impacts on its operations with the legal restriction of any complaints to the OEB about the Renewable Energy Generators projects. These contracts are known as Community Vibrancy Funds agreements. Copies of the signed contracts were obtained under a freedom of information request and are attached for review.
Appendix B. [10]

(The following clause of note is taken from the "draft" version of the agreements)

"12. Upon execution of this Agreement by both the Proponent and the County, the County shall withdraw any objections related to the Wind Project as proposed by the Proponent, including any objections made by the County to the Ontario Energy Board."[11]

The purpose for bringing this up at the sale of HCHI to HONI is to highlight the impacts and potential deficiencies of asset risk assessment process used, and how this history might impact future operations of HONI.

How the deal to sell the local utility HCHI was formed and when, remains fully unanswered. Its importance is tied to accountability, transparency and perceptions of pecuniary conflicts and possible collusion. HCHI is owned by Haldimand County and its duties to the ratepayers is coloured under that lens. The issues of having local councilors who sit on a Board of Directors for HCHI whose voting influence impacts its businesses create many unanswered questions for the members of the public. None of these matters I am told will have determination weight for the Board.

This underlying history has already had an impact on the circumstances for the current operations of HCHI and HONI infrastructures. I cite again the following references which illustrate the types of discussions that were legally constricted for HCHI and are available on the record at EB- 2011-0063 and EB-2011-027. The assets risk assessment process may not always clearly uncover the nuances of the local history.

[10] Appendix B; Community Vibrancy Fund Agreements for Renewable Energy, Haldimand
[11] Draft Community Vibrancy Fund retrieved from Haldimand County website; haldimandcounty.on.ca

HCHI is currently is facing litigation by a local farm operation over adverse stray voltage claims on its operations. Renewable Energy generation and its integration to the provincial grid add complexity layered with the contentious issues surrounding those in the community who oppose the developments which clearly adds risk for any distributor operator.

Assessment of risk is changing and the unique circumstances of a utility owned by the County of Haldimand which has multiple large Renewable Energy Generation projects cannot be understated.

Service:

The issues surrounding Hydro One Networks Inc. billing practice concerns induces me to strongly advocate, that this issue must carry significant weight in any decision to be made by the Board. The Ombudsman is investigating and the decision for this sale application must be delayed until the results of the Ombudsman report is received and studied. Conditions to protect HCHI's customers must be evoked in light of HONI's billing history, if such an approval were to be granted.

Conclusion:

I cannot support the sale of Haldimand County Hydro Inc. to Hydro One Networks Inc. until concerns surrounding the "willing buyer and willing seller" and associated influences are fully assessed by the OEB.

I have not been convinced that being swallowed up by a larger entity will deliver same or better service. It is my position that based on the Scorecard outcome measures 2013 and the serious issues under investigation with the billing practices of HONI that this sale is not in the best interests for HCHI customers.

Recommendation: Application is **NOT** to be approved.

Respectfully,

Linda J Rogers
800 Cheapside Road
RR3 Jarvis, ON N0A 1J0
starpen@sympatico.ca

Attachments:
Appendix A; *Premier Wynne Energy Mandate letter September 25, 2014.*
Appendix B; Community Vibrancy Fund Agreements for Renewable Energy, Haldimand