



McCarthy Tétrault LLP  
Suite 3300  
421-7th Avenue S.W.  
Calgary AB T2P 4K9  
Canada  
Tel: 403-260-3500  
Fax: 403-260-3501

**Gordon M. Nettleton**  
Partner  
Direct Line: (403) 260-3622  
Email: gnettleton@mccarthy.ca

May 22, 2015

**VIA RESS, EMAIL AND COURIER**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27th Floor  
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

**RE: EB-2014-0213 – Hydro One Application to Purchase Woodstock Hydro – Amended evidence and response to SEC requests**

We are counsel to Hydro One Inc. and Hydro One Networks Inc. ("**Hydro One**") in the above-noted proceeding.

Further to the Board's letter of May 20, 2015, please find enclosed an amended application which provides evidence to reflect the policy amendments set out in the Board's March 26, 2015 Report of the Board, *Rate-Making Associated with Distributor Consolidation*.

In addition, we respond in this letter to the requests of the School Energy Coalition ("**SEC**") set out in its letter of May 21, 2015 (the "**May 21 Letter**"). Hydro One is very concerned that these requests will adversely affect the continuation and conclusion of the oral portion of the hearing on May 27, 2015. To alleviate this outcome, and to ensure all parties are aware of the intended scope of issues and cross examination which the Board seeks to have on the record in this proceeding, we urge the Board to make rulings on SEC's latest requests as quickly as possible.

*SEC's request for confidential access to White Paper*

In the May 21 Letter, SEC's first request is that intervenors be granted confidential access to a White Paper that was attached as an appendix to a letter of Ross Macmillan, President and CEO of Woodstock Hydro Services Inc. (the "**White Paper**").

SEC's request is contrary to what the Board has determined at page 7 of its Decision and Order dated May 8, 2015. The Board has clearly exercised its discretion and decided that the admission of the White Paper is not necessary because the information contained in the White Paper does not provide any additional information that is relevant under the no-harm test.<sup>1</sup>

SEC's request for confidential access to this document is tantamount to a request for review and reconsideration of the Board's decision. Yet SEC does not provide a reasonable basis to support this request. The Board's determination is that information concerning service reliability, CDM and current rates found in the White Paper is already on the record as a result of the OEB's requirements. Without more, SEC has shown no basis as to why confidential access to the White Paper would serve any purpose other than to delay this proceeding further.

---

<sup>1</sup> See page 7, paragraph 1 of Decision and Order dated May 8, 2015 (Procedural Order No. 4).

SEC's request for Hydro One witness to speak about a future IPO

SEC's second request concerns the attendance of a Hydro One witness at the oral hearing "to deal with the recent announcement of a Hydro One IPO".

Hydro One objects to this request. Any proposal regarding the possible Hydro One initial public offering is a matter that bears no relationship to the transaction between Hydro One and WHSI. Speculative testimony about possible future transactions or whether they could have an impact upon future rates would be of no assistance to the Board in its deliberations on the present Application. Rate impacts associated with the transaction now before the Board are already set out in the evidentiary record.

Conclusion

For the above-described reasons, Hydro One objects to both of SEC's requests and requests that the Board rule accordingly in advance of the recommencement of the oral hearing so that parties can prepare for the hearing accordingly.

Please contact the undersigned with any questions regarding the foregoing.

Yours truly,

**McCarthy Tétrault LLP**

*Signed in the original*

Gordon M. Nettleton

GMN/ha

**ONTARIO ENERGY BOARD**

**IN THE MATTER OF** an application made by Hydro One Inc. for leave to purchase all of the issued and outstanding shares of Woodstock Hydro Holdings Inc., made pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*.

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

**AND IN THE MATTER OF** an application made by Woodstock Hydro Services Inc. for leave to transfer its distribution system to Hydro One Networks Inc., made pursuant to section 86(1)(a) of the *Ontario Energy Board Act, 1998*.

**AND IN THE MATTER OF** an application made by Woodstock Hydro Services Inc. for leave to transfer Woodstock Hydro Services Inc.'s distribution licence and rate order to Hydro One Networks Inc., made pursuant to section 18 of the *Ontario Energy Board Act, 1998*.

## APPLICATION

### 1.0 INTRODUCTION

Hydro One Inc. (“HOI”), is an Ontario corporation with its head office in the City of Toronto. HOI is wholly-owned by the Province of Ontario and is the parent company of Hydro One Networks Inc. (“Hydro One”), 1908873 Ontario Inc., Hydro One Brampton Networks Inc., Hydro One Remote Communities Inc. and Hydro One Telecom Inc.

Hydro One’s distribution system serves approximately 1.2 million customers in its service territory (see **Exhibit A, Tab 3, Schedule 1, Section 1.3.3** for further customer details).

Woodstock Hydro Services Inc. (“WHSI”) is a wholly-owned subsidiary, at the date of this application, of Woodstock Hydro Holdings Inc. (“WHHI”). WHHI is a holding company, currently wholly-owned by The Corporation of the City of Woodstock (the “City of Woodstock”).

WHSI’s distribution system serves approximately 15,534 Residential and General Service customers in the WHSI service territory (see **Exhibit A, Tab 3, Schedule 1, Section 1.3.3** for further customer details).

### 2.0 OVERVIEW OF APPLICATION

On May 21, 2014, the City of Woodstock (the “Vendor”) and HOI (the “Purchaser”), through its wholly-owned affiliate 1908873 Ontario Inc.<sup>1</sup>, entered into a share purchase agreement (the

---

<sup>1</sup> The Share Purchase Agreement is structured between The Corporation of the City of Woodstock, 1908873 Ontario Inc. and Hydro One Inc. 1908873 Ontario Inc. was used to allow for tax efficient integration of the two corporate structures. The shares held by 1908873 Ontario Inc.

1 “Agreement”), the effect of which is that the Vendor has agreed to sell, and the Purchaser has  
2 agreed to purchase, all of the issued and outstanding shares of WHHI (the “Purchased Shares”).  
3 The purchase price is \$46.2 million, comprising a cash payment of approximately \$29.2 million  
4 for the shares and the assumption of WHHI’s short and long-term debt of approximately \$17  
5 million. The Agreement contemplates the transaction closing 90 days following the Parties’  
6 receipt of all required approvals, including Ontario Energy Board (“the Board” or “OEB”)  
7 approval of this Application under sections 86(2) and 86(1) of the *Ontario Energy Board Act*,  
8 1998.

9  
10 The Agreement (see **Exhibit A, Tab 3, Schedule 1, Attachment 6**) contemplates the following  
11 items in addition to the sale of the shares:

- 12
- 13 (a) WHSI will apply to the OEB for approval to include a negative rate rider to WHSI’s  
14 electricity rates (effective May 1, 2014) to reduce base delivery distribution rates by one per  
15 cent across all Rate Classes, and to have such reduced rates apply for the next five years (see  
16 **Exhibit A, Tab 2, Schedule 1, Section 1.2** for further detail);
  - 17 (b) During the period in which the negative rate rider is in effect, Hydro One and WHSI intend  
18 to transfer the WHSI’s regulated distribution system assets so that they are owned by,  
19 integrated with, and form part of Hydro One’s existing distribution system. The Parties  
20 therefore seek to have WHSI’s existing Electricity Distribution License (ED-2003-0011) and  
21 Rate Orders transferred and assigned to Hydro One. Asset transfer and integration steps are  
22 expected to occur within 18 months after the close of the Agreement;
  - 23 (c) Following the effective period for the negative rate rider, Hydro One expects to apply to  
24 harmonize these rates with Hydro One’s revenue requirement. The rebasing and rate  
25 harmonization application is expected to take effect in 2020 and will be based on then-  
26 prevailing forecast costs as discussed **Exhibit A, Tab 2, Schedule 1, Section 2**;

- 1 (d) The Purchaser or its affiliates shall offer all active employees of WHSI and/or WHHI  
2 continued employment in the City of Woodstock for a period of at least one year;
- 3 (e) The Purchaser and the Vendor shall establish an advisory committee (the “Advisory  
4 Committee”) to provide a forum for communication between the Purchaser and the Vendor.  
5 In establishing the Advisory Committee, the Purchaser shall select, in consultation with  
6 officials of the Vendor, one senior official and one local official as its Representatives. The  
7 Vendor has the right to appoint at least three Representatives to the Advisory Committee;
- 8 (f) If, three years after Closing, the three-year average for service reliability and customer  
9 service standard levels of WHSI is lower than the three-year average reported immediately  
10 prior to the Closing, the Purchaser shall make a single payment to the Vendor in the amount  
11 of \$200,000, to be used for community purposes, including charities;
- 12 (g) The purchase price is subject to adjustment, within 90 days following closing, for Working  
13 Capital, Net Fixed Assets and Long Term Debt, as defined in the Agreement.
- 14

15 On January 13, 2015 the Board commenced an oral hearing into this Application which is  
16 scheduled to continue on May 27, 2015.

17

18 On March 26, 2015 the “Report of the Board on Rate-Making Associated with Distributor  
19 Consolidation” was released (“Amended Report”). The Amended Report provides new Board  
20 policy pronouncements pertaining to rate-making for associated distributor consolidation  
21 transactions. The new policies introduced include (1) an extension to the rate rebasing deferral  
22 period of up to a ten years after the close of the transaction; (2) a requirement for use of an  
23 earning sharing mechanism (“ESM”) where an applicant seeks a deferral period greater than five  
24 years and up to ten years (i.e., for any extended periods beyond the initial five year deferral  
25 period); (3) utilization of the incremental capital investment module (“ICM”) by the  
26 consolidating entity during the rate rebasing period, and (4) clarifications as to which incentive  
27 plan would apply to distributors who are party to a MAADs transaction during any deferred  
28 rebasing period.

1 The new policy changes described in the Amended Report represent changes in facts and  
2 circumstances directly affecting the original relief sought in this Application. Further, the policy  
3 changes were introduced during a time in which an interlocutory motion was before the Board  
4 and which motion potentially impacted the scope and scheduling of the oral hearing. In light of  
5 the Board's decision into the interlocutory motion (issued on May 8, 2015), Hydro One is now  
6 in an informed position to amend the original relief sought in this Application so as to give effect  
7 to the Board's new policy as described in the Amended Report.

### 8 9 **3.0 OEB AMENDED APPROVAL REQUESTS**

- 10
- 11 • HOI is applying to the Board pursuant to section 86(2)(b) of the *Ontario Energy Board Act*,  
12 1998 ("the Act"), seeking leave to acquire all the issued and outstanding shares of the WHHI  
13 from the Vendor.
  - 14 • WHSI is applying pursuant to section 86(1)(a) of the *Ontario Energy Board Act, 1998*, for  
15 leave to transfer its distribution system to Hydro One.
  - 16 • WHSI is applying pursuant to section 18 of the *Ontario Energy Board Act, 1998* for leave to  
17 transfer WHSI's distribution licence and rate order to Hydro One.
  - 18 • The net book value of WHSI's assets is approximately \$26.0 million and will be transferred  
19 to Hydro One Distribution's rate base.
  - 20 • WHSI is applying for approval to include a rate rider in the 2014 OEB-approved rate  
21 schedule of WHSI to give effect to reducing the approved 2014 base delivery distribution  
22 rates (EB-2013-0182) by one per cent for five years. See **Exhibit A, Tab 2, Schedule 1,**  
23 **Section 1.2** for further information.
  - 24 • WHSI is applying for approval to extend the rate rider for the Recovery of Incremental  
25 Capital to be in effect until the effective date of the next cost of service application.
  - 26 • Hydro One is applying for approval to defer the rate rebasing of the Hydro One Woodstock  
27 business unit for up to ten years from the date of closing the proposed transaction, consistent  
28 with the new Board policy set out in the Amended Report. Between years 6 and 10 of the

1 deferred rebasing period, Hydro One will file an application to determine the rates which will  
2 be applicable to the former customers of WHSI. Accordingly, while WHSI is on the Board's  
3 February 20, 2014 list of electricity distributors scheduled to apply for rebasing for 2015  
4 rates, WHSI confirms that it does not intend to file a forward test year cost of service  
5 distribution rate application this year for rates effective in 2015. See **Exhibit A, Tab 2,**  
6 **Schedule 1, Section 2** for further information.

- 7 • Hydro One is applying for approval to continue to track costs to the regulatory asset accounts  
8 currently approved by the OEB for WHSI and to seek disposition of their balances at a future  
9 date. See **Exhibit A, Tab 2, Schedule 1, Section 1.2.2** for further details.
- 10 • Hydro One is applying for approval to utilize USGAAP for WHSI financial reporting.
- 11 • Hydro One is concurrently filing a Notice of Proposal under section 80 of the *Ontario*  
12 *Energy Board Act, 1998* for acquiring an interest in a generation facility.
- 13 • Hydro One is applying for approval to use an earning sharing mechanism to operate during  
14 the term of the deferred rebasing period (i.e. years 6-10), consistent with the OEB's current  
15 incentive rate-making policy described on pages 6 and 7 of the Amended Report.
- 16 • Hydro One is applying to use an Incremental Capital Module ("ICM") during the extended  
17 deferred rate rebasing period as described on pages 9 and 10 of the Amended Report.
- 18 • Hydro One is applying for approval to continue to have WHSI's customers rates adjusted  
19 using the Price Cap Index adjustment mechanism for the deferred rebasing extension period  
20 (i.e., years 6-10 following the close of the transaction and following the initial 5-year rate  
21 freeze period) as described on pages 11 and 12 of the Amended Report.
- 22 • Details concerning the applied-for earnings sharing mechanism and the Price Cap Index are  
23 found in Exhibit A, Tab 2, Schedule 1



1 Hydro One respectfully requests a written hearing for this Application and submits that the  
2 evidence supports approval of the application for the following reasons:

- 3 • The application has no adverse impact on the price, adequacy, reliability and quality of  
4 electricity service of WHSI or Hydro One. In addition, it promotes electricity conservation  
5 and demand management, the use and generation of electricity from renewable energy  
6 sources and facilitates the implementation of a smart grid in Ontario;
- 7 • The customers of both local distribution companies will be held harmless;
- 8 • The transaction eliminates the duplication of effort between Hydro One and WHSI and  
9 results in a single electric distribution service provider for all of the City of Woodstock,  
10 which will ultimately lead to lower cost of service across Hydro One and WHSI service  
11 areas, and will create downward pressure on electricity distribution rates; and
- 12 • This transaction was completed on a commercial basis between a willing seller and a willing  
13 buyer. It is a demonstration of the type of benefits that can be realized from voluntary  
14 consolidation; it will deliver cost synergies and economy of scale benefits contemplated by  
15 the Ontario Distribution Sector Review Panel and will promote the objectives contained in  
16 the OEB's Renewed Regulatory Framework for Electricity Distributors.

## SUPPLEMENTARY TRANSACTION INFORMATION

This exhibit provides information addressing how the proposed transaction meets the merger, acquisition, amalgamation and divestiture (“MAAD”) requirements set forth in the *Ontario Energy Board Act, 1998* (“the Act”) and details both quantitative and qualitative savings expected as a result of this transaction. Further details on approvals sought with respect to customer rates and bill impacts, timing of rebasing, regulatory assets and riders, USGAAP and compliance matters are also discussed.

### MAAD APPLICATION REQUIREMENTS

#### 1.0 CONSUMER PROTECTION

Section 1 of the Act requires that the Ontario Energy Board (“Board” or “OEB”), in carrying out its responsibilities, shall be guided by the following objectives:

1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service;
2. To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry;
3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer’s economic circumstances;
4. To facilitate the implementation of a smart grid in Ontario; and
5. To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

1 In Hydro One's recent Norfolk MAAD Application (EB-2013-187/EB-2013-0196/EB-2013-  
2 0198) the Board found in its Decision and Order dated July 3, 2014, that the "no harm test"  
3 remains the relevant benchmark and that Section 1 of the Act remains the approved determinant  
4 to meet the Board's objectives.<sup>1</sup>

### 6 **1.1 Economic Efficiency and Cost Effectiveness**

7  
8 Hydro One projects that the resultant cost structures from proceeding with the transaction will  
9 result in ongoing operations, maintenance and administrative ("OM&A") savings of  
10 approximately \$3.0 million per year and reductions in capital expenditures of approximately \$1.0  
11 million per year. These savings will result in downward pressure on WHSI's cost structure  
12 which would tend to decrease rates relative to the status quo. Quantitative savings will be  
13 realized through cost synergies in the following areas, which will be discussed in more detail in  
14 the section following:

- 15  
16 • reduction in back-office staff, including accounting, administration, and customer  
17 service;
- 18 • reprioritization of capital program costs utilizing Hydro One's Asset Risk Assessment  
19 ("ARA") process;
- 20 • reduction in information technology ("IT") costs, such as hardware and software  
21 maintenance fees;
- 22 • reduction in corporate governance costs, with the elimination of the Woodstock Hydro  
23 Board of Directors;
- 24 • reduction in senior management costs;
- 25 • rationalization of smart grid, conservation and demand management, and renewable  
26 energy initiatives;

---

<sup>1</sup> EB-2013-0196/0187/0198 Decision and Order dated July 3, 2014, page 10-11

- reduction in future regulatory costs associated with fulfilling regulatory requirements, including the preparation and filing of regulatory applications, including IRM and COS applications and eliminating Long-Term Load Transfers with Hydro One; and
- reduction in financing and insurance costs.

### *Quantitative Efficiencies*

Quantitative efficiencies arise in three principal areas:

- Local area operating and capital savings resulting from a more efficient distribution system due to the elimination of an artificial electrical border (i.e., benefits from contiguity);
- Savings due to the elimination of redundant administrative and processing functions (i.e., back-office savings or scale efficiencies);
- Lower overall debt costs upon refinancing WHSI's current higher-cost debt assumed in the transaction, further enhanced by the reduced capital expenditure requirements.

### **Contiguity Benefits**

Hydro One's existing service territory is situated immediately adjacent to the territory served by WHSI. The geographic advantage of contiguity allows for economies of scale to be realized at the field or operational level through the integration of WHSI and Hydro One's local systems. These operational scale economies may not be available at all, or to the same extent, to other would-be purchasers who do not have the same advantage of contiguity.

With the elimination of an artificial electrical border between contiguous distributors, operational efficiencies arise in various areas, such as the ability to: rationalize local space needs through the elimination or repurposing of duplicate facilities like service centres; more efficiently schedule operating and maintenance work and dispatch crews over a larger service area; and, more efficiently utilize work equipment (e.g., trucks and other tools), leading to lower capital replacement needs over time. The elimination of the electrical border allows for more rational

1 and efficient planning and development of the distribution system. All of the above provide the  
2 potential to result in operating and capital savings, both immediate and over time, which will  
3 provide long-term benefits to ratepayers relative to the status quo.

4  
5 This situation is common throughout the Province and is shown in the attached map (see  
6 **Attachments 3a and 3b**) depicting the current checkerboard pattern of the local distribution  
7 system, with small- and medium-sized LDCs contiguous to or surrounded by Hydro One.

#### 8 9 **Savings from Economies of Scale**

10 A larger customer base resulting from the creation of a larger regional distributor leads to costs  
11 for processing systems, such as billing, customer care, human resources and financial, being  
12 spread over a larger group of customers. Consolidation of these functions is expected to result in  
13 efficiency benefits as duplicate systems and staff positions are eliminated, leading to lower  
14 capital and operating costs over time. In addition, administrative savings arising from the  
15 elimination of redundant senior management and administrative functions are also achievable.

16 Hydro One's cost of borrowing is typically lower than that of local LDCs, leading to savings in  
17 financing costs over time. These savings arise from Hydro One's ability to refinance WHSI debt  
18 upon maturation at a lower rate, and from the expectation that there will be capital savings over  
19 time, which will lead to a reduced rate base and hence lower debt and equity return costs relative  
20 to the status quo.

#### 21 **Efficiency and Quantitative Savings in the Woodstock Context**

22 Hydro One's existing Beachville operating centre is located less than 10 km from the WHSI  
23 operating centre. Hydro One currently serves customers in the City of Woodstock, thus having  
24 crews that travel much of the same roads and drive by the same facilities as the existing line  
25 crews from WHSI. Staff in the Hydro One Field Business Centre in Beachville answer calls  
26 from local businesses and customers for operational services provided by Hydro One within the

1 City of Woodstock. WHSI has customer service representatives that carry out similar functions  
2 for their neighbouring customers also within the City of Woodstock. Rationalizing these  
3 functions over a larger service area will yield efficiency savings.

4  
5 As mentioned earlier, contiguity savings are expected through more efficient system planning by  
6 the elimination of the artificial electrical border between Hydro One's and WHSI's service areas.  
7 In addition, the integration of Hydro One and WHSI will allow for efficiency gains to be realized  
8 through eliminating duplication in administrative and transaction-processing functions. For  
9 example, Hydro One currently processes financial, human resource, information technology, and  
10 work management transactions for its existing customers and staff. WHSI processes very similar  
11 transactions for its own service area in the City of Woodstock. This means that if the transaction  
12 proceeds, Hydro One has the opportunity to eliminate these sources of duplication. For example  
13 the functions performed by senior management would be eliminated, and the Board of Directors  
14 would no longer be required. Further, there is an opportunity to reduce the number of regulatory  
15 filings, CDM program administration costs, vehicle fleet and information technology costs, and  
16 the use of external consultants and contractors.

17  
18 The efficiencies attained through some of the activities discussed above result in Hydro One  
19 expecting to be able to eliminate 22 of the 36 positions currently required to operate WHSI. As  
20 Hydro One already has an operating organization in place that provides the same functions (such  
21 as senior management, professional, and some union staff) certain positions will no longer be  
22 required.

23  
24 The WHSI personnel currently in these roles will have the opportunity to transition to other  
25 positions within the Hydro One organization. As Hydro One is facing significant demographic  
26 challenges and upcoming retirements, it is able to provide job security for WHSI staff,  
27 leveraging their industry knowledge, and will utilize both its existing staff and those acquired  
28 from WHSI to meet the needs of all its customers. As Hydro One will now be planning the

electricity needs for the entire Woodstock region, it will be able to more efficiently manage both the operating and capital costs associated with serving customers across the area.

Table 1 below shows Hydro One's projection, by staff category, of the number of staff that are currently employed by WHSI and their respective aggregate salaries. WHSI direct staff will be integrated into Hydro One's Beachville operations and will become part of the centre's pool of resources working on everything within the larger service area encompassing WHSI's current service territory. Indirect staff are those staff that are expected to move to other positions within Hydro One once integration is complete. The left side of Table 1 breaks down the current staff between direct and indirect positions and shows the total salary paid by WHSI. The right-hand side of Table 1 illustrates the anticipated level of staffing and salaries required to operate the current WHSI service territory once acquired by Hydro One and operating as the Woodstock business segment.

**Table 1**

	WHSI Staffing and Salaries			Proposed Hydro One Woodstock Staffing and Salaries	
Staff Category	Direct	Indirect	Salary(\$)	Direct	Salary (\$)
Management and Professional		6	671,248		
Inside Union		10	555,991		
Outside Union	14	6	1,453,246	14	1,367,539
<b>Total</b>	<b>14</b>	<b>22</b>	<b>2,680,485</b>	<b>14</b>	<b>1,367,539</b>
Projected Salary Savings	<b>\$1,312,946</b>				

Table 1 demonstrates that Hydro One anticipates overall salary savings of approximately \$1.3 million annually, after accounting for differences between salary levels between WHSI and Hydro One.

1 This transaction will also achieve capital expenditure savings. Hydro One utilizes an ARA  
2 process. This process determines the state of Hydro One's distribution system, identifies current  
3 asset needs, and creates a line of sight to future needs, which enables an in-depth view of asset  
4 risk, and improved decision-making. The ARA incorporates field asset assessment including  
5 visual inspections and evaluation. This process allows Hydro One to assess the state of its assets  
6 and assess the risks that those assets pose and to develop appropriate plans in order to ensure  
7 reliability and service quality are met. This assessment considered the state of the WHSI  
8 distribution system, identified current asset needs, and created a line of sight to future asset  
9 needs. Using the ARA process has enabled Hydro One to project the WHSI OM&A and capital  
10 expenditure requirements and the resulting potential savings.

11  
12 Based on the quantitative factors discussed above, Hydro One has provided a comparative cost  
13 structure analysis for the proposed transaction relative to the status quo, extending out ten years  
14 (see **Table 2**). Three scenarios are presented in **Table 2** with respect to efficiency savings  
15 associated with Hydro One operating in the WHSI service territory under the proposed  
16 acquisition. The medium scenario represents a *base case* and compares expenditures based on  
17 Hydro One's estimate of WHSI's status quo operations with Hydro One's forecast of WHSI's  
18 operations under its ownership. The high and low scenarios illustrate a plus/minus 20%  
19 variation on Hydro One's forecast based on its ownership of WHSI.

20  
21 Financing savings are also expected to be achieved as a result of both a lower Hydro One cost of  
22 debt upon refinancing of some or all of the debt assumed in the transaction, and lower capital  
23 replacement needs over time. These savings have not been quantified due to uncertainty related  
24 to the timing of refinancing, and of the size of the spread that will prevail when refinancing  
25 occurs.



**Table 2: Projected LDC Acquisition OM&A and Capital Expenditure Savings**

\$M	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>OM&amp;A</b>										
Status Quo Scenario	3.9	4.6	4.0	4.1	4.2	4.3	4.4	4.8	4.7	4.7
Hydro One Forecast	1.7	2.2	1.6	1.4	1.4	1.4	1.5	1.8	1.7	1.6
Projected Savings - Base Case Scenario	2.3	2.3	2.4	2.7	2.7	2.8	2.9	2.9	3.0	3.1
Low Cost Scenario - Projected Savings <sup>1</sup>										
Lower OM&A, Higher Savings Scenario	2.6	2.8	2.7	3.0	3.0	3.1	3.2	3.3	3.3	3.4
High Cost Scenario - Projected Savings <sup>2</sup>										
Higher OM&A, Lower Savings Scenario	1.9	1.9	2.0	2.4	2.5	2.5	2.6	2.6	2.7	2.8
<b>Capital</b>										
Status Quo Scenario	2.4	2.5	2.5	2.6	2.6 <sup>3</sup>	2.7	2.8	2.8	2.9	2.9
Hydro One Forecast	2.2	2.9	3.2	1.8	2.1 <sup>3</sup>	1.8	2.1	1.7	1.9	2.0
Projected Savings - Base Case Scenario	0.2	(0.5)	(0.7)	0.8	0.5	0.9	0.7	1.2	0.9	0.9
Low Cost Scenario - Projected Savings <sup>1</sup>										
Lower Capital, Higher Savings Scenario	0.6	0.1	(0.0)	1.1	1.0	1.3	1.1	1.5	1.3	1.3
High Cost Scenario - Projected Savings <sup>2</sup>										
Higher Capital, Lower Savings Scenario	(0.3)	(1.1)	(1.3)	0.4	0.1	0.5	0.3	0.8	0.5	0.5

<sup>1</sup> Low case scenario based on a 20% reduction in costs from Hydro One Forecast

<sup>2</sup> High case scenario based on a 20% increase in costs from Hydro One Forecast

<sup>3</sup> The Commerceway TS true-up has been eliminated from this analysis in Year 5

Hydro One's current OM&A forecast to serve customers in its high density residential rate class (UR) is \$181/customer/year<sup>2</sup> compared to WHSI cost of \$258/customer/month as shown in the 2012 OEB Yearbook. Hydro One's urban rate class covers areas containing 3,000 or more customers with a density of at least 60 customers per kilometer. As such, it is reasonable to believe that the majority of WHSI's customers would have a comparable cost to serve as Hydro One's UR rate class (over 90% of WHSI's customers are residential).

### *Qualitative Efficiencies*

Qualitative benefits will be realized in an acquisition and integration of a smaller LDC, like WHSI, with Hydro One. Some of these benefits are listed below:

- Continued employment for all staff of acquired LDCs - Although redundant staffing functions 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;
- Enhanced call centre service to customers – Hydro One has a sophisticated call-centre operation which offers 24/7 live outage reporting, which is currently not available from WHSI, and web access. In addition, Hydro One has launched a highly successful smart-phone application for real-time outage management that customers can download to their devices, allowing instant access to outage information and estimated restoration time. Hydro One was recognized by the International Association of Business Communicators (“IABC”) as the 2013 recipient of two Gold Quill awards and the Jake Wittmer Research Award for the launch of Hydro One's mobile application;
- Savings in recruitment, training, and staff development costs are expected as the transaction will allow trained and experienced utility staff to continue to be available within the Hydro One organization arising due to expected retirements and other attrition;

- Industry benefits are also expected to accrue to various agencies within the Ontario energy industry. For example, the costs to regulate and administer the sector may be reduced as this and further acquisitions are completed. The Ontario Power Authority, the Independent Electric System Operator, the OEB, and Ministry of Energy can achieve potential savings through reduced regulatory burden and industry oversight. Further, enhanced regional planning efficiencies could also be achieved by having fewer distribution companies planning for larger areas where capital can be deployed more efficiently than with the current fragmented approach.

## **1.2 Price of Electricity Service**

The proposed transaction protects WHSI customers through a commitment to freeze base electricity distribution delivery rates for a period of five years from closing of this transaction. In addition, WHSI is seeking approval to implement a negative rate rider that will result in a further 1% reduction of 2014 base delivery rates as approved by the OEB in EB-2013-0182 for a five year period. The cost of providing this rate rider will be recovered from synergies that are generated from consolidating WHSI's operations into Hydro One. This negative rate rider will be discontinued at the end of year 5. Beginning in year 6 and up to year 10, WHSI rates will be set using the Price Cap Index adjustment mechanism, as outlined in the Board's Report: "Rate Making Associated with Distributor Consolidation" issued March 26, 2015 ("Amended Report"). At the commencement of year 6, WHSI's distribution base rates will be set according to the mechanical Price Cap Index formula then in effect and will be anchored to the WHSI base distribution delivery rates that have been frozen as of year 1 (i.e., the WHSI 2014 base distribution delivery rates as approved by the OEB in EB-2013-0182).

The proposed transaction also protects Hydro One's customers. Hydro One filed a five-year cost of service rate application (EB-2013-0416) on December 19, 2013, for rates effective 2015 to 2019 under the Board's Custom Incentive Regulation regime. That application was based on

Hydro One's existing customer base: in other words, it did not include any capital or OM&A costs associated with serving customers, and/or maintaining or operating assets in the service territory of any acquired LDC, including WHSI. As such, this transaction will not impact Hydro One's existing customers with respect to price. 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.

### 1.2.1 Bill Impact

Below are the bill impacts for customers in the WHSI service territory, of the proposed transaction on the total bill as well as distribution base rates, in order to give effect to the proposed negative rate rider. The impacts are based on WHSI's current rates applied to the average consumption levels for each rate class used by WHSI in calculating bill impacts as part of its 2014 IRM application, and approved by the OEB. The rate reductions vary slightly from the 1% reduction as a result of rounding errors from using two decimal places for fixed charges and four decimal places for volumetric charges.

**Table 3**

	<b>Change in Base Distribution Rates (%)</b>	<b>Change in Total Bill (%)</b>
Residential	(0.94%)	(0.22%)
General Service less than 50 kW	(0.83%)	(0.15%)
General Service 50 to 999 kW	(1.00%)	(0.05%)
General Service greater than 1,000 kW	(1.00%)	(0.06%)
Unmetered Scattered Load	(1.01%)	(0.42%)
Street Lighting	(0.98%)	(0.38%)

Detailed calculations of the bill impacts can be found in **Exhibit A, Tab 3, Schedule 1, Attachment 14.**

### 1.2.2 Regulatory Assets and Rate Riders

In addition to the rate rider to reduce base distribution delivery rates, Hydro One requests approval to extend the existing WHSI rate rider for the recovery of incremental capital to be in effect until the effective date of the next cost of service application. This rider is associated with the capital contribution related to the Commerce Way TS.

The WHSI Regulatory Assets currently approved by the OEB will continue to be tracked in their respective accounts and disposition will be sought at a future date.

### 1.2.3 Rate Schedules

The proposed rate schedules, including the requested rate rider, for the area currently served by WHSI, effective after closing, are filed as **Exhibit A, Tab 3, Schedule 1, Attachement 15**.

## 1.3 Adequacy, Reliability and Quality of Electricity Service

Hydro One will endeavour to maintain or improve reliability and quality of electricity service for all of its customers. As part of the proposed transaction, Hydro One will retain local knowledge from existing WHSI staff. This local knowledge will be leveraged through greater coordination with Hydro One's regional operations and staff, which will allow Hydro One to maintain or improve reliability. Hydro One has committed to meet or exceed specific service levels for reliability and customer service (see **Section 6.9 of Attachment 6**). With respect to reliability, the Share Purchase Agreement ("**the Agreement**") stipulates that the current WHSI three-year running average for OEB metrics SAIDI, SAIFI, and CAIDI will be maintained or exceeded. Moreover, with respect to customer service, the Agreement stipulates that the current WHSI three-year running average for a subset of OEB Customer Service Standards metrics - low voltage connections, telephone accessibility, and appointments met - will also be maintained or

1 exceeded. Again, Hydro One will achieve these results by retaining the direct staff from WHSI  
2 as part of its local operations. This will allow Hydro One to retain local knowledge and skills to  
3 ensure that it meets its service quality obligations.

4  
5 The City of Woodstock will retain several buildings in the downtown core for redevelopment.  
6 Hydro One has agreed to enter into a three-year lease agreement with the City of Woodstock to  
7 lease the current WHSI Operating Centre on Graham Street. Conditional on the completion of  
8 the sale, Hydro One intends to commence construction, during the lease period, of a permanent  
9 operations and administration building within the City of Woodstock in a more accessible  
10 location. This new centre will consolidate operations between Hydro One's Beachville  
11 Operating Centre and WHSI's Operating Centre on Graham Street. This combined, larger  
12 operating presence, with reduced distance to travel, will also bring additional resources within  
13 the City of Woodstock to support Hydro One's ability to deliver reliable service.

14  
15 Hydro One's existing operating centre in Beachville already serves over one-third of the  
16 geographic area of Woodstock (**see Attachment 3c**). As mentioned, subsequent to this  
17 application's approval, the new facility in the City of Woodstock will be a regional operating  
18 centre thereby increasing the number of resources available to respond to outages. It should also  
19 be noted that WHSI is embedded in Hydro One's service territory; and with the elimination of  
20 the service boundary between the two utilities, Hydro One will have accountability for planning  
21 the electricity needs for the entire region, which will allow for a more rational, efficient and  
22 effective planning and development of the distribution system.

23  
24 The existing reliability metrics for Woodstock Hydro and the local metrics for Hydro One for  
25 comparable conditions are provided in **Table 4** below.

**Table 4**

	2011	2011	2012	2012	2013	2013
	Hydro One	Woodstock Hydro <sup>2</sup>	Hydro One	Woodstock Hydro	Hydro One	Woodstock Hydro
Excluding LOS <sup>3*</sup>						
Duration (SAIDI)	0.63	0.40 <sup>4</sup>	1.76	0.55	0.82	1.27
Frequency (SAIFI)	0.21	0.94	0.34	0.88	0.40	0.85

Based on reliability statistics for 2011 and 2012, Hydro One customers in the vicinity of the City of Woodstock experienced a similar level of service in terms of duration and frequency of interruptions as WHSI customers. For 2013, Hydro One performed better than WHSI in terms of duration of outages whereas WHSI performed better in 2011 and 2012; for 2011, 2012 and 2013, Hydro One performed better than WHSI in terms of frequency of outages. Hydro One anticipates that reliability will in fact improve once the operating centre is consolidated in the City of Woodstock.

Hydro One has committed to use commercially reasonable efforts to meet a capital expenditure budget as set forth in **Schedule 6.7 of the Agreement** (see **Attachment 6**), thereby allowing Hydro One to maintain or improve reliability from the current performance level achieved by WHSI. Please see **Section 1.1** of this exhibit for more information on the capital forecast.

Hydro One has also agreed to establish an Advisory Committee to provide a forum for communication between Hydro One and the Vendor. Under the terms of the Agreement, the Vendor may appoint three representatives to the committee, and Hydro One will include staff representation from the same geographic district covered by WHSI's current distribution licence.

<sup>2</sup> Data-source is the OEB Yearbook

<sup>3</sup> Loss of Supply ("LOS") interruptions attributable to assets that are not part of the Hydro One distribution System or the WHSI Distribution System

<sup>4</sup> There was an error in the WHSI's SAIDI value in the OEB Yearbook. The number has been corrected.

1 In the long term, WHSI customers are expected to benefit from operational efficiencies expected  
2 by having the WHSI assets integrated into Hydro One's larger distribution system. Scale  
3 efficiencies are expected in the areas of operating and maintaining the distribution system,  
4 planning capital replacement and the overhead and management functions. The foregoing are  
5 discussed further in **Section 1.1**.

#### 6 7 **1.4 Conservation and Demand Management, Smart Grid and Promotion of Renewable** 8 **Energy Sources** 9

10 Similarly to most LDCs, WHSI has developed its own programs related to Conservation and  
11 Demand Management, Smart Grid, and the Promotion of Renewable Energy sources. To  
12 achieve further synergies from the transaction, Hydro One will rationalize these programs with  
13 its own. There may also be opportunities to rationalize programs across the other acquired LDCs  
14 that Hydro One has acquired or will acquire. Each LDC is mandated to have its own initiatives in  
15 these areas, as such there are opportunities for program consolidation. This may include areas  
16 where an LDC can offer unique capabilities or experience that can provide a positive impact on  
17 Hydro One's programs going forward. For example, WHSI and Norfolk Power both utilize  
18 Survalent for Supervisory Control and Data Acquisition ("SCADA"). Norfolk Power and  
19 Woodstock also have significant Geographic Information Systems ("GIS") in place, which will  
20 allow for ready integration of their assets into Hydro One's asset management systems and  
21 processes. These benefits are qualitative in nature, but represent examples of synergies  
22 nonetheless that support the underlying objectives of the Board related to these three areas.

#### 23 24 **1.5 Additional Sector Support of Consolidation** 25

26 There are recognized efficiencies from sector consolidation. The Ontario Distribution Sector  
27 Review Panel, "Renewing Ontario's Electricity Distribution Sector: Putting the Customer First",  
28 supported distributor consolidation:



1        *The Panel is supporting consolidation not as an end, but as a means to an end. The*  
2        *current fragmented nature of Ontario's electricity distribution system, with its large*  
3        *number of small distributors, is a barrier to the innovation that is needed in the sector,*  
4        *and that its customers deserve. It is also an obstacle in the way of the most cost-effective*  
5        *delivery of electricity.*<sup>5</sup>

6  
7        The Commission on the Reform of Ontario's Public Services, "A Path to Sustainability and  
8        Excellence" ("**the Drummond Report**") recommended that the Province:

9  
10       *Consolidate Ontario's 80 local distribution companies (LDCs) along regional lines to*  
11       *create economies of scale. Reducing the \$1.35 billion spent on operations, maintenance*  
12       *and administrative costs for Ontario's LDCs would result in direct savings on the*  
13       *delivery portion of the electricity bill.*<sup>6</sup>

14  
15       The OEB's decision in RP-2003-0044 also recognized that further efficiencies are gained with  
16       the elimination of artificial electrical borders between contiguous distributors. In RP-2003-0044,  
17       although the context for the Board's Findings in that case was in relation to service area  
18       amendment ("**SAA**") applications, the principles adopted by the Board in general apply equally  
19       to merger situations, as noted below:

20  
21       *The promotion of economic efficiency in the distribution sector is one of the*  
22       *Board's guiding objectives in the regulation of the electricity sector. The Board is*  
23       *persuaded that economic efficiency should be a primary principle in assessing the*  
24       *merits of a service area amendment application. Economic efficiency would*  
25       *include ensuring the maintenance or enhancement of economies of contiguity,*  
26       *density and scale in the distribution network; the development of smooth,*

---

<sup>5</sup> Ontario Distribution Sector Review Panel Report, page 27

<sup>6</sup> Drummond Report, page 331

1        *contiguous, well-defined boundaries between distributors; the lowest incremental*  
2        *cost connection of a specific customer or group of customers; optimization of use*  
3        *of the existing system configuration; and ensuring that the amendment does not*  
4        *result in any unnecessary duplication or investment in distribution lines and other*  
5        *distribution assets and facilities. [Para. 84]*

6        A core difference in assessing the economic efficiency of a merger or acquisition versus a SAA  
7        is that in an SAA application, which typically deals with a request to serve new connecting  
8        customers in an adjacent service area, the lower incremental cost to connect is a key  
9        consideration in assessing the merits of the application, as noted in the excerpt from the RP-  
10       2003-0044 Decision above. In a merger or acquisition, net ratepayer and system benefit, relative  
11       to the status quo, based on the no-harm test, rather than lower incremental cost to serve, is the  
12       key factor in determining whether the transaction is in the public interest.

13       The completion of this transaction provides an example where significant efficiency gains can be  
14       realized by a merger or acquisition between a large contiguous distributor, like Hydro One, and  
15       smaller adjacent LDCs, like WHSI.

## 17       **1.6       Incremental Transaction Costs**

18  
19       Both parties to the transaction will have incurred some incremental costs associated with the  
20       transaction. These include costs incurred for due diligence, to negotiate and complete the  
21       transaction, costs associated with all necessary regulatory approvals, the integration costs to  
22       transfer the customers into Hydro One's customer and outage management systems, and initial  
23       costs to bring equipment up to Hydro One standards. These costs will be financed through  
24       productivity gains associated with the transaction and will not be included in Hydro One's  
25       revenue requirement and thus will not be funded by ratepayers.

1 These costs are estimated between \$2.5 million to \$4 million. All of these costs are expected to  
2 be incurred during the rate freeze period and will be off-set through the productivity gains  
3 achieved during this time period.

## 4 5 **2.0 TIMING OF REBASING AND RATE HARMONIZATION**

6  
7 Hydro One proposes to defer the rate rebasing of the former WHSI to up to ten years from the  
8 date of closing the proposed transaction. While initial deferral of a five year period was an  
9 important factor in Hydro One's consideration of the merits of the proposed transaction, the new  
10 policies set out in the Amended Report provide additional time to achieve efficiencies and cost  
11 savings and thus reduce risks while protecting the interests of consumers across both existing  
12 service areas.

13  
14 As industry rates evolve over the next ten years, Hydro One expects to file a rate application  
15 consistent with OEB rate-making principles (e.g. fair, practical, clear, rate stability and effective  
16 cost recovery of revenue requirement) in line with the principles noted above. The rate  
17 application at that time may propose: (i) to create new acquired customer rate classes; (ii) to  
18 move acquired customers to an appropriate Hydro One rate class existing at that time; or (iii)  
19 some other option. It is not possible today to say which of these approaches will be adopted: it  
20 will depend on the situation at the time of setting the new rates for Hydro One Woodstock. The  
21 approach will consider the bill impact on both legacy and acquired customers. Some  
22 considerations in deciding on rate strategies include the number and characteristics of the  
23 acquired utilities, customer growth in the acquired utilities and potential development within the  
24 electricity regulatory arena in Ontario.

25  
26 Whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate  
27 applications will be subject to OEB approval and will satisfy the Board's "Filing Requirements

for Electricity Distribution Rate Applications”, and will reflect the cost to serve these customers as impacted by the productivity gains due to this consolidation.

Hydro One proposes to retain two separate rate schedules for customers in each of the service areas – i.e. those currently served by Hydro One and those currently served by WHSI, until the time that Hydro One applies to rebase WHSI’s rates.

### **3.0 WHSI RATE DESIGN: YEARS 6-10**

#### **3.1 Price Cap Index Adjustment**

At the commencement of the 6<sup>th</sup> year following the close of the transaction, WHSI’s base distribution delivery rates will be set according to the mechanical Price Cap Index formula and will be anchored to the the WHSI 2014 base delivery rates as approved by the OEB in EB-2013-0182. The anchored rate will have remained unchanged during the initial five year period (save except for application of the negative rate rider).

#### **3.2 Earning Sharing Mechanism**

In year 6 of the deferral period, WHSI rates may also be subject to an adjustment due to the application of an earnings sharing mechanism (“ESM”). A 50:50 sharing mechanism will be applied as between the consolidated entity and WHSI customers where the ROE of the consolidated distributor is greater than 300 basis points above the allowed rate of return for the consolidated distributor,

A hypothetical example of how Hydro One would implement the PCI and ESM under the assumption of excess earnings in year 7 to WHSI’s monthly base distribution delivery rates during years 6 – 10 of the deferral period is shown in Table 5 below.

**Table 5: Hypothetical WHSI Customer Rates for Years 6-10**

Monthly Base Distribution Delivery Rates	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
EB-2013-0182 Approved Rate	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00					
Negative 1% Rate Rider	\$ (0.20)	\$ (0.20)	\$ (0.20)	\$ (0.20)	\$ (0.20)					
<b>Year 1 - 5 Rate</b>	<b>\$ 19.80</b>	<b>\$ 19.80</b>	<b>\$ 19.80</b>	<b>\$ 19.80</b>	<b>\$ 19.80</b>					
Prior Period Rate (Year 6 anchored on EB-2013-0182)						\$ 20.00	\$ 20.30	\$ 20.60	\$ 20.91	\$ 21.23
Price Cap Index (see note 1 below for details)						1.5%	1.5%	1.5%	1.5%	1.5%
<b>Year 6 - 10 Rates Adjusted by Price Cap Index</b>						<b>\$ 20.30</b>	<b>\$ 20.60</b>	<b>\$ 20.91</b>	<b>\$ 21.23</b>	<b>\$ 21.55</b>
ESM Rate Rider (see note 2 below for details)						-	-	-	\$ (2.25)	-
<b>Year 6 - 10 Adjusted Rates including ESM Rate Rider</b>						<b>\$ 20.30</b>	<b>\$ 20.60</b>	<b>\$ 20.91</b>	<b>\$ 18.98</b>	<b>\$ 21.55</b>

Note 1 - Price Cap Index Assumption Details	Year 6	Year 7	Year 8	Year 9	Year 10
IPI Inflation	2.5%	2.5%	2.5%	2.5%	2.5%
Less: Stretch Factor	1.0%	1.0%	1.0%	1.0%	1.0%
<b>Price Cap Index</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>

Note 2 - Earning Sharing Mechanism Assumption Details	Year 6	Year 7	Year 8	Year 9	Year 10
Hydro One Distribution Actual ROE	10.00%	13.50%	8.00%	9.00%	9.00%
Distribution Allowed ROE	9.00%	9.00%	9.00%	9.00%	9.00%
Difference (after adjustment for extraordinary events)	1.00%	4.50%	-1.00%	0.00%	0.00%
Earnings in excess of 300 basis points	0.00%	1.50%	0.00%	0.00%	0.00%
<b>50:50 Share</b>	<b>0.00%</b>	<b>0.75%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
<b>Resulting ESM Rate Rider</b> (Year 7 excess earnings applied with a 2 year lag)				\$ 2.25	
Note: Illustrative amount that returns 50% share of excess earnings					

#### 4.0 USGAAP

HONI Transmission received OEB approval to utilize US Generally Accepted Accounting Principles (“US GAAP”) as its approved framework for rate setting, regulatory accounting and regulatory reporting in the Decision with Reasons in EB-2011-0268 (issued on November 23, 2011). Hydro One also received OEB approval for the same in EB-2011-0399 (issued on March 23, 2012). The latter Decision noted “as the Board has found that Hydro One transmission rates should be set on the basis of USGAAP, it would generally be inefficient to require the distribution utility to use MIFRS for regulatory reporting and rate making”. In addition in the recent Norfolk Decision and Order, the Board decided that using USGAAP methodology in accounting for Norfolk Power Distribution Inc. (the acquired utility) will be more efficient than continuing to use MIFRS methodology.

WHSI’s financial statements are currently prepared under Canadian Generally Accepted Accounting Principles (“CGAAP”) and are compliant with the OEB letter (July 27, 2012) requiring all LDCs retaining CGAAP to adopt IFRS-compliant depreciation policy and an IFRS-compliant cost capitalization policy.

Hydro One requests approval to utilize USGAAP for accounting purposes in relation to Hydro One Woodstock. Approval to use USGAAP for Hydro One Woodstock will simplify any future rate integration, will avoid incremental costs or productivity losses by simplifying processes and avoiding the need for workarounds, and will facilitate Hydro One Inc.’s consolidated reporting for securities filing purposes (including future U.S. Securities and Exchange Commission), thus avoiding incremental costs and/or reduced productivity. By using one uniform standard of reporting, Hydro One seeks to achieve integration and scale efficiencies. Given the relative small size of the WHSI operations (when compared to Hydro One), Hydro One believes it would be inefficient and costly to maintain two equally robust yet distinct accounting regimes for divisions within Hydro One.

**5.0 COMPLIANCE MATTERS**

Pending approval of this transaction, and after notification to the Board that integration is completed, WHSI's distribution system, Electricity Distribution Licence ED-2003-0011, and Rate Order will be transferred to Hydro One. The customers, assets, systems, processes and operations of WHSI will be fully integrated into Hydro One's business activities.

Hydro One confirms that it is materially in compliance with its regulatory requirements, subject to any approved regulatory exemptions. The list of specific code requirements from which Hydro One has been exempted can be found in Schedule 3 of Hydro One's Electricity Distribution Licence.

WHSI has confirmed that as of the date of the Application, to the best of its knowledge, it is in compliance with all relevant licence and code requirements per its Electricity Distribution Licence (EB-2003-0011). It is expected that following the approval and completion of the transaction and after the integration of the WHSI distribution business activities into those of Hydro One, Hydro One will continue to be materially compliant with all applicable Legislation, Regulations, Market Rules, other Licence Conditions and Codes.

Hydro One's compliance policy will continue to require that confirmed instances of non-compliance be disclosed and mitigated as necessary including applications for exemptions from such requirements, if necessary. Any potential instances of non-compliance associated with WHSI's distribution business activities will be addressed during the integration process. For example, the non-electricity billing services currently being provided by WHSI to the County of Oxford (the "**County**") may be transferred to Hydro One Telecom Inc. (if necessary, as it is not clear at this time whether the County intends to renew its contract for this service). This transfer, if needed, will be implemented after a short transition period, in compliance with Section 71(1) of the Act. In any case, given the small customer base of WHSI (when compared to Hydro One),

1 the integration is not expected to have any material impact on the current compliance status of  
2 Hydro One, even during the transition period.

3  
4 During the period after closing of the transaction and prior to full integration, service level  
5 agreements in compliance with the OEB's *Affiliate Relationships Code for Electricity*  
6 *Distributors and Transmitters* will be drafted between WHSI and Hydro One affiliates.

7  
8 Hydro One will keep separate financial records for WHSI. Upon integration, WHSI's assets will  
9 be transferred to Hydro One and tracked as a separate business unit within Hydro One. OM&A  
10 costs will be charged to WHSI business unit similar to what is now done to record costs between  
11 Hydro One's Transmission and Distribution businesses. Common costs will be allocated to the  
12 WHSI business unit, consistent with Hydro One's current common corporate cost allocation  
13 model.

14  
15 **6.0 SUMMARY – COMPLIANCE WITH THE “NO HARM TEST” AND**  
16 **SECTION 1 OF THE OEB ACT, 1998**

17  
18 For the reasons addressed in the preceding sections, both qualitative and quantitative savings and  
19 efficiencies are expected to result from this transaction. Overall, Hydro One's analysis shows  
20 the synergies that will accrue as a result of this transaction will be to the benefit of ratepayers.  
21 These attributes allow Hydro One and WHSI to conclude that the transaction will not cause harm  
22 to ratepayers, and indeed will provide benefits to its ratepayers in the long term. Moreover, this  
23 application embodies the current regulatory policies and principles of the Board in pursuing the  
24 objectives established by section 1 of the Act.



Ontario Energy Board

**Application form for Applications under Section 86 of the *Ontario Energy Board Act, 1998***



**PART I: GENERAL INFORMATION**

**1.1 Nature of Applications:**

(A) under section 86(2)(b), the applicant is Hydro One Inc. (the “Purchaser” or “HOI”) and the other party is The Corporation of the City of Woodstock (the “Vendor” or “City of Woodstock”), regarding the acquisition by HOI of all of the shares of Woodstock Hydro Holdings Inc. (“WHHI”), the parent company of the distributor Woodstock Hydro Services Inc. (“WHSI”); and

(B) under section 86(1)(a), WHSI applies for leave to transfer its distribution system to Hydro One Networks Inc.’s (“Hydro One”) distribution company;

**1.1.1 Application Type**

- ☒ For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))
- ☐ For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))
- ☐ For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))
- ☐ For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))
- ☒ For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

**1.1.2 Notice under section 80 or 81 of the Act**

Is a notice of proposal required under section 80 or 81 of the Act?

- ☒ Yes
- ☐ No

If yes, the applicant must also file a completed “Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*” with the Board.

## 1.2 Identification of the Parties

### 1.2.1 Name of Applicant

Legal name of the applicant: Hydro One Inc. ("HOI")

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Engelberg	Michael	
Other	<input type="checkbox"/>			Title/Position		
				Assistant General Counsel		

Address of Head Office: 483 Bay Street

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
(416) 345-6305	(416) 345-6972	<a href="mailto:mengelberg@HydroOne.com">mengelberg@HydroOne.com</a>	

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Nettleton	Gord	
Other	<input type="checkbox"/>			Title/Position		
				Counsel		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
403-260-3622	(416) 345-6972	<a href="mailto:gnettleton@mccarthy.ca">gnettleton@mccarthy.ca</a>	

Legal name of the applicant in (B): Woodstock Hydro Services Inc..

*The transaction which is the subject of the application by WHSI under s. 86(1) occurs following the acquisition of WHSI's parent by HOI and is contingent on approval of the application by HOI. under s.86(2). The address given for the applicant WHSI below is the address of the Vendor to which all notices should be directed for WHSI as applicant. However, WHSI, the currently licenced distributor, is represented by J. Mark Rodger of the law firm Borden Ladner Gervais and he should be considered the primary contact for WHSI with respect to the*

application under s. 86(2). With respect to the s.86(1) application, the primary contact named below is a Director of WHSI and is available at the phone and fax numbers indicated.

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Creery	David	
Other	<input type="checkbox"/>					
				Title/Position		
				CAO		

Address of the City of Woodstock: 500 Dundas Street

City	Province/State	Country	Postal/Zip Code
Woodstock	Ontario	Canada	N4S 0A7
Phone Number	Fax Number	E-mail Address	
(519) 539-2382 x2101	519-539-3275	dcreery@cityofwoodstock.ca	

Address of Primary Contact for WHSI in relation to s. 86(2) application: Borden Ladner Gervais LLP, Scotia Plaza, 40 King St. W., Toronto, Ontario, M5H 3Y4

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Rodger	Mark	
Other	<input type="checkbox"/>					
				Title/Position		
				Partner		

  

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5H 3Y4
Phone Number	Fax Number	E-mail Address	
(416) 367-6190	(416) 361-7088	<a href="mailto:mrodger@blg.com">mrodger@blg.com</a>	

Other Party to the Transaction (if more than one attach a list)

Name of the other party: The Corporation of the City of Woodstock

Name of Primary Contact:

Mr.	<input checked="" type="checkbox"/>	Mrs.	<input type="checkbox"/>	Last Name	First Name	Initial
Miss	<input type="checkbox"/>	Ms.	<input type="checkbox"/>	Sobeski	Pat	
Other	<input type="checkbox"/>					
				Title/Position		
				Mayor		

Address of Head Office: 500 Dundas Street

City	Province/State	Country	Postal/Zip Code
Woodstock	Ontario	Canada	N4S 0A7
Phone Number	Fax Number	E-mail Address	
(519) 539-2382 x2102	(519) 539-3275	psobeski@cityofwoodstock.ca	

Name of the other party: Hydro One Networks Inc.

Name of Primary Contact:

Mr. <input type="checkbox"/>	Mrs. <input type="checkbox"/>	Last Name	First Name	Initial
Miss <input type="checkbox"/>	Ms. <input checked="" type="checkbox"/>	Henderson	Erin	
Other <input type="checkbox"/>		Title/Position		
		Sr. Regulatory Coordinator		

Address of Head Office: 483 Bay Street, South Tower, 7th Floor

City	Province/State	Country	Postal/Zip Code
Toronto	Ontario	Canada	M5G 2P5
Phone Number	Fax Number	E-mail Address	
(416) 345-6948	(416) 345-5866	<a href="mailto:regulatory@HydroOne.com">regulatory@HydroOne.com</a>	

### **1.3 Description of the Business of Each of the Parties**

- 1.3.1 Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").

#### **Woodstock Hydro Services Inc. ("WHSI")**

WHSI owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution Licence ED-2003-0011 (a copy of which is provided in **Exhibit A, Tab 3, Schedule 1 Attachment 1**). WHSI also provides water and waste water billing for the County of Oxford for Woodstock residents.

WHSI is, at the date of this application, a wholly-owned subsidiary of Woodstock Hydro Holdings Inc. ("WHHI"), a holding company, itself wholly-owned by the City of Woodstock.

#### **Hydro One Inc. ("HOI")**

Hydro One Inc. is wholly-owned by the Province of Ontario and is the parent company of Hydro One Networks Inc., Hydro One Brampton Networks Inc., Hydro One Remote Communities Inc., Norfolk Power Distribution Inc. and Hydro One Telecom Inc.

#### **Hydro One Networks Inc. ("Hydro One")**

Hydro One is a wholly-owned subsidiary of HOI and is the largest transmitter and distributor of electricity in Ontario. Hydro One's distribution company serves approximately 1.2 million customers. Customers include local distribution companies, customers with load exceeding 5 MW, and rural and urban customers. Distribution assets as at December 31, 2013, had a net book value of \$5.6 billion. Hydro One owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution Licence ED-2003-0043 (a copy of which is provided in **Exhibit A, Tab 3, Schedule 1, Attachment 2**). Hydro One also has a regulated transmission business owning 97% of transmission in Ontario with almost 30,000 km of high-voltage transmission lines.

#### **Hydro One Inc. – Norfolk Power Distribution Inc.**

Hydro One Inc. – Norfolk Power Distribution Inc. owns and is responsible for the operation, maintenance, and management of the assets associated with the distribution of electrical power and energy for approximately 23,000 customers in both urban and rural areas of Norfolk County. Hydro One recently acquired all issued and outstanding shares of Norfolk Power Distribution Inc. as approved by the OEB in EB-2013-0196/EB-2013-0187/EB-2013-0198.

#### **Hydro One Brampton Networks Inc.**

Hydro One Brampton Networks Inc. is HOI's urban distribution company serving customers in the GTA.

#### **Hydro One Remote Communities Inc.**

Hydro One Remote Communities Inc. operates a small, regulated generation and distribution system serving remote communities across Northern Ontario that are not connected to Ontario's electricity grid.

HOI's other business segment is represented primarily by the operations of **Hydro One Telecom Inc.**, which markets dark and lit fibre-optic capacity to telecommunications carriers and commercial customers with broadband network requirements. The assets of this segment, including Hydro One Telecom Inc., constituted approximately \$974 million of HOI's total assets of \$22 billion as at December 31, 2013.

*Note the Share Purchase Agreement is structured between The Corporation of the City of Woodstock, 1908873 Ontario Inc. and Hydro One Inc. 1908873 Ontario Inc. was used to allow for tax efficient integration of the two corporate structures. The shares held by 19088773 Ontario Inc. will be transferred to HOI after closing. As such, this OEB application has referenced the transaction as between HOI and the Corporation of the City of Woodstock.*

- 1.3.2 Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.

**Woodstock Hydro Services Inc.**

As defined in Schedule 1 to its Distribution Licence, WHSI serves the geographical territory described as follows (the "WHSI Service Territory"):

- (a) The City of Woodstock as of September 1, 1997
- (b) Boot Hill Development located on part of lots 3, 7, 8, 11, 12, 13 and registered plan 86 and 501.
- (c) Three customers on Mill Street with civic address numbers 388, 390 and 410.

**Hydro One Networks Inc.**

See Hydro One's Electricity Distribution Licence ED-2003-0043 (**Exhibit A, Tab 3, Schedule 1 Attachment 2**), Schedule 1 for a Definition of its Distribution Service Area.

The attached map (**Exhibit A, Tab 3, Schedule 1, Attachment 3a**) is a representation of Hydro One's distribution service territory. It is not a substitute for the written description in its Electricity Distribution Licence ED-2003-0043. The map is accurate where local distribution companies' ("LDC") boundaries conform to existing or former municipal boundaries but is only a best-efforts representation in locations where there have been annexations or, for other reasons, the LDC boundaries are different from current or former municipal boundaries.

- 1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

**Woodstock Hydro Services Inc.**

WHSI's distribution system serves approximately 15,534 Residential and General Service customers in the WHSI Service Territory.

The following table provides a summary of the number of customers and connections by customer class for 2013:

Rate Class	Number of Customers
Residential	14,113
General Service < 50 kW	1,227
General Service 50 to 999 kW	188
General Service > 1,000 kW	6
Street Lighting	4,376
Unmetered Scattered Load	131
<b>Total</b>	<b>20,041</b>

**Hydro One Networks Inc. - Distribution**

Hydro One's distribution system serves approximately 1.2 million customers in its Service Territory.

The following table provides a summary of the number of customers in each Hydro One rate class:

Rate Class	Number of Customers
Urban Density Residential (UR)	140,540
Medium Density Residential (R1)	412,455
Low Density Residential (R2)	367,107
Seasonal Residential	156,901
General Service Energy Billed (GSe)	98,776
General Service Demand Billed (GSd)	7,361
Urban Density General Service Energy (UGe)	10,577
Urban Density General Service Demand (UGd)	1,130
Street Lights	5,234
Sentinel Lights	37,506
Distributed Generation (DGen)	88
Sub Transmission (ST)	607
<b>Total</b>	<b>1,238,282</b>

- 1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

If the Board grants approval to section 86(2)(b) as stated above, Hydro One requests that the Board grant leave to either transfer or assign WHSI's distribution licence in accordance Section 18 of the *Ontario Energy Board Act, 1998* to reflect the fact that the WHSI service territory will be operated and maintained by Hydro One.

- 1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

Please refer to **Exhibit A, Tab 3, Schedule 1, Attachments 4 and 5** for corporate charts of the Purchaser and the Vendor, respectively.

#### 1.4 **Description of the Proposed Transaction**

- 1.4.1 Please provide a detailed description of the proposed transaction.

On May 21, 2014, the City of Woodstock (as Vendor) and HOI (as Purchaser) entered into a Share Purchase Agreement (the "Agreement"), whereby the Vendor agreed to sell, and the Purchaser agreed to purchase, all of the issued and outstanding shares of WHHI (the "Purchased Shares"). The Agreement stipulates that the purchase price will be \$46.2 million for the issued and outstanding shares of WHHI. This will comprise of a cash payment of approximately \$29.2 million and the assumption of approximately \$17.0 million of existing short and long-term debt. The Agreement contemplates the transaction closing 90 days following the Parties' receipt of all required approvals, including Ontario Energy Board approval of this Application under sections 86(2) and 86(1) of the *Ontario Energy Board Act, 1998*.

A copy of the signed Agreement is attached hereto as **Exhibit A, Tab 3, Schedule 1, Attachment 6**. The Agreement contemplates the following items in addition to the sale of the Shares:

- (a) WHSI will apply to the OEB for approval to include a negative rate rider to WHSI's electricity rates (effective May 1, 2014) to reduce base delivery distribution rates by one per cent across all rate classes, and to have such reduced rates apply for the next five years (please see **Exhibit A, Tab 2, Schedule 1, Section 1.2** of this application for further details).
- (b) During the period in which the negative rate ride is in effect, Hydro One and WHSI intend to transfer the WHSI's regulated distribution system assets so that they are owned, integrated and form part of Hydro One's existing distribution system. The parties therefore seek to have WHSI's Electricity Distribution Licence ED-2003-0011, and Rate Orders, transferred and assigned to Hydro One. Asset transfer and integration steps are expected to occur within 18 months of the close of the Agreement.
- (c) Following the effective period for the negative rate rider, Hydro One expects to apply to harmonize these rates with Hydro One's revenue requirement. The rebasing and rate harmonization application is expected to take effect in 2020 and will be based on then-prevailing forecast costs as discussed **Exhibit A, Tab 2, Schedule 1, Section 2**.
- (d) The Purchaser or an affiliate shall offer all active employees of WHHI and/or WHSI continued employment in the city of Woodstock for at least one year post-closing.
- (e) The Purchaser and the Vendor shall establish an advisory committee (the "**Advisory Committee**") to provide a forum for communication between the Purchaser and the Vendor. In establishing the Advisory Committee, the Purchaser shall select one senior official and one local official as its representatives, in consultation with officials of the Vendor. The Vendor has the right to appoint at least three Representatives to the Advisory Committee.
- (f) If, three years after closing, the three-year average for service reliability and customer service standards levels of the current WHSI is below the current three-year reported average prior to



closing, the Purchaser shall make a single payment to the Vendor in the amount of \$200,000, to be used for community purposes, including charities.

- (g) The purchase price is subject to adjustment within 90 days following closing, for Working Capital, Net Fixed Assets, and Long-Term Debt, as defined in the Agreement.

The rate base value of the assets to be transferred as a result of this transaction is approximately \$26 million.

- 1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

As described in section 1.4.1, the total purchase price is \$46.2 million. The Agreement outlines three types of adjustments to the purchase price: (i) Working Capital, (ii) Net Fixed Assets, and (iii) Long Term Debt, as defined in the Agreement. These adjustments will be calculated within 90 days following closing.

- 1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

Please refer to the following attachments to **Exhibit A, Tab 3, Schedule 1** for a copy of the audited financial statements for the past two most recent years:

- **Attachment 7** 2013 Hydro One Inc. Consolidated
- **Attachment 8** 2012 Hydro One Inc. Consolidated
- **Attachment 9** 2013 Hydro One Networks Inc. - Distribution
- **Attachment 10** 2012 Hydro One Networks Inc. - Distribution
- **Attachment 11** 2013 Woodstock Hydro Services Inc.
- **Attachment 12** 2012 Woodstock Hydro Services Inc.

Note that although the City of Woodstock is a party to this transaction, its financial statements have not been included, as they are not relevant to the transaction.

- 1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

The proposed transaction will not have a material impact on Hydro One's financial position. The price is less than 1% of Hydro One's Distribution's net fixed assets.

## 1.5 **Documentation**

- 1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

### HOI

Information which HOI has filed to the Ontario Securities Commission is publicly available through SEDAR ([www.sedar.com](http://www.sedar.com)).

WHSI

This corporation does not file any material with securities commissions.

- 1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

A copy of the Share Purchase Agreement is provided in **Exhibit A, Tab 3, Schedule 1, Attachment 6**. Please note that the Agreement has been redacted to remove any “personal information” within the meaning of the *Freedom of Information and Protection of Privacy Act* (Ontario) and pursuant to section 42 of that Act such information should not be released publicly.

A copy of the resolution of the City of Woodstock dated May 21, 2014 authorizing the sale of shares to Hydro One Inc. is provided as **Exhibit A, Tab 3, Schedule 1, Attachment 13**.

- 1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

WHSI, currently operates under Electricity Distribution Licence ED-2003-0011. Hydro One's Electricity Distribution Licence is ED-2003-0043.

Please see **Exhibit A, Tab 2, Schedule 1 Section 4.0** for compliance related matters.

**1.6 Consumer Protection**

- 1.6.1 Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.

As mentioned above, WHHI is a holding company, which is wholly-owned by the Vendor. WHHI in turn wholly owns WHSI, a licenced electricity distributor. HOI's purchase of the shares from the Vendor (as described in section 1.4.1 and the Agreement) will therefore result in a change of control of WHHI, and consequently, a change in control of the distributor WHSI.

- 1.6.2 Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.

As discussed in section 1.4.1, as a result of the proposed transaction, WHSI is applying to the Board for approval to include a negative rate rider to WHSI's approved 2014 rates (EB-2013-0182) to give effect to a 1% reduction to 2014 base electricity distribution delivery rates for five years (exclusive of rate riders) (see **Exhibit A, Tab 2, Schedule 1, Section 1.2**). This would provide a benefit to WHSI ratepayers. At the conclusion of the rate reduction and rate freeze period, Hydro One proposes to set WHSI's base electricity distribution delivery rates using a Price Cap Index adjustment mechanism which is further discussed in Section 1.6.5 of this Exhibit.

The existing customers of Hydro One will also be held harmless from this transaction. Hydro One has

applied for 2015-2019 rates under the Custom Incentive Ratemaking regime (EB-2013-0416). That application was based on Hydro One's existing customer base and did not include any capital or OM&A costs associated with serving customers and/or maintaining or operating assets for any acquired LDC, including WHSI. As such, there will be no impact on Hydro One's existing customers with respect to price. In addition, in the long term, because the fixed costs of operations will be spread over a wider customer base, Hydro One customers will see a small price benefit.

Hydro One is committed to maintaining the quality, reliability and adequacy of electricity service in the current WHSI service territory. Please see **Exhibit A, Tab 2, Schedule 1 Section 1** for information on how this transaction provides consumer protection,

- 1.6.3 Please describe the steps, including details of any capital expenditure plans that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

Through the share acquisition described herein, the acquired WHSI assets will be fully integrated with Hydro One's assets to ensure the safe and secure operations and system integrity for both the acquired customers and the neighbouring Hydro One customers. The assets will be maintained and operated by Hydro One in the same fashion and to the same standards as Hydro One's current assets. The acquisition will not adversely affect operational safety or system integrity. For more information, please refer to **Exhibit A, Tab 2, Schedule 1 Section 1.3**.

- 1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

Hydro One will use its Asset Risk Assessment ("**ARA**") process to determine capital expenditure required for operating and maintaining the current WHSI service territory to provide the same or better quality and reliability as customers experience today.

In performing maintenance on the acquired WHSI distribution system, Hydro One's system standards will be used. Hydro One will thereby be able to serve the customers of WHSI with the same level of service Hydro One provides its existing customers by virtue of the existing customer service practices and policies of Hydro One.

Electric utility service to customers currently served by WHSI will remain subject to OEB rules and regulations governing all Ontario distributors.

Reliability will be maintained from the use of existing and required resources and as a result response times are not expected to be affected

- 1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

As industry rates evolve over the next ten years, Hydro One expects to file a rate application consistent with the OEB rate-making principles (e.g. fair, practical, clear, rate stability and effective cost recovery of revenue requirement). The rate application at that time may propose: (i) to create new acquired customer rate classes; (ii) to move acquired customers to an appropriate Hydro One rate class existing at that time; or (iii) some other option. Hydro One will assess which of these approaches will be adopted at the time of setting new rates for the current WHSI, considering the bill impact on both legacy and acquired customers. Some considerations in deciding on rate strategies

include the number and characteristic of the acquired utilities, customer growth in the acquired utilities and potential development within the electricity regulatory arena in Ontario.

If required, Hydro One will have also maintained the ability to have a separate revenue requirement for WHSI, by, as mentioned previously, separately tracking all costs associated with this business.

Whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate applications will be subject to OEB approval and will satisfy the Board's "Filing Requirements for Electricity Distribution Rate Applications". Hydro One proposes to retain two separate rate schedules for customers in each of the service areas – i.e. those currently served by Hydro One and those currently served by WHSI, until the time that Hydro One applies to rebase WHSI's rates, between years 6 and 10 of the deferred rebasing period. Please see **Exhibit A, Tab 2, Schedule 1, Sections 1.2 and 2.0** for further details on rate setting and harmonization.

In years 6 to-10, Hydro One is applying for approval to continue to have rates for WHSI's customers based on the Board's current Price Cap Index adjustment mechanism for the extension period (i.e., years 6-10 following the close of the transaction and following the initial 5-year rate freeze period). Additionally, Hydro One is applying to implement an earning sharing mechanism ("ESM") in years 6 to 10 consistent with the description found in the Board's Amended Report. If required, Hydro One would avail itself of the incremental capital module during the deferred rate rebasing period. Please see **Exhibit A, Tab 2, Schedule 1, Sections 3.0** for further details on the earnings sharing mechanism and the Price Cap Index adjustment mechanism.

- 1.6.6 If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five-year limit set by the Board.

The proposed transaction does not contemplate an amalgamation.

For details on Hydro One's rebasing strategy, please see **Exhibit A, Tab 2, Schedule 1, Section 2.0**.

- 1.6.7 Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.

The transaction will not result in a new utility.

Incremental costs associated with the transaction include costs incurred for due diligence, to negotiate and complete the transaction, costs associated with all necessary regulatory approvals, and the integration costs to transfer the customers into Hydro One's customer and outage management systems. These costs (estimated to be \$2.5 to \$4 million) will be incurred during the rate-freeze period, will be financed through productivity gains associated with the transaction, and will not be included in Hydro One's distribution revenue requirement and thus will not be funded by ratepayers.

- 1.6.8 Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.

Please see **Exhibit A, Tab 2, Schedule 1 Section 1.2.1** for changes/impacts on the total bill as a result of this transaction. Detailed calculations of these bill impacts can be found in **Exhibit A, Tab 3, Schedule 1, Attachment 14**.

Hydro One is requesting to extend WHSI's Rate Rider for "Recovery of Incremental Capital" effective until April 30, 2015 to be effective until the effective date of the next cost of service application . Please see **Exhibit A, Tab 2, Schedule 1, Section 1.2.2** for further details.

- 1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

WHSI's distribution customers will experience no harm from this transaction. There will be no additional costs to the customers of the parties to the proposed transaction. To the contrary, and as stated in **Section 1.6.2**, the customers will have the benefit of a negative rate rider requested in this Application and have their rates frozen at that reduced level for the next five years.

Hydro One's current customers will continue to enjoy the same service they receive now. In the long term, because fixed costs of operations will be spread over a wider customer base, Hydro One customers will see a small price benefit.

This transaction meets the Board's five objectives as set out in Section 1 of the Act as described in **Exhibit A, Tab 2, Schedule 1, Section 1**.

## 1.7 **Economic Efficiency**

- 1.7.1 Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.

Please see **Exhibit A, Tab 2, Schedule 1, Section 1**.

## 1.8 Financial Viability

- 1.8.1 Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.

The Purchaser and the Vendor have entered into a Share Purchase Agreement whereby the Purchaser will be purchasing all of the shares of WHHI, which owns all of the shares of WHSI. The Vendor also retained the services of Henley International Inc. ("Henley") to advise and assist in evaluating the financial offer from Hydro One which has resulted in the sale of the shares of WHHI. The Vendor is satisfied that the price to be received is fair and reasonable, based on staff and Henley review.

The Purchaser considered the financial statements, as well as cash flow projections, an assessment of asset condition, one-time costs of integration and potential efficiency gains in assessing the value of the business.

Please refer to **Section 1.6.2** for discussion regarding future rate levels.

- 1.8.2 If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.

The premium paid over the book value on the transaction will not have a material impact on HOI's financial viability. In addition, the premium paid over the net book value of the assets will not be recovered through Hydro One rates.

- 1.8.3 Please provide details of the financing of the proposed transaction.

HOI will initially finance the proposed transaction through cash or its short-term commercial paper program, which is operational and fully backed by a syndicated bank line of credit maturing June, 2019. Long-term financing will be through its Medium-Term Note program, which is fully operational and valid until October, 2015, and planned to be renewed thereafter.

- 1.8.4 If the proposed transaction involves a leasing arrangement, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.

This transaction is for a share purchase.

- 1.8.5 Please outline the capital (debt/equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.

The premium paid over the book value on the transaction will not have a material impact on Hydro One's or HOI's financial viability. In alignment with Board practice and as referred to in Board Staff's Discussion Paper on Rate Making Associated with Distributor Consolidation, the premium paid over the net book value of the assets will not be recovered through Hydro One rates.

- 1.8.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.

Certain environmental matters were disclosed by the Vendor as part of the due diligence process and as part of its disclosures under the Agreement. Liability for these matters remains momentarily with WHSI until the properties subject to the environmental concerns are transferred to the Purchaser through the contemplated share transfer. HONI manages a distribution business throughout the Province with similar assets to WHSI and has programs in place to deal with any relevant safety and environmental matters.

## 1.9 Other Information

- 1.9.1 If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.

A copy of the resolution authorizing the sale of shares to HOI is provided as **Exhibit A, Tab 3, Schedule 1, Attachment 13.**

- 1.9.2 Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.

There are none associated with the parties to this Application related to this transaction.

- 1.9.3 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

The current net metering thresholds of Hydro One and WHSI are 14,330 kW and 730 kW respectively. There are no special circumstances that warrant the Board using a different methodology to determine the net metering threshold for each utility. Therefore, Hydro One and WHSI submit that individual CDM targets for both Hydro One and WHSI should remain separate.

- 1.9.4 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

This transaction was completed on a commercial basis between a willing seller and a willing buyer. It is a demonstration of the type of benefits that can be realized from consolidation within the electric distribution sector in Ontario and is consistent with the findings of the Sector Review Panel. This transaction eliminates the duplication of effort between Hydro One and WHSI and results in a single electric distribution service provider for all of the regional area, which will ultimately lead to a lower cost of service across the combined service areas and will create downward pressure on electricity distribution rates.



## PART II: CERTIFICATION AND ACKNOWLEDGMENT

### 2.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual	Print Name of Key Individual	Title/Position
Original Signed by Ian Malpass for Susan Frank	<u>Susan Frank</u>	<u>Chief Regulatory Officer</u>
	Date <u>July 9, 2014</u>	Company <u>1908873 Ontario Inc.(HO)</u>

Signature of Key Individual	Print Name of Key Individual	Title/Position
Original Signed By	<u>Pat Sobeski</u>	<u>Mayor</u>
	Date <u>July 9, 2014</u>	Company <u>The Corporation of the City of Woodstock</u>

Signature of Key Individual	Print Name of Key Individual	Title/Position
Original Signed By	<u>Elizabeth Carswell</u>	<u>Manager, Internal Services</u>
	Date <u>July 9, 2014</u>	Company <u>Woodstock Hydro Holdings Inc.</u>

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.) TOR01: 5157356: v2