



Jay Shepherd

Professional Corporation
2300 Yonge Street,
Suite 806
Toronto, Ontario M4P 1E4

BY EMAIL and RESS

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Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2014-0213 – Hydro One/Woodstock MAADs

We are counsel for the School Energy Coalition. Pursuant to the Board's directions in this matter, this constitutes SEC's final argument in this proceeding.

This argument is organized in two sections. The first deals with the four factors relevant to the "no harm" test, and concludes that the test has not been met. The second deals, in the alternative, with the conditions SEC believes the Board should place on any approval of the transaction.

Summary of Recommendations

1. ***Denial of Approval.*** The Board should reject the Application as having failed to meet the "no harm" test in four areas:
 - a. As proposed by Hydro One, Woodstock customers will not be protected with respect to prices, as Hydro One does not propose to maintain separate cost records sufficient to allow the Board, in year 10, to assess the actual costs to serve Woodstock customers.
 - b. Woodstock customers will be at risk for reliability declining to Hydro One levels, and will have no protections against that. Further, Hydro One proposes that it will not



- maintain separate reliability information during the deferred rebasing period to allow the Board to take steps to protect Woodstock customers on reliability.
- c. Woodstock customers will be at risk for customer service declining to Hydro One levels, and will have no protections against that. Further, Hydro One proposes that it will not maintain separate customer service information during the deferred rebasing period to allow the Board to take steps to protect Woodstock customers on customer service.
 - d. Hydro One will be acquiring and subsuming the province's best CDM performer amongst all of the electricity distributors, and has no plan or expectation that it will be able to continue the stellar CDM performance of Woodstock Hydro. CDM performance will almost inevitably go down closer to Hydro One's poor performance levels.
2. **Alternative – Approval with Conditions and Restrictions.** If the Board decides to approve the transaction, it should impose the following directions and conditions:
- a. **Record-Keeping and Reporting.** Hydro One should be required to retain, and file annually, full information on the Woodstock service territory with respect to:
 - i. Cost of service, achieved ROE, and overearnings/savings if any;
 - ii. Reliability indices;
 - iii. Customer Service indices;
 - iv. CDM performance.
 - b. **Length of Deferred Rebasing Period.** The deferred rebasing period approved should be for a fixed term of ten years from closing of the transaction, unless the Applicant can demonstrate at the time of an earlier application that there has been a material change in circumstances relating to the Woodstock service territory that justifies an earlier rebasing.
 - c. **Ratemaking During Deferred Rebasing Period.** The Board should make clear that both Woodstock Hydro and Hydro One will be subject to the 2015 MAADs Policy until the end of the deferred rebasing period. That means that the Woodstock rates will be set on an IRM basis in years 6-10, and Hydro One, once it finishes its current Custom IR plan in 2018, will go on IRM for years 4-10. In the alternative, the Board should defer consideration of the ten year deferral request until it has had a chance to clarify the 2015 MAADs Policy in this respect. In that case, our prior recommendation on fixing the ten year deferral period would also be deferred.
 - d. **Year Six Rate Increase.** Deny the proposal of the Applicant to increase Woodstock rates by 1% in year six (in addition to the Price Cap IR increase), for the reasons set forth in the Final Argument of Board Staff.



- e. **Revision of Existing ICM.** The Board should order that the ICM rider be amended, as part of the approval of this transaction, so that it as closely as possible tracks the likely revenue requirement for the ICM capital during the deferred rebasing period.
- f. **Earnings Sharing Mechanism.** The Board should make clear in its decision that it is the earnings relative to the Woodstock service territory, calculated on a stand-alone basis as discussed earlier, that should be subject to earnings sharing. Further, the Board should specify that it is the ratepayers in the Woodstock service territory with whom over-earnings should be shared.
- g. **Reliability Outcomes.** Rates to Woodstock customers should not be allowed to increase in any year until the reliability metrics for three consecutive years under Hydro One management have been shown to be as good as, or better than, the reliability metrics for Woodstock Hydro in their most recent scorecard prior to closing.
- h. **Customer Service Outcomes.** Rates to Woodstock customers should not be allowed to increase in any year until the customer service metrics for three consecutive years under Hydro One management have been shown to be as good as, or better than, the customer service metrics for Woodstock Hydro in their most recent scorecard prior to closing.
- i. **CDM Outcomes.** Rates to Woodstock customers should not be allowed to increase in any year until CDM performance relative to its annual targets is at least 100% for three consecutive years under Hydro One management.

The “No Harm” Test

- 3. **General.** SEC submits that there are four main factors to be considered in this case in assessing the “no harm test”:
 - a. Cost, price and rates;
 - b. Reliability;
 - c. Customer Service;
 - d. CDM.

In our submission, failure of the Applicant Hydro One to comply with the “no harm” test with respect to any of these four areas is fatal to their Application. Unless they are prepared to make binding commitments to ensure that the forecast harm will not occur, or the Board imposes conditions to that effect, then in our submission the Board should not approve the Application.

- 4. Further, SEC submits that the onus is on the Applicant to provide evidence demonstrating that the “no harm” test is met in these four areas. As will be clear from our later comments, SEC believes that Hydro One has failed to meet that onus, and is instead relying on an implicit “we’re Hydro One, so everything is OK” approach. This in our view, is not a substitute for proper evidence.



5. **Cost, Price and Rates.** The Board has been clear that its analysis of the “no harm” test with respect to rates is driven by “an analysis of cost structures”¹. SEC has, in past cases, posed the question whether an overall reduction in costs is sufficient if some ratepayers have higher rates, and others lower rates, as a result of the transaction. In our submissions in EB-2014-0244, we put it this way:

“SEC interprets the Board’s statements to mean that the no harm test is satisfied for costs and rates through what is essentially a two-stage test:

- 1. Will the overall costs to serve the directly-impacted customers (in this case, HCHI customers) stay the same or go down as a result of the transactions?*
- 2. If yes, then will those directly-impacted customers get the benefit of those lower costs when rates are re-set, or harmonized, in the future?*

Thus, SEC understands the Board to be saying that the HCHI customers will not have a rate increase that is directly caused by the transactions set forth in the Application.

The position of the Applicants on this is unclear, as – despite clear Board policy – the Applicants have refused to describe how rates will be set after the five year rate freeze.

SEC is concerned that the Applicants may be taking a more utilitarian view of costs and rates. We believe their actual position, and the basis on which they will propose rates in the future, is founded on the notion that as long as overall costs will go down across the entire Hydro One system as a result of the transactions, some ratepayers will benefit from those lower costs. This “greatest good for the greatest number” approach would say it is perfectly acceptable for HCHI customers to have higher, even much higher, rates in the future, as long as the net benefit to Hydro One legacy customers equals or exceeds the net increase to HCHI customers. On this theory, the “no harm” component is a total calculation for everyone, and some groups can be harmed in the interests of benefitting other groups.

Another way of putting the Hydro One position, consistent with their carefully worded Application and interrogatory responses, is that it is not a two-stage, but a three-stage, process:

- 1. The overall costs to serve all Hydro One and HCHI customers will go down.*
- 2. The costs allocated to HCHI must be increased to Hydro One levels, which are much higher than HCHI levels (a 53.6% increase, based on*

¹ EB-2014-0244 Hydro One/Haldimand, Decision with Reasons, p. 6.



the 2013 Scorecard results as set forth in Ex. I-2-2). This is based on the “postage stamp rates” principle that Hydro One has followed in the past.

3. *Then, the cost savings associated with the acquisition (and any other acquisitions in the current period) will be applied (likely no more than 1-2%, given the overall size of Hydro One).*

This scenario, which is exactly what Hydro One did when it harmonized the rates for the LDCs it acquired in the 1999-2002 period, has a net benefit for all customers based on the \$2-3 million annual cost savings from the acquisition. However, the HCHI customers get a big increase, and the legacy Hydro One customers get a small decrease.”²

6. We continue to believe that this distinction will have to be addressed. Our understanding of both the Norfolk and Haldimand decisions is that the Board agrees the costs to serve the acquired customers are key to their future rates, and to satisfaction of the “no harm” test. In the Haldimand case, the Board said:

*“With respect to future rates, in the Hydro One/Norfolk proceeding **the OEB provided a clear indication that it expected that future rates would be reflective of the costs to serve the Norfolk service area.** The OEB has the same expectation of Hydro One with respect to Haldimand in the context of this acquisition. Future Panels of the OEB will be guided in their decisions in setting rates by these expectations and the realities of the rate setting environment at the time of rebasing.*

*OEB Staff has submitted that the decision in the current case should be conditional on Hydro One filing a report on the actual savings and costs associated with the Haldimand service area, at the time it applies for rates encompassing the Haldimand service area. **The OEB finds that such a report would be helpful in informing the OEB’s future decisions on rates for the Haldimand service area.**”³ [emphasis added]*

7. In a very difficult cross-examination of the Hydro One witnesses⁴, SEC – even with the assistance of Board members - was unable to get a clear answer on whether Hydro One is keeping the appropriate records with respect to Norfolk and Haldimand⁵, and whether it

² EB-2014-0244, SEC Submissions.

³ EB-2014-0244 Hydro One/Haldimand, Decision with Reasons, P. 12.

⁴ Tr. 2:47-70.

⁵ In fact, when we asked about the Norfolk records, Hydro One’s counsel objected to the question as being out of scope, which technically is a fair point. When the time comes to rebase Norfolk, we fully expect Hydro One to say that they applied the interpretation of the Norfolk decision that they thought was correct at the time, and it is now too late for them to advise the Board of the actual costs to serve Norfolk customers, in order to assist the Board in determining rates for those customers that are just and reasonable. If the Board rejects that interpretation in this decision, it may not be too late for the Haldimand customers.



plans to keep the appropriate records with respect to Woodstock. There is every reason to believe they are not, because they still do not accept the concept that the costs to serve the Woodstock customers will be relevant to the Board when it is later setting rates applicable to those customers.

8. There is danger of an important equivocation here. What are the costs to serve Woodstock customers?
9. One way of looking at it is on a location-specific basis. Certain activities have to take place in Woodstock, or in direct relation to Woodstock customers, for those customers to have electricity distributed to them. Certain very specific assets have to be used to provide that service. In addition to those things, there are some common costs that all Hydro One customers will bear, like Regulatory, Finance, Head Office building, etc. This is the way the costs associated with Hydro One Brampton have been calculated for years, and is one of the reasons why Hydro One Brampton customers have always had far lower distribution rates than any other Hydro One Networks Inc. customers.
10. The other approach is to say that each Woodstock customer has their fair share of all of the costs of Hydro One Networks Inc. in every category. This is the “postage stamp rates” approach to costs. It is the way costs are allocated between classes for ratemaking purposes, and is consistent with Hydro One’s approach to “harmonization across the board”. On this approach, it is irrelevant that the cost of the assets used for the Woodstock customers is lower than the cost of the assets for, say, the Smiths Falls customers. It is irrelevant if, due to geography and other factors, the operating costs directly incurred serving Woodstock customers are lower than in Smiths Falls.
11. The problem is that the second approach will always result in the costs to serve the Woodstock customers (or Norfolk, or Haldimand) being higher under Hydro One’s management than under Woodstock Hydro management. The reason is that the total Hydro One cost structure is notoriously higher than the cost structure of any other Ontario LDC.
12. Therefore, if the second approach to costs to serve is used, the “costs to serve” Woodstock customers will be higher on rebasing, and going forward they will receive the benefit of none – not one dime – of the savings arising out of the transaction. Instead, they will have a net dis-benefit.
13. SEC is concerned that this is just another step in the resistance of Hydro One to any actions that would protect acquired customers from high rate increases on harmonization. The history of this issue is that:
 - e. Initially, Hydro One did not want to have any discussion about rates on rebasing at all, and instead refused to even delineate the possible ways that rates might be harmonized.
 - f. Then, Hydro One argued that all customers would benefit from cost efficiencies, and that was enough to meet the “no harm” test.



- g. Faced with a requirement from the Board to record the costs to serve the acquired customers separately, Hydro One has chosen to interpret “costs to serve” in a manner⁶ that ensures the acquired customers will get no benefit from those cost efficiencies. Further, Hydro One proposes to keep the required separate records in a manner that will not allow the Board to see the real, separate costs to serve the acquired customers (the first approach, above), in the same manner as Hydro One Brampton.
14. In our view, this notion that, upon acquisition, the Woodstock customers suddenly become responsible for the higher costs to serve customers in other parts of the province, can only mean that the Woodstock customers are being set up for an inevitable, and unfair, rate increase. The Board keeps trying to tell Hydro One that future Board panels must be free to protect the acquired customers as to rates, but Hydro One is resisting at every turn. In this proceeding, for the first time, witnesses actually said that doing what the Board ordered in the Norfolk and Haldimand decision would defeat the purpose of consolidation. The cost efficiencies would be lost, the witnesses now say, if Hydro One has to keep separate cost information for Woodstock.
15. SEC believes that the Board must be in charge of these policies, not Hydro One, and continued resistance by Hydro One should be considered unacceptable.
16. There are, in our view, two ways the Board can deal with this. The first, outlined below, is to approve the transaction, but leave no room in the decision for continued resistance to the Board’s approach to its future ratemaking options. Establish clear conditions and directions as to record-keeping and reporting, so that Hydro One does not have any choice but to comply with the full spirit and intent of the Board’s direction.
17. The second option, and in our view the better one, is to reject the Application. Hydro One has the onus to show that its proposals meet the “no harm” test. As it proposes to interpret future harmonization options, the ratepayers of Woodstock will get a substantial rate increase, and the Board – through lack of information – will be powerless to stop it. Therefore, the “no harm” test is not met with respect to rates.
18. This is the preferred option for two reasons.
19. First, faced with rejection of this Application, Hydro One will have to re-think its approach to the Board on these matters. It can no longer try to get away with interpretations of Board decisions and policies that stretch the meaning of the words, and fail to take account of the Board’s intentions. The consequences would be seen to be more serious, so a more constructive approach is the likely result.
20. Second, and unique to this Application, it is common knowledge that there has been a change in the local government in Woodstock, and there is the very real possibility that, if the Application is rejected, the shareholder of Woodstock Hydro will no longer be willing to proceed with the transaction on its current terms. By rejecting the Application, the Board

⁶ See Tr.2:59, and many other places.



would be allowing the new, democratically-elected local government to decide whether the sale continues to be in the best interests of the town and its residents. If they decide to proceed in any case, then Hydro One would still be free to make another application for approval, with amendments that protect the acquired ratepayers and enforce the “no harm” test.

21. Therefore, SEC believes that the Board should reject the Application because it does not, as currently formulated, meet the “no harm” test with respect to costs, prices and rates.
22. **Reliability.** Concerned Citizens Against the Sale of Woodstock Hydro, Mr. Harding’s group, has highlighted the key issues on reliability on pages 4 to 6 of their submissions. We support those submissions.
23. Later in this Final Argument, SEC will propose conditions requiring separate monitoring and reporting of Woodstock reliability outcomes. However, for the purposes of determining whether the Application meets the “no harm” test on reliability, in our view the question is whether the evidence on the record shows that to be the case. The onus is on Hydro One, and in our submission they have failed to meet it.
24. There are two pieces of reliability evidence on the record:
 - h. The latest (2013) Yearbook data for reliability for Hydro One and Woodstock, which shows that Hydro One reliability is many times worse than the Woodstock reliability.
 - i. Hydro One’s statements, backed up by neither documentation nor calculations, that their reliability on their one Woodstock area feeder is better than the overall reliability of Woodstock Hydro.
25. In our view, this is far from meeting the required onus. The real data – from the Yearbook – implies that the Woodstock customers will be harmed. The data from a single Woodstock area Hydro One feeder is simply insufficient – both in scope and in evidentiary support – to overturn the inference from the Yearbook data. One feeder is not a reasonable sample.
26. We note that Hydro One could have provided more compelling evidence that they are even able deliver the reliability outcome Woodstock Hydro customers have come to expect. Hydro One currently serves dozens of communities similar to Woodstock, all over the province. It would have been a manageable task to measure the reliability statistics for all of those communities (if Hydro One can do one feeder, they can do 100), and demonstrate that, for similar communities, Hydro One is able to produce reasonable levels of reliability. We can only assume that they didn’t do this because the results would be unfavourable to Hydro One.
27. In our submission, Hydro One has not shown that they will meet the “no harm” test with respect to reliability. Therefore, SEC believes that the Board should reject the Application for this reason.



28. **Customer Service.** The proceeding did not include a lot of information on customer service levels before and after the acquisition. There is some, of which the clearest benefit stated by Hydro One was that Woodstock Hydro will now have 24/7 customer service availability.
29. Hydro One was very reluctant to get into its own, very public problems with customer service. As a result, the Board does not have a rich evidentiary base on which to assess the customer service prospects for the Woodstock customers.
30. What the Board does have is the scorecards, of which 2013 are the most recent. On the three measured results, Woodstock Hydro came out ahead on every one:

<i>Metric</i>	<i>Hydro One</i>	<i>Woodstock</i>
New Residential/Small Business Services Connected on Time	97.4%	99.6%
Scheduled Appointments Met On Time	98.4%	100.0%
Telephone Calls Answered On Time	63.9%	79.9%

31. For the other three metrics – First Contact Resolution, Billing Accuracy, and Customer Satisfaction Survey Results – Woodstock Hydro was unable to report them for the first year, as was the case with most other LDCs. However, given Hydro One's well documented billing problems, it is reasonable to assume that Woodstock Hydro will come out ahead on at least Billing Accuracy as well.
32. Thus, the publicly available information suggests that Hydro One has been unable to meet the Woodstock Hydro levels of customer service on ANY of the metrics in which there is a head to head comparison. It would therefore, in our view, be reasonable to infer from this that customer service levels will fall for Woodstock Hydro customers following the acquisition by Hydro One.
33. SEC therefore submits that, in the absence of evidence to demonstrate that Hydro One can at least meet Woodstock Hydro service levels, the Board should conclude that the "no harm" test has not been met with respect to customer service.
34. **CDM.** The most obvious area in which it is clear that the Woodstock Hydro customers will suffer harm is in the implementation of CDM programs. In 2013, Woodstock Hydro was the top performer in the province in kwh. saved, 177% of target⁷. While Hydro One sought, in oral evidence, to downplay that accomplishment⁸, the fact is that no-one else in the province was even close. The nearest performance was Hydro 2000 and Chapleau, at 141% and 140% of target respectively.

⁷ All figures from OEB 2013 CDM Results Report, Appendix A.

⁸ Tr.2:6-10.



35. Conversely, Hydro One was at 60%, number 66 out of 77 distributors listed. Hydro One only beat out 11 other LDCs, all of them among the smallest in the province. Coincidentally, every single one of the LDCs that are of a similar size to Woodstock (+/-20%), about a dozen of them, also out-performed Hydro One, some of them quite handily. This is despite the fact that a sizeable percentage of the customers Hydro One serves are in towns and small cities around the province.
36. Hydro One's first defence of this reality was that much of the Woodstock savings came about as a result of pre-2011 programs. Put another way, you can't say Woodstock Hydro is better at CDM than Hydro One, just because Woodstock Hydro and its ratepayers have been committed to conservation for decades. That would be an unfair comparison, apparently.
37. Hydro One also sought to muddy these pretty clear waters by alleging⁹ that Hydro One out-performed Woodstock Hydro in the Woodstock area. Hydro One was able to get a higher percentage of their 720 Woodstock areal customers (on that one feeder, discussed above) to participate in OPA programs than Woodstock Hydro did for their 15,777 customers. Four programs were not measured, two of them ones in which Woodstock Hydro did quite well. Apparently the data on those four was available for Woodstock, but not for Hydro One.
38. As with reliability, comparison to this small batch of customers is not really helpful, and particularly so in light of the fact that those very Hydro One customers would get the benefit of the advertising and marketing done by Woodstock Hydro in the rest of the community. Who knows which utility actually delivered these savings.
39. More useful would have been a report on Hydro One performance in towns similar to Woodstock. This was not offered, and given Hydro One's very poor CDM performance throughout the province, it is not difficult to surmise why that would be. In fact, achievement by Hydro One of Woodstock Hydro level CDM performance was seen by its witnesses to be simply impossible¹⁰.
40. Hydro One tried to make much of the fact that they would have more emphasis on residential, where Woodstock Hydro had more focus on commercial/industrial. No details were provided, and it did not appear to us that the witnesses were sufficiently familiar with the Woodstock area to know whether residential market penetration for conservation could be improved. No evidence was provided on this point.
41. SEC notes that Woodstock Hydro, and the City of Woodstock generally, have a long and proud history in conservation. Hydro One has no such history, and is not in a position to say that it can match – or even come close to – the level of performance and commitment that Woodstock Hydro has shown in the past¹¹. We note, further, that Hydro One has not made

⁹ J2.2, p. 3.

¹⁰ Tr.2:88.

¹¹ In fact, when Mr. Harding sought information on whether Hydro One even has someone responsible for CDM in the region, Hydro One's counsel sought to re-cast the question as about employment rather than about CDM, thus



any commitments, either in the Share Purchase Agreement or otherwise, to continue the stellar performance of Woodstock Hydro – or even any reasonable lesser level of performance - in the area of CDM.

42. In our view, it is therefore self-evident that the ratepayers of Woodstock will be harmed in terms of CDM results by the acquisition of Woodstock Hydro. This is a failure to meet the test that, while in some respects similar to reliability, customer service, and rates, is also different. Electricity conservation is a key policy central to this province's ability to meet its electricity needs over the long term. It has recently been reiterated by both the provincial government and this Board.

43. In our submission, allowing a demonstrably poor CDM performer to acquire the province's best CDM performer flies directly in the face of the Conservation First philosophy of this province¹². Implicitly, it rejects that policy. SEC believes that, on this ground alone, the Application should be rejected.

Conditions of Approval

44. **Introduction.** SEC recognizes that the Board is in a difficult position with respect to MAADs applications. On the one hand the provincial policy, and the policy of the Board, supporting distributor consolidation is crystal clear. Each Board panel must, to be consistent, strive to support that policy, one which most stakeholders, including SEC, believe is in the best interests of the ratepayers. On the other hand, in individual cases, particularly those involving Hydro One, it is not always clear that ALL affected ratepayers will benefit from the transaction. In these cases, as in past Hydro One transactions to acquire LDCs, there will be winners and losers. It is clearly a challenge to reconcile the notion of winners and losers with the strong policy supporting consolidation.

45. SEC therefore understands that the Board may, in support of the policy, prefer to approve the transaction even if the circumstances are not perfect. If the Board determines that it will approve the transaction, SEC submits, in the alternative, that the Board should impose conditions on Hydro One that ensure the Board's policies are followed, and the risk of harm to the ratepayers is minimized.

46. In this section of our submissions, we therefore propose a series of conditions and directions that we believe the Board should attach to any approval of Hydro One's proposed transaction to acquire Woodstock Hydro.

47. As a general comment, SEC notes that throughout the second day of the oral hearing, we felt like Hydro One and its witnesses were taking an overly technical, lawyer-like approach to

preventing an inexperienced cross-examiner from getting at the truth (even with the intervention of the Chair). See Tr.2:121-4.

¹² In this respect, this Application is different from Norfolk, which managed 80% of its CDM target, and Haldimand, which was at 90%. While in both cases the CDM in their areas will likely drop due to the acquisition by Hydro One, the result is not the same as removing the province's top performer.



interpreting the Board's policies. In each case, the words were being parsed, and an interpretation proposed that maximized the benefit to Hydro One.

48. SEC, in the analysis below, seeks to take a different approach. We are seeking to address the purpose of each aspect of the policy, and the interpretation of that policy that would be most consistent with that purpose. We are flagging that in an effort to get Hydro One, in their Reply, to take an equally purposive approach to the application of the Board's policies to this proposed transaction.
49. **Record-Keeping and Reporting.** As noted earlier in this Final Argument, the Board in the Norfolk and Haldimand decisions has sought to deal with some of the uncertainties relating to future "no harm" impacts on ratepayers – rates, reliability, etc. - by requiring robust record-keeping and reporting on a segmented basis. Hydro One is proposing to submerge Woodstock into its existing operation virtually immediately, such that there will be no separate information available on what is happening in Woodstock under Hydro One's management.
50. SEC believes that full financial and other key information for the acquired utility – including all costs to serve the acquired service territory on a standalone basis – should be maintained by Hydro One and reported annually to the Board until such time as rates and therefore costs are harmonized.
51. In our view, there are four categories of information that should be retained on a separate basis, matching the four factors to which the "no harm" test applies. Those four categories of information are:
 - a. Costs to serve the Woodstock service territory;
 - b. Reliability indices for the Woodstock service territory;
 - c. Customer service indices for the Woodstock service territory; and
 - d. CDM results for the Woodstock service territory.
52. With respect to the first item, costs, we note our earlier discussion on the equivocation with respect to the concept of costs. In our submission, all costs that would normally be included in the revenue requirement of an electricity distributor on a standalone basis should be recorded separately for Woodstock (and Norfolk, and Haldimand) during the deferred rebasing period. Those costs should include:
 - a. Direct operating costs, such as the personnel and overheads specifically applicable to the Woodstock service territory;
 - b. Indirect operating costs, such as head office and other costs, allocated in the same manner as Hydro One currently allocates such costs to Hydro One Brampton;
 - c. Direct capital costs, including depreciation, interest, ROE and PILs, arising from capital assets specifically applicable to the Woodstock service territory;
 - d. Indirect capital costs, such as the depreciation, cost of capital and PILs on shared equipment, allocated in the same manner as Hydro One currently allocates such costs to Hydro One Brampton.



53. The attachment to this Final Argument, which seeks to forecast exactly those costs, is a good example of the information that should be available to the Board from the separate financial records of Woodstock maintained by Hydro One. The Board should be in a position, for each year in the deferred rebasing period, to calculate the revenue requirement, the ROE, and any deficiency or sufficiency, for Woodstock alone.
54. SEC wants to point out that this is entirely about information, the primary tool used by the Board to set rates and make other decisions. There is no suggestion that the Board use the information in any predetermined way. The only suggestion is that Hydro One be required to maintain and report the information, so that the Board, in any future decisions affecting Woodstock, is able to make those decisions with a complete set of available evidence – a complete toolkit, in effect.
55. With respect to the other three categories of information, the need is more specific. As SEC will propose later, in our view the Board should impose a condition that minimum levels of reliability, customer service, and CDM performance be achieved in the Woodstock service territory during the deferred rebasing period, with penalties for failure to achieve those levels. In order to do so, it would be essential that Hydro One maintain records of this information during that period. Since Hydro One has to maintain those records for reliability and customer service to satisfy the terms of the Share Purchase Agreement, this is not an onerous requirement.
56. That leaves one question open: Should Hydro One be required to file this information with the Board on an annual basis? In SEC's submission, that should be the requirement, for three reasons.
57. First, we have already seen with the discussion of what the Board meant in Haldimand and Norfolk that Hydro One may keep records in a very different way from the manner intended by the Board. The danger is that, ten years later, the information will not be useful, and Hydro One will say "Sorry, that's how we interpreted your decision." Annual filing of the information will allow the Board to spot any problem of that nature early.
58. Second, these issues – cost, reliability, customer service, and CDM – are important matters, and any significant deviation of the actual results from the expected results may warrant immediate action, whether by Hydro One or by its regulator. If Hydro One is having a reliability problem in Woodstock, for example, both the Board and the Woodstock ratepayers should know about that as soon as possible.
59. Third, the industry is embarking on a new round of consolidation, and this segmented information from Hydro One (and presumably other consolidating entities down the line) will be valuable to the Board, the government, and stakeholders in understanding how consolidation is unfolding, and any problems that are arising. If the numbers are good, that will spur more consolidation, and perhaps convince reluctant vendors that after a MAADs transaction everything can in fact be better. If the numbers are bad, there will be an early opportunity to fix the problems, and in the meantime potential vendors will have been warned of what issues to look out for.



60. Once Hydro One is recording the information anyway, which seems to us to be a fairly obvious requirement, the additional work to file the information with the Board annually is minor, and certainly not much of a cost relative to the potential benefits.

61. Therefore, SEC submits that Hydro One should be required to retain, and file annually, full information on the Woodstock service territory with respect to:

- a. Cost of service, achieved ROE, and overearnings/savings if any;
- b. Reliability indices;
- c. Customer Service indices;
- d. CDM performance.

62. **Deferred Rebasing Period - Length.** Hydro One has amended their Application to seek the Board's approval for a ten year deferral before they are required to rebase, consistent with recent amendments to the Board's MAADs policy¹³. However, Hydro One also interprets the Board's MAADs policy as allowing them to return for rebasing early if they so choose¹⁴. That is, approval to stay out for ten years is, in their view, approval to stay out for any time up to ten years, in their discretion.

63. SEC has reviewed the policy, and agrees with Hydro One that the policy allows Hydro One to rebase earlier. The policy says¹⁵:

"Therefore, there is no requirement for the consolidated entity to wait until the deferred re-basing period is completed to apply to the OEB for re-basing."

64. However, it is important to note the purpose of that freedom. The Board makes clear that it is in the interests of the customers "for the consolidating entities to operate as one entity as soon as possible". The "consolidating entities" in this case are Woodstock Hydro and Hydro One¹⁶, so it is open to Hydro One and Woodstock to BOTH, jointly, come in for rebasing earlier than the ten years. It is not open for Hydro One to seek to rebase Woodstock without rebasing Hydro One at the same time.

65. We note also that this changes the benefit equation for the customers of Woodstock Hydro. If the deferred rebasing period were actually ten years, rather than some lesser number in Hydro One's discretion, then the Woodstock Hydro customers at least know they will not be subjected to the expected large rate increases for a minimum of ten years. Further, as noted below, they will be eligible for some benefits from the savings the transaction is generating.

66. Contrast that with the complete freedom approach for Hydro One. Under that scenario, Hydro One will presumably rebase as soon as earnings sharing is about to start. This will

¹³ "Rate-Making Associated with Distributor Consolidation", EB-2014-0138 Report of the Board March 26, 2015 (the 2015 Policy).

¹⁴ Tr.2:14, and a number of other places.

¹⁵ At page 7.

¹⁶ Which Hydro One freely admits. See Tr2:13.



allow them, under their view of cost allocation, to allocate much higher costs to Woodstock, negating any savings the Woodstock Hydro customers would have enjoyed, whether through earnings sharing or lower rates.

67. We note in this respect that SEC has repeatedly asked both Hydro One and the Board for confirmation that, given the savings generated by transactions of this type, and the Board's intention to have rates for the acquired customers set on rebasing based on the costs to serve those customers, the rates for the acquired customers should reasonably be expected to go down on rebasing. Neither Hydro One nor the Board has been willing to say that in past proceedings, or so far in this one.
68. To maximize the period in which the acquired customers are most likely to benefit from the savings generated by the transaction, SEC proposes that the Board grant approval for the ten year deferred rebasing period, but on condition that the Woodstock customers will not be included in any rebasing prior to that time.
69. Obviously, circumstances change, and as Hydro One's counsel pointed out, an earlier rebasing could be filed with evidence of a change in circumstances¹⁷. In fact, counsel originally argued that Hydro One was only asking for that, and nothing more, but then backpedalled furiously¹⁸ from that position.
70. In our submission, the original proposal from Hydro One counsel is actually the most suitable. SEC would therefore propose that the deferred rebasing period extension to ten years be on the terms so described, i.e.¹⁹:

"If, between years six and ten, when Hydro One does not have any commercial commitments or contractual obligations to rebase as they do with respect to the share purchase agreement that they have entered into with Woodstock, if between years six and ten Hydro One should choose to come in earlier and seek a rebasing, what I am hearing from the witness is that Hydro One wants the discretion to do so; but to do so it would have to come in and provide justification of changes in facts and circumstances that would give rise to that request."

71. Therefore, SEC proposes that the ten year deferred rebasing period be set at a fixed period of ten years after closing of the transaction, unless Hydro One can demonstrate that, with respect to the Woodstock service territory, there has been a change of facts or circumstances sufficient to justify an earlier rebasing.
72. **Deferred Rebasing Period – Rates During.** There are competing interpretations of the 2015 MAADs Policy with respect to how rates are to be set for the consolidating entities during the deferred rebasing period. It is common ground that the consolidating entities are

¹⁷ Tr2:16.

¹⁸ Tr2:18-19. In a subsequent discussion with the Chair, counsel then proposed that the change of circumstances could be the fact of the rebasing application, which as the Chair correctly noted is circular. See Tr2:21.

¹⁹ Tr2:16.



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Woodstock Hydro and Hydro One Networks Inc.²⁰ Hydro One takes the position that the Board's policy statements with respect to ratemaking for consolidating entities during the deferred rebasing period do not apply to Hydro One²¹, but do apply to Woodstock Hydro. SEC disagrees.

73. In our view, the policy is clear on its face. It says²²:

"OEB Policy

The OEB wishes to clarify which incentive rate plan would apply to distributors who are party to a MAADs transaction during any deferred rebasing period after the distributors original IR plan is complete.

- A distributor on Price Cap IR, whose plan expires, would continue to have its rates based on the Price Cap adjustment mechanism during the remainder of the deferral period. This approach is consistent with the current policy.*
- A distributor on the Annual IR, whose plan expires, would continue to have rates based on the Annual IR index, until it selects a different option. This approach is consistent with the current policy, as there is no set rate rebasing timeframe under the Annual IR.*
- A distributor on Custom IR, whose plan expires, would move to having rates based on the Price Cap IR adjustment mechanism, during the remainder of the deferral period."*

74. The purpose of this policy is to update the original 2007 policy. Unlike 2007, now there are three distinct rate plans available, and the extended deferred rebasing period is longer than the longest of those rate plans. In response to these differences, the new policy is intended to specify, for each participant in a MAADs transaction, what happens to their rates²³.

75. In this case, the policy says that for Woodstock Hydro, which is currently on Price Cap IR, it would stay on Price Cap IR starting in year 6, after the approved rate freeze and reduction. Hydro One agrees²⁴.

76. The policy also says that if a "party to a MAADs transaction" is on Custom IR, then at the conclusion of the Custom IR plan it would move to Price Cap IR. Hydro One is on Custom IR, and it ends in 2018. By the plain words of the policy, Hydro One moves to Price Cap IR in 2019, and that continues until 2025 (assuming the transaction closes before the end of 2015).

²⁰ Tr2:13.

²¹ Tr2:27-29.

²² 2015 MAADs Policy, p. 11-12.

²³ 2015 MAADs Policy, p. 11.

²⁴ Tr2:22.



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77. In a shocking display of Hydro One's real approach to LDC acquisitions, Hydro One explained why this shouldn't apply to them²⁵:

"You can't have the tail wagging the dog. It doesn't make any sense."

78. Their theory appears to be that they are too big to allow this policy to apply to them. While their acquired LDCs would be subject to the policy, Hydro One would continue as if they were not a party to any MAADs transactions. They say you have to distinguish between the company doing the acquiring, and the company being acquired. The policy applies only to the latter²⁶.

79. It's not as if this is a completely crazy idea (despite the unhappy choice of words to express it). Hydro One plans to acquire numerous LDCs over the next couple of years, and it certainly wants the benefits of the new policy with respect to the longer period to achieve payback of the purchase price. It does not, however, want its own regulatory freedom to be disrupted in any way. If it wants a rate increase, its savings from its various MAADs transactions should not, in their view, be a relevant factor.

80. The problem is that Hydro One is not the only player in this market. There are a number of acquirors, and any rule that applies to Hydro One, as acquiror, would apply to the others as well.

81. An instructive example may be the upcoming Powerstream/Horizon/Enersource/Brampton merger. At the time of that merger, it is likely that both Powerstream and Horizon will be on Custom IR plans, while both Enersource and Brampton will be on Price Cap IR plans. A simple read of the 2015 MAADs Policy says that, upon completion of the merger, they will stay on their respective plans, but once the two Custom IR plans expire they will all be on Price Cap IR. They can decide to stay out for up to ten years on that basis, or harmonize earlier if they believe that is appropriate.

82. What happens with the Hydro One formulation? In the proposed merger, three of the LDCs will be acquiring the fourth, Brampton, for a cash payment. Therefore, if Hydro One is correct, Brampton must remain on Price Cap IR during the deferred rebasing period, but Powerstream, Horizon and Enersource can apply for rates on a different basis – Custom IR, for example – at any time.

83. The proposed interpretation from Hydro One would allow parties to merger transactions to design their transactions to optimize the policy for their benefit, and minimize the benefit to ratepayers. It would be in the interests of the parties to designate a party with upcoming capital needs, or operating cost increases, or other cost pressures, to be the "acquiror", leaving the other party or parties as "acquired". In this way, the merger savings can be isolated in the entity least likely to have cost pressures, and thus most likely to be able to maximize the shareholder allocation of those savings.

²⁵ Tr2:28.

²⁶ Tr2:27.



84. The same problem would arise in other situations. If Entegrus were to merge straight up with Bluewater, for example, who is the acquiror and who is the acquired LDC? If both are subject to the policy on ratemaking, that means that amalgamation type MAADs applications have a new disadvantage (broader ratemaking limitations). The policy would therefore incent the use of cash purchases and disincent amalgamations, even though amalgamations have been shown to be a successful way of achieving consolidation while balancing local interests.
85. In our submission, the interpretation of the policy proposed by Hydro One is not tenable, whether on the words of the policy, or the purpose of the policy, or the likely effects of that interpretation. Hydro One wants to engage in a MAADs transaction, and get the benefit of a longer deferred rebasing period. That benefit comes with terms as to how rates will be set for all parties to the transaction. SEC submits that Hydro One has to take the full package.
86. SEC notes that we have had an opportunity to review the Final Argument of Board Staff. They have suggested that the Board may wish to defer consideration of the length of the deferred rebasing period in this case to deal with this question of the Hydro One rate plan. Staff has proposed to defer until the next Hydro One rate application.
87. SEC disagrees. In our view, this issue affects all parties to consolidation transactions, not just Hydro One. Therefore, SEC submits that, if the Board would prefer to defer consideration of the ten year approval request, the Board should invite comment from all affected stakeholders on the application in various fact situations of the 2015 MAADs Policy on post transaction ratemaking, and should defer a decision on whether the policy should apply to Hydro One until the Board has re-issued the policy with this concern clarified.
88. SEC submits that the Board should make clear that, under the policy, Hydro One will be on Price Cap IR starting in 2019. In the alternative, the Board should defer consideration of the ten year deferral until it has had a chance to clarify the 2015 MAADs Policy in this respect. In that case, our prior recommendation on fixing the ten year deferral period would also be deferred.
89. **Deferred Rebasing Period – Increase in Year Six.** Hydro One proposes to increase rates for Woodstock customers in year 6 by the Price Cap IR percentage, plus an additional 1% due to the removal of the 1% rate reduction during the freeze.
90. SEC agrees with Board Staff, who note in their Final Argument that the additional 1% increase in year 6 is inconsistent with Price Cap IR, and therefore should not be permitted.
91. **Existing Incremental Capital Module.** Hydro One has applied to continue to collect the existing ICM rate rider, established in 2012, for the entire period until the end of the deferred rebasing period. The annual amount of the rider approved by the Board is \$337,412²⁷,

²⁷ EB-2011-0207, ICM Calcs spreadsheet final, p. E4.1.



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based on initial approved incremental capital of \$3,015,564. As of the end of 2015, Woodstock Hydro will have recovered \$1,373,108 over four years of applying the rider²⁸.

92. What Hydro One proposes to do is to continue to charge the same ICM riders during the ten year deferred rebasing period, collecting a further \$3,720,530, for a total over those fourteen years of \$5,093,638.
93. This will over-collect revenue requirement for these assets over that period by 25.76%, i.e. \$1,043,247. At the end of the fourteen years, the ICM capital, which has a twenty-five year life, will have a remaining rate base of \$1,310,196. That is, it will be at 43.45% of its original amounts. The amount being collected from customers in the last year will thus be 173% of the actual revenue requirement for the ICM capital in that year.
94. All of these amounts are quite predictable, as the witnesses have admitted²⁹. Despite this, until SEC raised this in the hearing, Hydro One was intending to over-collect for this capital for ten years (i.e. in aggregate more than half of its useful life), and then refund any over-collection after that.
95. SEC submits that it is simple to calculate a declining annual ICM rider that will match the revenue requirement of the ICM capital until 2025. In response to a proposal from SEC, Hydro One has agreed to consider that³⁰, but they propose that the Board approve continuation of their current ICM rider for the full ten years first. Then Hydro One would make a determination whether they want to make a separate application to reduce the amount.
96. SEC believes this is inappropriate. In our submission, the Board should order that the ICM rider be amended, at the same time as approval of this transaction, so that it as closely as possible tracks the likely revenue requirement for the ICM capital during the deferred rebasing period.
97. **Earnings Sharing Mechanism – Entity Measured.** The Applicant proposes that earnings sharing for years 6-10 be implemented, as required by the 2015 MAADs Policy. However, Hydro One proposes to measure earnings to be shared at the consolidated level (i.e., all of Hydro One) rather than at the Woodstock Hydro level³¹. In SEC's submission, that is not consistent with the purpose and intent of the policy.
98. The policy says³²:

“In the case of a MAADs transaction, if the consolidated entity’s actual ROE rose above the 300 basis points over the allowed ROE, the ESM will be

²⁸ This includes annual growth of 1.15%, as stated in the Application and assumed going forward. All figures are set out in the live Excel spreadsheet SEC has filed with its Final Argument.

²⁹ Tr2:77,79.

³⁰ Tr2:101.

³¹ Tr2:42.

³² 2015 MAADs Policy, p. 7.



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implemented. The ESM for the purpose of the extended period will employ a 50:50 sharing with customers of excess earnings. This sharing provides for the shareholders to continue to recover transaction costs while ensuring customers of the consolidated entity will benefit from the efficiencies and savings the new distributor has achieved."

99. By its plain words, the policy appears to say that earnings should be measured at the consolidated level (in this case, presumably all of Hydro One), consistent with Hydro One's position. Thus, Hydro One proposes that it should not be included in the policy as it relates to ratemaking during the deferred rebasing period, even though the wording is clear, but it should be able to rely on the strict wording of the policy when it comes to earnings sharing.

100. The practical result would be that there will be no earnings sharing with respect to customers of utilities acquired by Hydro One. Hydro One has never earned more than 300 basis points over the Board-approved ROE, and is unlikely ever to do so. Therefore, the purpose of the Board's policy – to ensure that ratepayers benefit from the efficiencies generated – will be thwarted in the case of all Hydro One transactions³³.

101. Hydro One is not shy in saying so, either³⁴:

*"MR. SHEPHERD: So you believe that the policy is telling you that you can make as much money as you want in Woodstock, as long as it's not big enough to put you -- put Hydro One over 300 basis points, right?
MR. BERTOLO: That's what we believe the policy says."*

102. The purpose of the earnings sharing requirement is to ensure that the efficiencies driven by the transaction are shared fairly. As the Chair put it³⁵:

*"The policy strives to do two things. It strives to reduce risk for the consolidator by extending the period out to ten years. But it also seeks to make sure that there's not an over-recovery.
And that is why the earnings sharing mechanism is put into place."*

103. In this case, Hydro One's proposal would ensure that substantial efficiencies would never be shared. As we note in the next section, Hydro One would generate a minimum of \$27 million of overearnings (and \$12 million after recovery of premium and transaction costs, net of tax impacts) over the ten year deferred rebasing period, and share none of them, while at the same time being allowed to increase its own rates without reference to those additional savings.

104. In our submission, that interpretation is not consistent with the intent of the policy. It would provide the ratepayers with no protection, and constitute over-recovery - a windfall, in

³³ At the same time, under the Hydro One interpretation, they could continue to seek separate rate increases as Hydro One, ignoring the efficiencies being generated due to their acquisitions.

³⁴ Tr2:43.

³⁵ Tr2:47.



fact - to Hydro One and its shareholder. This cannot be what the Board intended when it published the policy.

105. SEC therefore submits that the Board should make clear in its decision that it is the earnings relative to the Woodstock service territory, calculated on a stand-alone basis as discussed earlier, that should be subject to earnings sharing.

106. **Earnings Sharing Mechanism – Which Customers Benefit?** There is a disagreement about whether the earnings sharing is intended to protect the customers of the acquired utility, or all of the customers of Hydro One.

107. SEC asked Hydro One witnesses to prepare a forecast of ROE for the ten years before rebasing, but they said they were unable or unwilling to do so³⁶. Having thus given the Applicant the first opportunity to provide this information, we are able to prepare it ourselves, and we have done so. It is attached to this Final Argument. We have also provided the Board and parties with the live Excel spreadsheet.

108. The assumptions used for this simple calculation are set out in the table attached. We note that we have used the most conservative approach whenever possible. For example, we have assumed the full tax rate, even though in the past both Woodstock Hydro and Hydro One (and most other LDCs) have generally had effective tax rates below the full rate. We have also assumed that the only savings Hydro One will achieve on OM&A are the \$1.3 million in A/2/1, p.6, not the higher numbers in the Hydro One Forecast on A/2/1, p. 8³⁷. Those higher numbers were shown in the oral hearing to exclude key costs, such as overheads³⁸. In Other Revenues, we have reduced them by half for 2016, because they appear to have some one-time adjustments in them. The actual amount of those adjustments is not on the record, and the 50% reduction is a very high estimate. For rate base and depreciation, we have started with 2013 numbers and then increased them arbitrarily to 2016. Hydro One has more recent rate base and depreciation data, of course, but it is not on the record. Throughout, we have assumed that current 1.6% inflation less 0.3% productivity/stretch continues for the ten years.

109. Those assumptions almost don't matter, because the results are, as expected, very high after-tax earnings over the deferred rebasing period, a total of \$27 million over the ten years. The costs of the transaction, including the premium, appear to be fully recovered, even on these very conservative assumptions, around year 6 or 7. Overall, using the Board's required ESM (with its 300 bp deadband), and assuming it is calculated on a Woodstock-

³⁶ They undertook to do so in J2.1, but did not provide either a number or any calculations. They said "We can calculate the ROE based on these numbers"[Tr2:47], but they didn't do so. It turns out, their general statement that ROE will be in the Board-approved range, when the premium and transaction costs are taken into account (i.e. the Woodstock customers will bear these costs in their rates), is non-responsive. As can be seen, the actual results are significantly better than Board-approved.

³⁷ Hydro One has estimated OM&A savings of \$27.1 million in the table on A/2/1, p. 8. We have estimated OM&A savings of \$13.9 million over the same period.

³⁸ Tr2:97.



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only basis, the earnings to be shared will amount to something around \$13 million in years six through ten.

110. This is important because sharing those earnings with Woodstock Hydro customers would benefit each, on average, about \$400. Hydro One, however, proposes to share with each of the Woodstock customers just under \$6³⁹. The rest would go to the existing Hydro One customers, also on average about \$6 each. The amounts are sufficiently different (\$6.5 million to Woodstock customers, vs. less than \$100,000 to Woodstock customers under the Hydro One approach) that, in our view, the Board should make its expectations on this clear in its decision.
111. The wording of the 2015 MAADs Policy, quoted earlier, does suggest that all customers of the consolidated entity should share in the earnings-sharing. In SEC's view, this is not consistent, in this case, with the intention of the policy. Applied to Hydro One, this would mean that the customers of an acquired LDC would never have any meaningful earnings sharing, despite having driven substantial cost efficiencies. If earnings sharing is intended to protect them in some way, it simply doesn't, on this interpretation.
112. **Maintenance of Reliability, Customer Service and CDM Outcomes.** SEC has discussed the reasonable expectations of Woodstock customers with respect to the outcomes of Hydro One's impending management of the Woodstock service territory. It is clear that reliability, customer service, and CDM performance are likely to move downward, toward the Hydro One levels. Hydro One has not shown that it can deliver the type of product that Woodstock Hydro customers have, to date, been paying for in their rates.
113. Hydro One has said that it will try hard to keep up to Woodstock Hydro levels in these areas, and has agreed with the City of Woodstock to pay a non-material penalty of \$200,000 to the City if it fails to meet the reliability or customer service targets. It proposes to have no consequences – not even that immaterial amount – if it fails to perform well on CDM.
114. SEC believes that, completely separate from anything Hydro One has agreed with the City, the Board should impose a general condition that Hydro One deliver satisfactory outcomes in Woodstock, and should back it up with material consequences should Hydro One fail to deliver.
115. The condition SEC proposes is that Hydro One is not allowed to seek rate increases for Woodstock customers until it shows that it can consistently meet the reliability, customer service, and CDM performance outcomes that Woodstock Hydro have come to expect. Until they get the outcomes up to par, the rate freeze and 1% reduction should continue.
116. To implement this, SEC proposes that Hydro One be required to show, in any rate application applicable to the Woodstock service territory, that it has achieved, for at least three consecutive years, the following outcomes, failing which any rate increase would not be allowed by the Board:

³⁹ Assuming just over 1.1 million total Hydro One customers.



- a. Reliability indices as good as, or better than, the Woodstock Hydro reliability indices on its last scorecard prior to the closing of the transaction.
- b. Customer service indices as good as, or better than, the Woodstock Hydro customer service indices on its last scorecard prior to the closing of the transaction.
- c. CDM performance at no less than 100% of annual CDM targets. This is lower performance than the 177% achieved by Woodstock Hydro, because the 2015-2020 CDM framework could make achievement of 177% more difficult.

117. **Conditions and Restrictions.** SEC therefore proposes that, if the Board decides to approve the transaction, it should impose the following directions and conditions:

- a. **Record-Keeping and Reporting.** Hydro One should be required to retain, and file annually, full information on the Woodstock service territory with respect to:
 - i. Cost of service, achieved ROE, and overearnings/savings if any;
 - ii. Reliability indices;
 - iii. Customer Service indices;
 - iv. CDM performance.
- b. **Length of Deferred Rebasing Period.** The deferred rebasing period approved should be for a fixed term of ten years from closing of the transaction, unless the Applicant can demonstrate at the time of an earlier application that there has been a material change in circumstances relating to the Woodstock service territory that justifies an earlier rebasing.
- c. **Ratemaking During Deferred Rebasing Period.** The Board should make clear that both Woodstock Hydro and Hydro One will be subject to the 2015 MAADs Policy until the end of the deferred rebasing period. That means that the Woodstock rates will be set on an IRM basis in years 6-10, and Hydro One, once it finishes its current Custom IR plan in 2018, will go on IRM for years 4-10. In the alternative, the Board should defer consideration of the ten year deferral request until it has had a chance to clarify the 2015 MAADs Policy in this respect. In that case, our prior recommendation on fixing the ten year deferral period would also be deferred.
- d. **Year Six Rate Increase.** Deny the proposal of the Applicant to increase Woodstock rates by 1% in year six (in addition to the Price Cap IR increase), for the reasons set forth in the Final Argument of Board Staff.
- e. **Revision of Existing ICM.** The Board should order that the ICM rider be amended, as part of the approval of this transaction, so that it as closely as possible tracks the likely revenue requirement for the ICM capital during the deferred rebasing period.
- f. **Earnings Sharing Mechanism.** The Board should make clear in its decision that it is the earnings relative to the Woodstock service territory, calculated on a stand-alone basis as discussed earlier, that should be subject to earnings sharing. Further, the



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Board should specify that it is the ratepayers in the Woodstock service territory with whom over-earnings should be shared.

- g. **Reliability Outcomes.** Rates to Woodstock customers should not be allowed to increase in any year until the reliability metrics for three consecutive years under Hydro One management have been shown to be as good as, or better than, the reliability metrics for Woodstock Hydro in their most recent scorecard prior to closing.
- h. **Customer Service Outcomes.** Rates to Woodstock customers should not be allowed to increase in any year until the customer service metrics for three consecutive years under Hydro One management have been shown to be as good as, or better than, the customer service metrics for Woodstock Hydro in their most recent scorecard prior to closing.
- i. **CDM Outcomes.** Rates to Woodstock customers should not be allowed to increase in any year until CDM performance relative to its annual targets is at least 100% for three consecutive years under Hydro One management.

Conclusion

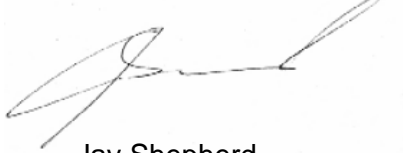
118. For the reasons set for above, SEC submits that the Board should reject the Application for failure to meet the “no harm” test on multiple levels. In the alternative, SEC submits that the Board should attach the directions, requirements and conditions set out above to any approval, so that the risk of harm to the ratepayers is reduced.

119. SEC submits that it has acted responsibly in this matter with a view to maximizing its assistance to the Board, and therefore requests that the Board order reimbursement of its reasonably incurred costs for participation in this proceeding.

All of which is respectfully submitted.

Yours very truly,

JAY SHEPHERD P. C.



Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties

Forecast of Over-Earnings for Woodstock Hydro 2016 to 2025

Category	N	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Distribution Revenues	1	\$9,215	\$9,321	\$9,428	\$9,536	\$9,646	\$9,983	\$10,229	\$10,481	\$10,739	\$11,004
Other Revenues	2	\$811	\$821	\$830	\$840	\$849	\$859	\$869	\$879	\$889	\$899
Total Revenues		\$10,026	\$10,141	\$10,258	\$10,376	\$10,495	\$10,842	\$11,098	\$11,360	\$11,628	\$11,903
Status Quo Operating Costs	3	\$3,900	\$4,600	\$4,000	\$4,100	\$4,200	\$4,300	\$4,400	\$4,800	\$4,700	\$4,700
Less: Savings	3	\$1,313	\$1,330	\$1,347	\$1,365	\$1,383	\$1,401	\$1,419	\$1,437	\$1,456	\$1,475
Depreciation and Amortization	4	\$1,900	\$1,922	\$1,993	\$2,082	\$2,061	\$2,064	\$2,045	\$2,049	\$2,023	\$2,014
Total Expenses		\$4,487	\$5,192	\$4,646	\$4,817	\$4,878	\$4,963	\$5,026	\$5,411	\$5,267	\$5,239
Gross Profit		\$5,539	\$4,950	\$5,612	\$5,559	\$5,617	\$5,878	\$6,072	\$5,948	\$6,361	\$6,664
Rate Base - Opening	5	\$26,000	\$26,300	\$27,278	\$28,485	\$28,203	\$28,242	\$27,978	\$28,034	\$27,685	\$27,562
Capital Additions-Depreciation	6	\$300	\$978	\$1,207	-\$282	\$39	-\$264	\$55	-\$349	-\$123	-\$14
Rate Base - Closing		\$26,300	\$27,278	\$28,485	\$28,203	\$28,242	\$27,978	\$28,034	\$27,685	\$27,562	\$27,548
Average Rate Base		\$26,150	\$26,789	\$27,881	\$28,344	\$28,223	\$28,110	\$28,006	\$27,859	\$27,624	\$27,555
Interest 56% @4.88% LTD	7	\$715	\$732	\$762	\$775	\$771	\$768	\$765	\$761	\$755	\$753
Interest 4% @1.96% STD	8	\$21	\$21	\$22	\$22	\$22	\$22	\$22	\$22	\$22	\$22
Total Interest		\$735	\$753	\$784	\$797	\$793	\$790	\$787	\$783	\$777	\$775
Net Profit Before Taxes		\$4,804	\$4,197	\$4,828	\$4,763	\$4,824	\$5,088	\$5,285	\$5,165	\$5,585	\$5,889
PILs at 26%		\$1,249	\$1,091	\$1,255	\$1,238	\$1,254	\$1,323	\$1,374	\$1,343	\$1,452	\$1,531
ROE		\$3,555	\$3,105	\$3,573	\$3,524	\$3,569	\$3,765	\$3,911	\$3,822	\$4,133	\$4,358
Percent	9	33.99%	28.98%	32.04%	31.09%	31.62%	33.49%	34.91%	34.30%	37.40%	39.54%
Benchmark ROE @9%	10	\$941	\$964	\$1,004	\$1,020	\$1,016	\$1,012	\$1,008	\$1,003	\$994	\$992
Over-earnings	11	\$2,614	\$2,141	\$2,569	\$2,504	\$2,553	\$2,753	\$2,902	\$2,819	\$3,138	\$3,366
Cumulative Over-earnings		\$2,614	\$4,755	\$7,324	\$9,828	\$12,381	\$15,134	\$18,037	\$20,856	\$23,994	\$27,360

- Notes
- 1 2013 actuals of \$8994 plus growth of 1.15% per year. 1% reduction 2016-2020. IRM after 2020 @1.3%
 - 2 2013 actuals of \$1568, cut in half to reflect one-time items (not quantified in the Application), plus growth of 1.15% per year.
 - 3 Status quo line from A/2/1, p. 8, less savings of \$1313 from A/2/1, p. 6, increased by (I-X) 1.3% per year.
 - 4 2013 actuals of \$1748 increased to \$1900 for 2016, then pro rata to annual change in rate base.
 - 5 Estimated 2016 Actual plus capital additions less depreciation each year.
 - 6 Capital additions from A/2/1, p. 8 less depreciation from line 9. Retirements assumed to be zero.
 - 7 LTD interest on 56% of rate base at 4.88% (Hydro One 2016 Board approved)
 - 8 LTD interest on 4% of rate base at 1.96% (Hydro One 2016 Board approved)
 - 9 After tax profit divided by 40% of rate base
 - 10 Assumes average ROE during 10 years of 9%
 - 11 Excess of forecast after-tax earnings over benchmark after-tax earnings