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BY E-MAIL

June 10, 2015

Ms. Kirsten Walli OEB
Secretary Ontario
Energy OEB
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

RE: OEB STAFF SUBMISSION
APPLICATIONS BY HYDRO ONE INC. AND WOODSTOCK HYDRO SERVICES INC.
EB-2014-0213

In accordance with the OEB’s directions, please find attached OEB staff’s submission with respect to the above referenced applications.

Yours truly,

Original Signed by

Judith Fernandes
Project Advisor
Applications Division

Attachment

cc: All Parties to the Proceeding

ONTARIO ENERGY BOARD

OEB Staff Submission

APPLICATION BY HYDRO ONE INC. FOR LEAVE TO PURCHASE ALL OF THE ISSUED AND OUTSTANDING SHARES OF WOODSTOCK HYDRO HOLDINGS INC.

APPLICATION BY WOODSTOCK HYDRO SERVICES INC. SEEKING TO INCLUDE A RATE RIDER IN ITS 2014 ONTARIO ENERGY BOARD APPROVED RATE SCHEDULE TO GIVE EFFECT TO A 1% REDUCTION RELATIVE TO 2014 BASE ELECTRICITY DELIVERY RATES (EXCLUSIVE OF RATE RIDERS)

APPLICATION BY WOODSTOCK HYDRO SERVICES INC. FOR LEAVE TO TRANSFER ITS DISTRIBUTION SYSTEM TO HYDRO ONE NETWORKS INC.

APPLICATION BY WOODSTOCK HYDRO SERVICES INC. FOR LEAVE TO TRANSFER ITS DISTRIBUTION LICENCE AND RATE ORDER TO HYDRO ONE NETWORKS INC.

EB-2014-0213

June 10, 2015

INTRODUCTION

Hydro One Inc. and Woodstock Hydro Services Inc. (Woodstock) filed related applications on July 11, 2014 with the Ontario Energy OEB (OEB). The applications were amended on May 22, 2015 and consist of the following main requests:

1. An application by Hydro One Inc. under section 86(2)(b) of the Ontario Energy OEB Act, 1998 (the Act) requesting leave to purchase all of the issued and outstanding shares of Woodstock Hydro Holdings Inc.;

2. An application by Woodstock under section 78 of the Act seeking the inclusion of a rate rider in its 2014 OEB approved rate schedule to give effect to a 1% reduction relative to 2014 base electricity delivery rates (exclusive of rate riders);

3. An application by Woodstock under section 86(1)(a) of the Act for leave to transfer its distribution system to Hydro One Networks Inc. (Hydro One);

4. An application by Woodstock under section 18 of the Act for leave to transfer Woodstock's distribution licence and rate order to Hydro One;

5. A request for approval to defer rate rebasing for Woodstock for up to ten years from the date of closing the proposed transaction;

RELEVANT REGULATORY PRINCIPLES

The "No Harm" Test

The OEB's statutory objectives include, among others, protection of the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service, promotion of economic efficiency and cost effectiveness in, *inter alia*, the distribution of electricity, and maintenance of a financially viable electricity industry.

The OEB's decision in RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257 (the "Combined Decision") established the scope of issues that the OEB will consider in determining applications for leave to acquire shares or amalgamate ("Merger, Amalgamation, Acquisitions and Divestitures" or "MAAD") under section 86 of the Act and ruled that the “no harm” test is the relevant test. The “no harm” test is a consideration of whether the proposed transaction would have an adverse effect relative to the status quo in relation to the OEB’s statutory objectives. These objectives are set out in section 1 of the Act. According to the “no harm” test, if the proposed transaction would have a positive or neutral effect on the attainment of the statutory objectives, then the application should be granted. As part of subsequent decisions[1], the OEB provided additional clarity what would be considered in applying the “no harm” test

Reports of the OEB on Rate-Making Associated With Distributor Consolidation

The OEB’s policies on rate-making issues associated with consolidation in the electricity distribution sector are set out in the reports of the OEB entitled “Rate-making Associated with Distributor Consolidation” issued July 23, 2007 (the 2007 Report) and a further report was issued by the OEB on March 26, 2015 (the 2015 Report).

The 2007 Report states that “distributors that apply to the OEB for approval of a consolidation transaction may propose to defer the rate rebasing of the consolidated entity for up to five years from the date of closing of the transaction”. The 2007 Report also indicates that a “distributor will be required to specify its proposal for rate rebasing as part of the MAAD application”. With respect to rate harmonization, the 2007 Report indicates that “the issue of rate harmonization in the context of a consolidation transaction is better examined at the time of rebasing”. Nevertheless, the 2007 Report states that parties should indicate in the MAAD application “whether they intend to undertake a rate harmonization process after the proposed transaction is completed and, if they do, to provide a description of the plan”.

The 2015 Report made amendments to the 2007 Report as follows:

(1) Allows distributors who are parties to a consolidation transaction to apply for an extended rate rebasing deferral period of up to 10 years after the closing of the transaction;
(2) Consolidating distributors who request a deferred rebasing period of greater than five years are required to implement an earnings sharing mechanism (ESM) of 50:50 sharing with customers where the consolidated entity’s return on equity(ROE) is greater than 300 basis points above the allowed ROE for the

[1] OEB Decisions on EB-2013-0187/0196/0198 and EB-2014-0244

consolidated entity;

(3) The OEB clarified the incentive rate plan that would apply to distributors who are parties to a consolidation transaction during any deferred rebasing period after the distributors original incentive regulation (IR) plan is complete:
  a) Distributors that are on the Price Cap IR at the time of consolidation will continue to have their rates adjusted under the same mechanism until rebasing;
  b) Distributors that are on the Annual IR will continue to have rates based on the Annual IR index until they select a different option;
  c) Distributors on Custom IR would move to having rates based on the Price Cap IR during the remainder of the deferral period.

(4) Distributors who are parties to a consolidation transaction, and are operating under an Annual IR plan have the option to use the Incremental Capital Module(ICM) during the deferred rebasing period; distributors who are on a Custom IR plan will have the option to utilize the ICM once their plan expires and they have transitioned to the Price Cap IR.

SUBMISSION

OEB staff submits that the evidence in this proceeding reasonably demonstrates that the proposed transaction meets the “no harm” test.

Purchase Price and Financial Viability

According to the application, the purchase price is $46.2 million and the net book value of Woodstock’s assets is approximately $26 million.

With respect to price, the Combined Decision states:

> The OEB is of the view that the selling price of a utility is relevant only if the price paid is so high as to create a financial burden on the acquiring company which adversely affects economic viability as any premium paid in excess of the book value of assets is not normally recoverable through rates. This position is in keeping with the “no harm” test.

In its decision on a Motion by the School Energy Coalition in the Hydro One/Norfolk Power Distribution Inc. proceeding (EB-2013-0196/EB-2013-0187/EB-2013-0198), the

OEB further confirmed:

> In applying the “no harm” test, it is not relevant for the OEB to consider whether the purchase price of NPDI has been set at an appropriate level. The issue for the OEB to consider is whether the purchase price is set at a level that would create a financial burden on the acquiring utility and whether any premium in the purchase price finds its way into rates.

Hydro One has stated that the premium paid will not be recovered through rates and will not impact any future revenue requirement. Hydro One has also stated that the proposed transaction will not have a material impact on Hydro One’s financial position as the price is less than 1% of Hydro One’s net fixed assets.

In OEB staff’s view the evidence presented by Hydro One confirmed that the premium will not be funded by rate payers and that the premium paid will have no material impact on Hydro One’s financial viability.

Economic Efficiency and Cost Effectiveness

Operational Efficiencies

Hydro One identified quantitative efficiencies arising in the following areas:

a) Geographic contiguity benefits – Hydro One’s existing service area is situated immediately adjacent to Woodstock’s service area. Hydro One asserts that the elimination of the artificial electrical service area boundary allows for economies of scale to be realized at the field or operational level through:

   i. Rationalization of local space needs through the elimination or re-purposing of duplicate facilities like service centres;
   ii. More efficient scheduling of operational and maintenance work and dispatching of crews over a larger service area;
   iii. More efficient utilization of work equipment (e.g. trucks and other tools), leading to lower capital replacement needs over time.
   iv. More rational and efficient planning and development of the distribution system.

According to the application, all of the above provide the potential to result in operating and capital savings, both immediate and over time which will provide long-term benefits to ratepayers relative to the status quo.

b) Elimination of redundant administrative and processing functions – Hydro One submits that efficiency gains are expected to be realized through eliminating duplication in the following administrative and transaction processing functions:
   i. Reduction in back-office staff ($0.8-$1.0 million forecasted annual savings);
   ii. Reduction in senior management and corporate governance costs($0.6-$0.7 million forecasted annual savings);
   iii. Elimination of 22 of the 36 positions currently required to operate Woodstock ($1.3 million forecasted salary savings);
   iv. Reduction in the number of regulatory filings, Conservation and Demand Management program administration costs, vehicle fleet and information technology costs and the use of external consultants and contractors.

c) Economies of scale savings from a larger customer base such that costs for processing systems like billing, customer care, human resources and financial are spread over a larger group of customers.

Cost Effectiveness

Hydro One projected that the resultant cost structures from proceeding with the transaction will result in ongoing operations, maintenance and administrative (OM&A) savings of approximately $3.0 million per year and reductions in capital expenditures of approximately $1.0 million per year. In response to SEC interrogatory No. 10, Hydro One indicated that ongoing OM&A savings will result in downward pressure on the Woodstock ratepayer's cost structure, which would tend to decrease future rates.

Hydro One provided a forecast ten year comparative cost structure analysis for the proposed transaction relative to the status quo, emphasizing that the overall expected savings are based on comparing Woodstock, remaining as a stand-alone distribution utility, to having the Woodstock operations becoming integrated with Hydro One's existing operations.

In response to cross-examination by SEC at the oral hearing, Hydro One acknowledged that the forecasted costs do not include overhead costs whereas the Woodstock status quo scenario does encompass overhead costs. As well, the costs for Woodstock as a stand-alone utility take into account depreciation and interest costs, however, Hydro One stated that as Woodstock operations become integrated with Hydro One's existing operations, these type of costs will form part of the broader

Hydro One asset portfolio.

According to the application, Hydro One's OM&A forecast to serve customers in its high density residential rate class (UR) is $181 per customer per year as compared to Woodstock's forecast OM&A cost of $258 per customer per year. Hydro One's urban rate class covers areas containing 3,000 or more customers with a density of at least 60 customers per kilometer. Hydro One submits that as such, it is reasonable to believe that Hydro One's cost to serve Woodstock's customers would be less than Woodstock's current costs of serving its customers.

OEB staff submits that the evidence provided by Hydro One supports the claim that the proposed transaction can reasonably be expected to result in cost savings and operational efficiencies. OEB staff, however, notes that the forecast of the Hydro One costs does not include all the OM&A costs that will be allocated to Woodstock and therefore OEB staff submits that the forecasted savings can be expected to be lower than projected.

OEB staff notes that Hydro One's forecasted OM&A cost of serving high density residential customers is lower than Woodstock's forecasted cost. OEB staff submits, however, that should the OEB approve the transaction, the OEB should require Hydro One to file a report with the first rate application that includes **all** costs associated with serving the Woodstock service area, delineating the savings achieved as a result of the proposed transaction and how those savings will be allocated. It is OEB staff's view that this information would assist the OEB in its review of the rate application.

Price of Electricity Service

Hydro One asserted that the proposed transaction protects Woodstock customers through: (a) a commitment to freeze base electricity distribution delivery rates for a period of five years from closing of this transaction, and (b) the application of a rate rider which provides a 1% reduction on base distribution delivery rates for that period. Hydro One submitted that these measures provide Woodstock customers with protection against rate increases that could have occurred over that same time period if the transaction had not proceeded.

Beginning in year 6 and up to year 10, Hydro One has confirmed that Woodstock's rates are proposed to be set using the Price Cap Index formula in effect at the time and anchored to the Woodstock base distribution delivery rates as approved by the OEB in EB-2013-0182.

Hydro One asserts that future rates will reflect the cost to serve the Woodstock customers as impacted by the productivity gains resulting from consolidation.

In OEB staff's view, Hydro One's statement regarding future rates for Woodstock customers sufficiently addresses the OEB's considerations with respect to price of electricity service for the proposed transaction given the "no harm" test discussed earlier. Future rates of Woodstock customers will be fully considered in subsequent rate applications and will require the approval of the OEB before they are implemented.

Service Quality and Reliability

Hydro One submitted that it will endeavor to maintain or improve reliability and quality of electricity service for all of its customers. Hydro One's evidence indicated that it is committed to the retention of Woodstock's existing operations personnel thereby retaining local knowledge and skills to allow it to maintain or improve reliability and customer service quality. Hydro One intends to construct a new operating centre to consolidate operations between Hydro One's Beachville Operating Centre and Woodstock's Operating Centre on Graham Street. This is intended to provide a larger operating presence with reduced distance to travel and also bring additional resources within the City of Woodstock to support Hydro One's ability to deliver reliable service.

Intervenors asked questions regarding the reliability performance of Hydro One, which, according to the OEB's 2013 Electricity Distributor Scorecard, is significantly lower than that of Woodstock. Hydro One pointed out that these statistics reflect reliability across Hydro One's entire service area, which is not representative of the reliability level that can be expected in the Woodstock service area. Hydro One provided a comparison of reliability statistics from 2011-2013 reflecting that Hydro One customers in the vicinity of Woodstock experienced a comparable level of service in terms of duration and frequency of interruptions in comparison to Woodstock customers. Hydro One submitted that it anticipates that reliability will improve once the operating centre is consolidated in the City of Woodstock.

Based on the evidence provided by Hydro One, OEB staff submits that Hydro One can reasonably be expected to maintain the service quality and reliability standards currently provided by Woodstock.

Rate-making associated with Consolidation

On May 22, 2015, Hydro One amended the rate relief sought through these applications so as to give effect to the amendment of the OEB's policies pertaining to rate-making associated with distributor consolidation transactions as set out in the 2015 Report.

Deferral of Rate Rebasing

The 2007 Report permitted the deferral of rate-rebasing for up to five years from the closing of a transaction during which time efficiency gains due to consolidation were expected to offset transaction costs. The 2015 Report extended the rate rebasing deferral period for up to 10 years after the closing of the transaction, under certain conditions. The revised policy is intended to encourage consolidation by providing additional options for distributors to manage their own unique circumstances.

In considering the appropriate approach for Woodstock, OEB staff finds it helpful to consider the expected plans for Norfolk and Haldimand that were established under the previous policy. To encourage consolidation the same options should be available for Woodstock that were available for Norfolk and Haldimand, plus the additional option for deferred rebasing for 10 years. OEB staff notes, however, that this is a complex issue and Hydro One's amendment of the Woodstock application to give effect to the revised policy was made late in this proceeding.

The OEB's decisions on the Hydro One/Norfolk Power Distribution Inc. (Hydro One/Norfolk) and the Hydro One/Haldimand County Hydro Inc. (Hydro One/Haldimand)[2] applications were made prior to the 2015 Report. In each of these cases the OEB accepted the deferral of rate rebasing for five years. At the time these applications were being reviewed by the OEB, Hydro One's five year custom IR application for rates for 2015-2019 was also under review by the OEB. The applicants therefore contemplated rebasing the rates of the consolidated Hydro One entity (inclusive of the acquired entities) in 2020.

In the Hydro One/Norfolk and Hydro One/Haldimand decisions the OEB approved the applicants' proposals to implement a 1% reduction to each of the acquired utilities' rates in effect at the time and also approved the maintenance of a rate freeze at this

[2] OEB Decisions on Hydro One/Norfolk (EB-2013-0187/0196/0198) and Hydro One/Haldimand (EB-2014-0244)

level for a five year period from the closing of the transactions.

In the case of the Hydro One/Norfolk decision, the OEB stated:

> "The Applicants propose that rate rebasing of the consolidated entity be deferred until approval of 2020 rates. Given that the applicants contemplate that the closing of the consolidation transaction will occur within 18 months of this Decision, this timeframe is consistent with the timeframe contemplated in the 2007 Report."[3]

The OEB noted the following in the Hydro One/Haldimand decision:

> "Hydro One has proposed to defer rebasing of distribution rates for the Haldimand service area for five years from the closing of the proposed transaction. Hydro One submitted that this will give it time to retain savings to offset costs while protecting the interests of consumers across both service areas, and is consistent with the OEB's 2007 Report."[4]

On March 12, 2015, following review of Hydro One's five-year custom application, the OEB approved rates for Hydro One for 2015, 2016, and 2017 using a cost of service methodology[5]. In response to cross-examination by SEC on whether Hydro One would move on to Price Cap IR in 2017, Hydro One stated that it would continue on its own rate regime until rates are harmonized.[6] With respect to Woodstock's rates, Hydro One has proposed to defer rate rebasing for distribution rates in the Woodstock service area for up to ten years from the closing date of the proposed transaction, as allowed in the 2015 Report. Hydro One submits that this will give it additional time to retain savings to offset costs while protecting the interests of consumers across both service areas.

This creates a unique circumstance for Hydro One in that their current cost of service term ends in 2017 and Norfolk and Haldimand were approved for a 5-year deferral until 2020. Now the OEB is being asked to approve a 10 year deferral for Woodstock.

The 2015 Report stipulates the incentive rate plan that would apply to distributors during any deferred rebasing period after a distributor's original IR plan is complete: Distributors that are on the Price Cap IR at the time of consolidation will continue to have their rates adjusted under the same mechanism until rebasing; for distributors on

[3] OEB Decision on EB-2013-0187/0196/0198, p. 14
[4] OEB Decision on EB-2014-0244, p.1
[5] OEB Decision on EB-2013-0416/EB-2014-0247, p. 8
[6] Transcript of Oral Hearing, May 27, Page 29

the Annual IR Index, the consolidated distributor would continue to operate under the Annual IR Index option unless and until it selects a different option; and distributors whose Custom IR plan expires during the deferred rebasing period will move to the Price Cap IR.

OEB staff submits that while the 2015 Report clearly sets out the incentive rate plan that would apply during any deferred rebasing period, the OEB needs to consider whether the application of the policy to Hydro One in these circumstances is appropriate given the overall objective and intent of the 2015 Report.

OEB staff submits that according to the 2015 Report, following the expiry of the rate regime that Hydro One is currently on, it would need to move either to Price Cap IR or it could come in to rebase as a consolidated entity. The next rebasing application is scheduled for 2018 rates. Hydro One stated that if the objective is to provide consolidation in the industry then it makes no sense that Hydro One would not be allowed to rebase as a separate entity until such time as rates are harmonized during the deferral period. Hydro One suggests that to do otherwise would be incongruent with the overall objective of consolidation.

Consolidation is encouraged by providing utilities the opportunity to keep savings from transitional and operational efficiencies for a period of time. The language of the 2015 Report references the purpose of the policy set out in the 2007 Report and states the following:

> The purpose of this policy is to allow the net savings of a consolidation to accrue to a distributor's shareholder(s) for an extended period. The OEB recognized that providing a reasonable opportunity to use savings to at least offset the costs of a MAADs transaction is an important factor in a utility's consideration of the merits of a given consolidation initiative. The five-year period was selected based on a review of practice in other jurisdictions, and taking into consideration the fact that the maximum duration of any rate plan for distributors at the time was three years.[7]

[7] EB-2014-0138 Report of the Board: Rate-Making Associated with Distributor Consolidation, March 26, 2015

As set out above, this is a complex issue involving not only Hydro One's amendment of the Woodstock application to give effect to the revised policy late in this proceeding but also consideration of Hydro One's current cost of service term which ends in 2017 and the OEB's approval of a 5-year deferral for Norfolk and Haldimand. Given that issues of rebasing and rate harmonization will be considered by the OEB in a future rates proceeding, it may be appropriate for the OEB to accept the original request for a 1 % reduction to Woodstock's rates and leave consideration of the length of the deferral to be discussed in Hydro One's next rate application, scheduled to be filed in 2017 for 2018 rates. OEB staff submits that it is more appropriate that details of Hydro One's rate proposal be properly examined in its next rate application given the circumstances. If the OEB decides to approve a 10 year deferral from rebasing, OEB staff has concerns with Hydro's approach.

Hydro One has committed to freeze Woodstock's base electricity distribution delivery rates for a period of five years from closing of this transaction, and also apply a rate rider which results in a 1% reduction on base distribution delivery rates for that period. At the commencement of the sixth year following the close of the transaction, Hydro One has proposed that Woodstock's base distribution delivery rates be set according to the mechanistic Price Cap Index formula and apply to the Woodstock 2014 base delivery rates as approved by the OEB in EB-2013-0182.

OEB staff disagrees with Hydro One's proposal that the Price Cap Index formula would apply to Woodstock's 2014 base delivery rates approved in EB-2013-0182. In OEB staff's view, the Price Cap Index formula should be applied to the base delivery rates, less the 1%. To do otherwise would increase rates in 2020 beyond the rate of inflation. To be consistent with the 2015 Report, the Price Cap Index formula should be applied to the Woodstock rates in existence at the commencement of year six.

In response to SEC Interrogatory No. 13 relating to rate harmonization, Hydro One stated that it has not performed any analysis or made any decisions regarding integration of Woodstock customers into either (i) a currently established Hydro One distribution rate class; or (ii) a newly-created rate class for those aforementioned customers. Hydro One submits that whichever approach is adopted for setting the rates of acquired utilities, any future proposed rate applications will be subject to OEB approval and will reflect the actual cost to serve these customers, including the anticipated productivity gains resulting from consolidation.

The applicants have indicated that the completion of the transaction, i.e. asset transfer and integration are expected to occur within 18 months following the closing of the transaction. In the past, the OEB has made approval contingent on the completion of the transaction 18 months from the date of the Board's decision and order approving the transaction. It follows, therefore, that Woodstock would be fully under Hydro One management upon the completion of the consolidation transaction.

With respect to the issue of rate harmonization, OEB staff notes that the 2015 Report did not provide further comments about rate harmonization. Consequently, OEB staff relies on the 2007 Report in submitting that the issue of rate harmonization is better examined at the time of rebasing. This is when the consolidated entity would apply for its combined revenue requirement, and the particular details of any proposed rate harmonization plan or any other rate proposal from Hydro One can then be fully explored.

While Hydro One has asserted that future rates will reflect the cost to serve the Woodstock customers as impacted by the productivity gains resulting from consolidation, OEB staff notes that it is not certain whether those savings will be allocated to existing rate classes, or to a Woodstock-specific rate class. As submitted above, OEB staff recommends that should the OEB approve the transaction, the OEB should require Hydro One to file a report with the first rate rebasing application that includes **all** costs associated with Woodstock's service area, delineating the savings achieved as a result of the proposed transaction and how those savings will be allocated.

Earnings Sharing Mechanism

As set out previously, the 2015 Report requires consolidating distributors who request a deferred rebasing period of greater than five years to implement an ESM. Hydro One has committed to implement an ESM of 50:50 sharing with customers where Hydro One's ROE is greater than 300 basis points above the allowed ROE for Hydro One.

In its cross-examination on earnings sharing, the Panel asked why the ESM was being applied to all Hydro One customers and not just the Woodstock customers. Hydro One's view is that the ESM is spread across all of its customers, because it can only come up with an ROE for the consolidated entity.

OEB staff accepts that following the 18 month period provided for the completion of the consolidation transaction, an ROE can only be calculated for the consolidated entity as Woodstock will cease to exist as a stand-alone entity. OEB staff also submits that this approach is consistent with the 2015 Report which states: “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” [emphasis added]. However, it is OEB staff’s submission that the issue is best dealt with as part of Hydro One’s next Custom IR application.

Requests for Incremental Capital Module (ICM)

Hydro One made two requests for ICM.

The OEB’s policy amendments in the 2015 Report allows the use of an ICM during the deferred rebasing period. Hydro One requested to use an ICM between years 6-10 of the deferred rate rebasing period. In response to cross-examination, Hydro One clarified that if something extraneous occurs during this period, Hydro One would make an application for recovery of these amounts through an ICM with the appropriate evidence to support the application.

On April 30, 2015, the OEB approved Woodstock’s request for the extension of the ICM rate rider relating to the Commerce Way TS until rates are rebased in 2020 (as was envisioned in the original applications) or until such date as approved by the OEB, and to true-up the balance at the time of rebasing. In cross-examination, SEC raised concerns that the extension of this rate rider until the next rebasing of rates for Woodstock results in an over-collection, in light of Hydro One’s proposal to defer rebasing of Woodstock up to ten years. In response, Hydro One confirmed that it is requesting for approval of this ICM but that it is simultaneously adding a proposal that upon the closing of the transaction, Hydro One will undertake a recalculation and file a new application to amend the ICM for the OEB’s approval.

OEB staff submits that Hydro One’s requests are acceptable as they are conditional upon the filing of applications that must be assessed by the OEB through a hearing.

Other Requested Approvals

As part of these applications, Hydro One requested OEB approval to:

- Continue to track costs to the deferral and variance accounts currently approved by the OEB for Woodstock and to seek disposition of their balances at a future date;
- Utilize USGAAP for Woodstock financial reporting.

Should the OEB decide to grant the applications that would allow the acquisition of Woodstock by Hydro One Inc., OEB staff submits that these requested approvals also be granted. Similar requests were filed in the Hydro One/Norfolk Power Distribution Inc. and Hydro One/Haldimand proceedings and were granted by the OEB.

CONCLUSION

OEB staff concludes that the evidence provided by Hydro One reasonably demonstrates that the proposed transaction meets the "no harm" test. Accordingly, OEB staff submits that the applications should be approved.

All of which is respectfully submitted.