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June 24, 2015

VIA RESS, EMAIL and COURIER

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

Dear Ms. Walli:

RE: EB-2014-0213 – Hydro One Inc. and Hydro One Networks Inc. Reply Submissions

Further to the Ontario Energy Board's direction set out on May 27, 2015, please find enclosed the reply submissions of Hydro One Inc. and Hydro One Networks Inc.

Yours very truly,

McCarthy Tétrault LLP

Signed in the original

Gordon M. Nettleton

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

AND IN THE MATTER OF an 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) under section 78 of the *Ontario Energy Board Act, 1998.*

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

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

HYDRO ONE INC. and HYDRO ONE NETWORKS INC.

REPLY SUBMISSIONS

June 24, 2015

I. Introduction

1. Hydro One Inc. and Hydro One Networks Inc. (collectively "Hydro One") provide the following submissions in reply to the submissions filed by Ontario Energy Board Staff ("Board Staff" or "Staff"), Concerned Citizens Against the Sale of Woodstock Hydro ("CSASWH"), and the School Energy Coalition ("SEC").

2. In brief, Hydro One submits that CSASWH and SEC have not provided a reasonable basis for the Board to reject the proposed transaction. The conditions of approval proposed by SEC lack merit and are inconsistent with the Board's policies in respect of consolidation, including the recent March 26, 2015, Report of the Board on *Rate-Making Associated with Distributor Consolidation* (the "2015 Policy" or "2015 Consolidation Policy"). The present transaction is consistent with those involving Norfolk Power Distribution Inc. and Haldimand County Hydro Inc. These prior transactions have been approved without need for the types of terms and conditions which SEC proposes. SEC has provided no explanation as to the changes justifying such a significant departure from the past. Consolidation will unify the delivery of service provided to legacy and acquired customers. There will be no continued separation of the former WHSI utility going forward. Operationally, WHSI will be completely absorbed as part of the consolidated entity.

3. With regard to Board Staff's submissions, while Hydro One concurs with the view that the no-harm test is satisfied, Hydro One disagrees with the proposed "wait and see" approach of having the extended rebasing deferral period, described in the 2015 Consolidation Policy, apply in the context of this transaction.

4. This is the first time the Board has had the opportunity to apply the 2015 Consolidation Policy. The extended deferral period is an important change in policy intended to mitigate risk and enhance consolidation activities. Complexity is a natural outcome arising from the application of new policies and the transition from old policies. That reality, however, should not be viewed as an adequate reason to override the implementation and intended benefits of these important policy changes to the circumstances now before the Board involving this transaction.

II. Board Staff Submissions

No-harm test

5. Hydro One agrees with Board Staff's findings and conclusions that the transaction meets the no-harm test and should be approved.

The interpretation, purpose and intent of the 2015 Consolidation Policy

6. Board Staff provide views regarding the appropriate rate rebasing deferral period for this transaction.[1] They have noted added rate-setting complexities that Hydro One will face with respect to: (i) the timing of rebasing of past MAAD transactions; (ii) the timing of Hydro One's next rates application setting rates for its legacy customers (i.e. for the period commencing 2018); and (iii) the layering of a longer deferral period in respect of this transaction. These factors have led Staff to conclude that a "wait and see" approach is preferred over Hydro One's request to have the extended deferral period apply to this

[1] See pages 8-11 of Board Staff submissions.

transaction. Staff's position is that determination of the rebasing deferral period for this transaction should remain outstanding until Hydro One Distribution's next rate case. At that time, this issue, along with the approved deferral periods associated with Hydro One's other approved transactions, would be revisited.

7. Hydro One has serious concerns with Staff's approach. Delaying determination of the rate rebasing period for this transaction to a point two years following the MAAD Decision itself creates unnecessary regulatory and commercial uncertainty. Conclusive acceptance of a transaction's rate rebasing deferral period has been a substantive element of past MAAD Decisions.[2] Importantly, this determination provides transacting parties with commercial certainty over the period in which transaction costs, acquisition premiums and restructuring costs may be recovered.[3] The 2015 Consolidation Policy contemplates having rebasing deferral periods for individual transactions determined at the time MAAD authorizations are made, and before transactions close.[4]

8. The extended deferral period described in the 2015 Consolidation Policy was introduced to mitigate the risk investment recovery. Application of the extended deferral period was not stated to be conditional on a lack of complexities in rate structures or a lack of transitional issues arising from rebasing of past commercial dealings. Instead, the 2015 Consolidation Policy states that the extended deferral period is intended to encourage greater efficiencies through more consolidation transactions and to provide distributors with the flexibility to manage their own unique circumstances:

    The OEB believes that the decision to extend the deferred rebasing period for distributors who are party to a MAADs transaction supports the OEB's own expectations, as well as those of the government, that the distribution sector should continue to seek out efficiencies, especially through consolidation.

    The OEB has determined that providing an extension of the allowed deferral period to up to 10 years after the closing of the transaction would address distributors' key concern about the 2007 policy; **would reduce the risk of a MAADs transaction, which may encourage more consolidation; and would provide distributors with the flexibility to manage their own, unique circumstances.**[5]

9. Complexity concerns raised by Staff are also stated to be related to the rebasing timing of Hydro One's prior approved transactions. The suggestion made is that these issues, along with the deferral period for the present transaction, be addressed in Hydro One's next rate case proceeding. Hydro One does not see how the 2015 Consolidation Policy was in any way intended to disturb historical transactions, such as those involving Norfolk and Haldimand. The Board has approved these transactions, including acceptance of the proposed rate rebasing time periods. Hydro One does not see how the 2015 Consolidation Policy can be reasonably interpreted to mean that a new transaction, seeking to take advantage of the new extended deferral period timing should allow for the review and potentially unwinding, of substantive elements of past transactions. This outcome would

[2] See EB-2013-0196/EB-2013/0187/EB-2013-0198 (Norfolk Power Distribution Inc.); EB-2014-0244 (Haldimand County Hydro Inc.); EB-2014-0217/EB-2014-0223 (Cambridge and North Dumfries Hydro Inc. and Brant County Power Inc.).

[3] 2007 Report, "Rate-making Associated with Distributor Consolidation", page 4.

[4] See pages 4-6, 2015 Consolidation Policy.

[5] 2015 Consolidation Policy, page 6.

clearly be inconsistent with the stated 2015 Consolidation Policy objectives of reducing uncertainty, enhancing consolidation, and seeking greater efficiencies.

10. Consolidation ultimately simplifies an industry, but the road to achieving consolidation is complex. In Ontario's consolidating electricity industry, there will be fewer, larger entities partaking in MAAD activities. As a result, the level of complexity will increase as multiple rate-setting strategies and structures are amalgamated in overlapping MAAD applications. It will be up to proponents of such transactions to deal with these complexities.

11. Hydro One appreciates that the requested deferral period will extend past the time of its rate filing setting legacy customer rates for 2018 and beyond. However, this does not affect the relief Hydro One is now seeking. If this transaction is approved as amended, Woodstock Hydro Services Inc. ("WHSI") customers will have rates lowered by 1% and frozen for five years. Following the initial five-year period and for the duration of the extended period, WHSI customers would be afforded additional rate design certainty, as rates would be set using the Price Cap Index formula applicable at that time. The proposed WHSI rate design would be in effect and independent of the rates designed and approved for legacy customers commencing in 2018. The design of rates for WHSI customers and those of Hydro One's legacy customers are independent matters. There is therefore no need to defer WHSI rate design decisions so that they are considered in the context of the design of rates for Hydro One's legacy customers in 2018. [6] Hydro One, as the applicant, will bring forward, at the appropriate time and for the Board's review, a proposal for rebasing the rates of acquired customers and for addressing any resulting complexities.

Cost reporting

12. Board Staff' "recommends that should the OEB approve the transaction, the OEB should require Hydro One to file a report with the first 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."[7]

13. Much discussion occurred during SEC's cross-examination regarding cost reporting; this topic is one which SEC and CSASWH have also raised in their final argument. Hydro One remains concerned regarding the confusion surrounding cost reporting obligations. For clarity, following integration and throughout the deferred rate-rebasing period, Hydro One plans to report to the Board on the achieved savings resulting from the acquisition. This information will be reported annually and on a cumulative basis and will be in the same format as Table 2 found in Hydro One's pre-filed evidence. Table 2 projects the incremental costs required to serve WHSI's service territory, so as not to double count cost expenditures already required to serve Hydro One's legacy customers. Consistent with Table 2, all actual incremental OM&A and capital expenditure costs arising as a result of the transaction, will be included in this report. Achieved savings will be reported as the difference between

[6] Hydro One submits that this is consistent with the Board's approach in its decision approving the Haldimand transaction, which was approved on the same day that the Board approved its rates up to 2017. In that decision, the Board stated that the transaction was approved subject to Hydro One filing, "with its first rate application <u>that includes costs associated with Haldimand's service area,</u> a report" delineating the costs for Haldimand's service area…" See section 5, "Conclusion and Decision", of the Haldimand decision. The same language is used in the Norfolk decision (EB-2013-0196/EB-2013/0187/EB-2013-0198, Decision and Order dated July 3, 2014, page 25).

[7] Board Staff Submissions, page 12.

Hydro One's incremental costs to serve WHSI customers, and the costs of the no transaction status quo, stand-alone utility scenario presented in Table 2.

14. In addition, these reported historical savings will inform the costs used for future rate-making purposes. The costs used to underpin future rate designs will include the full (as opposed to incremental) allocation of common costs, including corporate overheads and will be reflective of the costs required to serve the Woodstock service area.

III. CSASWH Submissions

15. CSASWH's argument presents views that lead to its conclusion that the no-harm test has not been met. Reply to CSAWH's substantive views is provided below.

Costs and rates

Costs to serve customers

16. CSASWH cites the PEG benchmarking report filed by SEC, as part of its cross-examination materials, to support the view that Hydro One's cost per customer is $307 higher than WHSI's and that the transaction should fail as a result of this difference. However, this is an "apple and oranges" comparison. Hydro One's cost per customer reflects an average cost of all of its customers across the province and is therefore not representative of Hydro One's cost to serve customers specifically located in the Municipality of Woodstock.[8]

17. A more helpful cost comparison in these circumstances compares Hydro One's current OM&A forecast to serve customers in its high-density residential rate class, to WHSI's own OM&A forecast. This approach is consistent with the OEB's Decisions in both the Norfolk and Haldimand transactions.[9] Such a comparison reveals that Hydro One's forecast cost is $181 per year, versus WHSI forecast of $277.[10] Moreover, the evidence in this proceeding demonstrates that cost structures, when compared to the status quo, will go down.[11] That is important, since the Board has previously indicated that cost structures are of "prime importance" in understanding the impact of a proposed acquisition.[12]

Sharing of savings

18. CSASWH and other intervenors[13] have acknowledged that the approval of this transaction will create savings. There is therefore no dispute that this transaction is consistent with the Board's objectives of promoting economic efficiency and cost effectiveness in the distribution of electricity.

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[8] See Hydro One's reply to SEC's submissions on this point, below.

[9] EB-2014-0244, Decision and Order, Section 3 Application of the Principles to the Applications, page 2.

[10] As shown in the OEB yearbook; see also Application at Exhibit A, Tab 2, Schedule 1, page 9 as well as January 15, 2015, transcript at pages 113-114.

[11] See Exhibit A, Tab 2, Schedule 1, page 2.

[12] EB-2013-0196/0187/0198, OEB Decision and Order dated July 3, 2014, page 12.

[13] Transcript volume 1, page 122.

19. CSASWH's remaining concern, however, is that WHSI customers will not get a "fair share" of these savings.[14] To CSASWH, "fair share" means that all, or a large majority, of savings should be allocated to WHSI customers only.

20. In the Norfolk Decision, the Board found that for the purpose of the no-harm test, "consumers" includes both a utility's existing customers and customers of the utility being acquired.[15] The no-harm test does not require that acquired customers receive a prescribed percentage of projected savings, nor does it even require that the transaction produce the "best" possible result for acquired customers, as compared to other hypothetical transactions.[16]

21. The present circumstances are not unlike the Norfolk and Haldimand transactions. WHSI customers will obtain benefits from the transaction. Customers of the acquiring utility should also benefit from savings, as these customers have paid for investments and infrastructure from which acquired customers are expected to benefit. Hydro One has consistently structured transactions such that the customers of both the acquiring and acquired entity can benefit.[17]

22. The notion of allocating savings exclusively to acquired customers is also inconsistent with the 2015 Consolidation Policy. The purpose of the rate rebasing deferral period described in the 2015 Consolidation Policy is to provide a reasonable opportunity to have savings offset the real costs which the acquiring utility has incurred in respect of a MAADs transaction.[18]

23. Consolidation, by its very nature, is not a one-sided process. The overarching objective is to achieve a more efficient operation, as compared to having two independent utilities provide duplicative tasks. Hydro One believes that savings achieved should benefit both acquired customers and legacy customers. Consolidation creates a singular, more efficient enterprise. Net benefits achieved arise because of the overall efficiencies of that enterprise. All customers of that entity should therefore be permitted to enjoy these benefits.

CDM

24. CSASWH asserts that Hydro One has "little awareness" of WHSI's programs or customers. CSASWH bases this assertion on (i) the fact that Hydro One's witnesses did not know whether a large industrial Hydro One client in Woodstock was participating in a conservation program and (ii) Hydro One's suggestion that it could learn from WHSI's success with conservation programs.

25. In response, the granularity of knowledge expected from Hydro One's witnesses is not reasonable. If CSASWH wanted more detailed, relevant information than that which Hydro One's witnesses could provide, the way to accomplish this is through an undertaking request.

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[14] CSASWH submissions, page 3 and pages 18-19.

[15] EB-2013-0196/0187/0198, OEB Decision and Order dated July 3, 2014, page 11.

[16] RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257, page 6.

[17] Transcript volume 1, pages 15-16.

[18] 2015 Consolidation Policy, page 5.

26. CSASWH misunderstands Hydro One's suggestion that learnings can occur from WHSI's CDM successes. CSASWH states that Hydro One mistakenly believed that WHSI had completely different conservation programs. However, Hydro One's proposition was not about differences in programs, but rather that the programs and policies behind WHSI's success in conservation programs would be considered and lessons taken. Hydro One's answer to CSASWH interrogatory 8,[19] referenced by its witness,[20] clearly explains the CDM benefits of the merger for acquired customers:

> In addition to making all Province-Wide Programs available under a new merged framework, WHSI customers would also benefit from Hydro One's leading edge research and local/regional program development and pilot program offerings that go beyond the OPA's Programs.

27. Finally, CSASWH asserts that Hydro One was "skirting" the information requested in undertaking J2.2. Hydro One disagrees. The undertaking asked "what the take-up [of conservation programs] was."[21] The response answered the question posed: Hydro One is consistently performing better than Woodstock Hydro in the take-up of all CDM programs that WHSI customers have participated in.[22]

28. In sum, while Hydro One appreciates CSASWH's interest and concern regarding CDM activities, the evidence in this proceeding does not suggest that harm will be caused to WHSI ratepayers with respect to CDM. As noted by the OEB in its March 12, 2015, decision regarding Hydro One's distribution rates, "Hydro One has been one of the province's leaders in CDM, including co-ordination with other distributors, participating in energy sector education and collaboration".[23] Those attributes are what WHSI customers will be offered if the requested transaction and relief is approved.

<u>Reliability and customer service</u>

Reliability

29. CSASWH argues that Hydro One "constructed an arbitrary measure of its reliability" for the Woodstock territory by providing reliability data from a feeder at the Hydro One Woodstock East distribution station[24].

30. Hydro One submits that it is, in fact, reasonable to provide statistics which demonstrate the reliability levels experienced by Hydro One customers in the geographic area surrounding the Municipality of Woodstock.[25] As Hydro One's witnesses explained, "the Hydro One feeder used to produce these results was from the Hydro One Woodstock East distribution station. This feeder line flanks the east side of WHSI's service territory".[26] These values demonstrate that Hydro One is providing a level of reliability comparable to the levels

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[19] Exhibit I, Tab 3, Schedule 8.

[20] Transcript volume 1, page 24.

[21] At page 126, the Chair asks "Are you asking what the take-up was?" and Mr. Harding replies "Yes."

[22] Undertaking J2.2 filed 2015-06-03, page 4.

[23] EB-2013-0416, OEB Decision and Order, page 29.

[24] Transcript volume 1, page 16.

[25] In the Board's Haldimand decision, the Board accepted Hydro One's use of local comparable reliability statistics, though it did note that these results were not determinative.

[26] Transcript volume 1, page 16.

currently enjoyed by WHSI customers. Given this, there is no reasonable basis to suggest future reliability levels enjoyed by WHSI customers will decline as a result of this transaction.

31. With regard to the validity or arbitrary nature of the data, Hydro One's witnesses were clear.[27] The numbers provided were given on the same basis as all data filed in the OEB Yearbook.

32. To require Hydro One to report reliability and customer service information separately for acquired distribution companies ignores the practical outcome expected from consolidation transactions; acquired customers will be served by one amalgamated enterprise. At page 13 of SEC's argument, SEC mistakenly believes that Hydro One will be maintaining real-time information in the manner as such information was maintained had WHSI remained a stand-alone utility. As Mr. Bertolo explained, that simply is not the case.[28] The information reporting required for these purposes would unduly impact savings expected from any consolidation, yet the utility of such information is unclear. Consolidation assimilates "acquired" and "legacy" customers. These classifications have little meaning from a customer service and reliability information perspective following integration.

33. CSASWH's concerns with reliability reporting[29] will be addressed below in Hydro One's response to SEC's requested conditions of approval.

Customer Service

34. CSASWH takes issue with what will be reported by Hydro One and adds that WHSI customers will be left with the frustration of dealing with "a remote call centre, more and longer outages, and fewer opportunities to save energy and money through conservation"[30]. Outages and conservation are addressed above. On the subject of the call centre, the evidence on the record is that WHSI's customers would in fact have access to a call centre with longer hours than their current call centre, and a call centre for outages that operates on a 24 hours per day basis[31]. Hydro One believes this is a benefit to the customers of WHSI, and it certainly does not cause harm.

IV. SEC submissions

35. At the outset, SEC's argument is complicated by the fact that many of its assertions are unsupported by the evidence on this record. SEC has also chosen to include new evidence and analysis on this new evidence in its final argument.[32] This is not helpful to the Board's process. SEC was provided an opportunity to file evidence during the course of this proceeding. SEC has taken up this opportunity before in other proceedings but clearly decided not to do so in this proceeding. For SEC to file final argument and suggest that its

[27] Transcript volume 1, page 34.

[28] Transcript volume 2, page 61, line 9-11.

[29] CSASWH submissions, page 5-6.

[30] CSASWH submissions, page 4. CSASWH also quotes its own words from the transcript where it described a report of the Ontario Ombudsman, a report the details of which the Board clearly stated it would not get into in this proceeding. Hydro One is therefore not commenting on the report; however, Hydro One notes that the quote CSASWH provides as being from the report is actually only its own (paraphrased) words about the report.

[31] Transcript volume 1, page 137.

[32] See paragraph 108 of SEC submissions as well as chart entitled "Forecast of Over-Earnings for Woodstock Hydro 2016 to 2025."

analysis is not dependent on new information, such as the assumptions it makes to formulate its analysis, is a considerable leap.

SEC's no-harm test

36. SEC's submissions concerning the no-harm test are inconsistent with the clear articulation of this test as set out in past Board Decisions. SEC believes there are "four main factors" which the Board should consider in applying the no-harm test in this case: cost, prices and rates; reliability; customer service and CDM.[33] Yet these "four factors" do not accurately represent the Board's objectives under section 1 of the *OEB Act, 1998*. The Board's objectives are as follows:

(i) To protect interests of consumers with respect to prices and adequacy, reliability and quality of electricity service;

(ii) To promote economic efficiency and cost effectiveness in generation, transmission, distribution, sale and demand management of electricity and to facilitate maintenance of financially viable electricity industry;

(iii) To promote electricity conservation and demand management in a manner consistent with Ontario government policies, including having regard to the consumer's economic circumstances;

(iv) To facilitate implementation of smart grid in Ontario;

(v) To promote use and generation of electricity from renewable energy sources (in manner consistent Ontario's policies), including timely expansion/reinforcement of transmission/distribution systems to accommodate renewable facilities.

37. In the Norfolk Decision,[34] the Board reconfirmed the no-harm test take into account all of the above objectives. SEC's formulation of the objectives incorrectly omits and/or minimizes certain objectives, most notably the Board's second objective relating to economic efficiency and cost effectiveness in the distribution of electricity and facilitating the maintenance of a financially viable electricity industry.

Cost, Price and Rates

38. SEC's numerous allegations under this heading include that Hydro One does not accept the costs to serve WHSI customers will be relevant to the Board at the time of rebasing.[35] SEC's allegations are without any evidentiary justification or support and are made notwithstanding the evidence Hydro One has placed on the record in this proceeding. That evidence shows Hydro One rates will be set in the future in accordance with (i) rate-making principles and (ii) rate classes for acquired customers will reflect costs to serve these customers, as impacted by productivity gains due to the consolidation.[36] This approach should not be controversial: it is entirely consistent with the Norfolk proceeding. SEC's

[33] SEC submissions, page 3.

[34] See pages 10-11, OEB Decision and Order dated July 3, 2014, EB-2013-0196/0187/0198.

[35] SEC submissions, page 6.

[36] See response to SEC IR 13, among other references.

testing of Hydro One's evidence has not resulted in an impeachment of Hydro One's intentions. SEC offers speculation alone as the basis for the Board to disavow that which Hydro One says it intends to do.

39. SEC also alleges that "[T]he 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"[37]. These allegations are inconsistent with the record. Hydro One's witnesses were very clear on this point. Confirmation was given that the Board was in charge of its policies and could do what it felt was needed in approving the transaction.[38]

40. SEC further alleges that Hydro One's "witnesses actually said that doing what the Board ordered in the Norfolk and Haldimand decision would defeat the purpose of consolidation."[39] These remarks also reflect a stretch to what the record actually states. What Hydro One's witnesses said was that keeping all of the records currently administered by WHSI (e.g. providing full financial statements) would increase costs which ultimately would reduce the savings that are meant to be captured by consolidation, and thus reduce the savings to ratepayers.[40]

41. In effect, SEC's arguments in respect of costs do not argue that consumers will be harmed by the transaction, but instead amount to a set of complaints about what the Board has ordered in recent MAAD transactions.[41] Moreover, SEC appears to believe that because it does not agree with what the Board has ordered and/or because it disagrees with Hydro One's interpretation of the Board's requests, it is open to SEC to make any number of unfair allegations that Hydro One is "resisting" Board orders or "stretching the meaning of words".[42] Based on these allegations, SEC suggests that the Board should reject the Application.

42. Simply put, Hydro One does not agree with SEC's allegation that it has resisted the Board's orders or has taken liberties in its interpretation of Board policies or rulings. Please see Hydro One's response to Board Staff's submissions on reporting of costs and savings, above.

43. SEC also appears to ignore Hydro One's legacy customers and focuses on savings for WHSI customers only. Please see Hydro One's response to CSASWH under "Sharing of Savings", above.

44. Finally, SEC also argues under its "cost, price and rates" heading that because there has been a change in the municipal government in Woodstock, the Board should reject the application in case the new local government does not agree with the sale of Woodstock Hydro. Hydro One observes that it would be harmful to the province's policy on consolidation if the Board were to reject transactions whenever new municipal councils are elected. The reality is that the transaction before the Board involves a commercial agreement executed by duly authorized parties. Speculation about changes of intention

[37] SEC submissions, page 7.

[38] Transcript volume 1, page 141.

[39] SEC submissions, page 7.

[40] Transcript volume 2, page 49.

[41] See, for example, section 67 of SEC's submissions which makes clear SEC's frustrations with respect to what the Board has previously ordered or not ordered.

[42] SEC submissions, page 7.

does not assist the Board in its assessment of whether the proposed transaction meets the no-harm test. That is and should remain the focus.

Reliability

45. SEC argues, like CSASWH, that Hydro One's evidence in respect of the feeder data is "not a reasonable sample" and that Yearbook data should be used.[43] On this, please see Hydro One's response to CSASWH on this subject, above.

46. SEC also raises concern that Hydro One would not report reliability statistics for WHSI as if it continued to be a completely separate utility. This will be addressed below in Hydro One's reply regarding SEC's requested conditions of approval.

47. SEC then suggests the Board should draw a negative inference[44] because Hydro One did not file information that was never requested by any party, namely, reliability statistics for communities that Hydro One serves that are similar in size to Woodstock. Hydro One submits that there is absolutely no reason for the Board to draw any negative inference here. Not only was the information in question not requested, but Hydro One does not agree that it would be helpful information: to utilize a broad number of communities across the province would not appropriately address local factors such as geography, weather or seasonality that affect reliability[45].

48. In SEC's submissions on customer service and CDM, addressed below, SEC again asks the Board to draw negative inferences because Hydro One did not file information that was never requested by any party. Hydro One will not re-visit this matter below. Hydro One submits that there is no reason for the Board to draw any negative inferences as suggested by SEC.

Customer service

49. SEC relies on 2013 OEB Yearbook results and finds that "Woodstock Hydro came out ahead [of Hydro One] on every one". It is not clear why SEC has chosen to limit its analysis to just one year. The 2013 year was an anomaly for Hydro One due to problems with the implementation of a new billing and customer information system. An examination of other OEB Yearbook statistics demonstrates this point.[46] In any event, as noted in Exhibit I, Tab 3, Schedule 6, by the time integration occurs, Hydro One's billing and other customer service offerings will be restored to normal service levels. Integration will be timed so that new customers will be unaffected by any previous billing issues and will in fact benefit from the customer service improvements Hydro One has implemented and already realized since the new information system integration.

50. In respect of the third metric listed by SEC, "scheduled appointments met on time", SEC does not take into account the very different overall service territory of Hydro One as

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[43] SEC submissions, page 8.

[44] SEC submissions para. 26.

[45] Hydro One's witness referred to maps to indicate where the feeder in question was actually located and clearly stated this feeder is "the closest one as we can get to being within the municipality and **operating characteristics around there**" EB-2014-0213, Transcript Volume 1.

[46] In 2012, Hydro One reported better results than WHSI in telephone accessibility. In 2011, the results were relatively even. See 2011 and 2012 OEB Yearbooks.

compared to WHSI's service territory. Hydro One's workers have to travel long distances to connect customers and attend appointments. In some cases workers are in areas where there are no communication towers available to communicate with a customer prior to a scheduled appointment and/or reschedule an appointment. Hydro One submits that this reasonably accounts for the very small differences between Hydro One and WHSI in the first two metrics listed by SEC. Moreover, Hydro One notes that even with the extra travel and terrain, Hydro One consistently exceeds the OEB's minimum 90% standard on this metric.[47] Given the proximity of Hydro One's existing service territory to Woodstock's urban service territory, communications and travel are not challenging issues.

CDM

51. SEC argues that Hydro One sought to "downplay" Woodstock Hydro's accomplishments as a top performer in respect of CDM programs. In fact, Hydro One simply looked into how WHSI had such excellent results on CDM and reported to the Panel what it had found, i.e. that the 177% of target result was due, in significant part, to a large industrial customer's successful participation in a conservation program and the manner in which conservation savings were reported[48]. These details were provided in respect to an interrogatory asked on Day 1 of the hearing.

52. SEC also takes issue with Hydro One's response to undertaking J2.2, which showed that Hydro One is consistently performing better than WHSI in the take-up of all CDM programs participated in by customers in the municipality of Woodstock[49]. SEC argues that "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"[50]. To assist SEC in understanding the data provided, Hydro One noted in J2.2 that Hydro One reports its Annual CDM Report on a provincial aggregate. The subset provided in J2.2 was provided "utilizing Hydro One's internal CDM database to explicitly locate customers who participated in programs with a Woodstock municipal address as requested[51]". As noted in Table 1 to J2.2, "participation for Hydro One customers in Woodstock is not available for the Appliance Exchange, Conservation Instant Coupon Booklet, Bi-Annual Retailer Event, and the Retailer Co-Op programs as there is no participation tracking by premises for these programs". In each of the four programs where Hydro One could not delineate Woodstock specific data due to the limitations of participation tracking by premises for these programs, Hydro One provided the overall provincial average.

Conditions requested by SEC

53. SEC's conditions are inconsistent with the Board's policy on consolidation including the no-harm test. Moreover, SEC has provided no explanation as to why its proposed conditions are required in these circumstances, when similar transactions such as Norfolk, Haldimand,

[47] As Hydro One has explained in previous MAAD applications (see EB-2014-0244, Exhibit I, Tab 2, Schedule 2, page 4, beginning at line 16), Hydro One services topographically diverse territories and customers across the entire province of Ontario whereas WHSI is a single supplier located in one part of southern Ontario. Considering these disparate territories and infrastructures, comparisons of selected WHSI versus Hydro One Networks data is misleading.

[48] Transcript volume 2 starting at page 6.

[49] Undertaking J2.2 filed 2015-06-03, page 4.

[50] SEC Submission, page 10.

[51] Exhibit J2.2, page 1.

Lakeland Power Distribution Limited[52] and Brant Country Hydro[53] have been approved without these terms.

54. Hydro One's specific response to each of SEC's conditions is set out below.

    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.

55. Maintaining separate record-keeping and reporting documents for acquired utilities limits one of the benefits of consolidation. As described in the Report of the Ontario Distribution Sector Review Panel, *Renewing Ontario's Electricity Distribution Sector: Putting the Customer First*:

    "There will be savings in regulatory costs. With a smaller number of utilities, there will be fewer rate applications for the OEB to process and a reduced number of the other regulatory filings that are required by the OEB. Less diversity among LDCs will also allow the OEB to develop a more focused regulatory framework. These changes will have two benefits: It will allow the OEB to streamline operations and reduce its cost of regulation, thus saving customers money; and since the per-customer cost of regulatory filings is less for large utilities than small ones, consumers will receive a second, more immediate benefit".

56. Maintaining these redundancies limits the true value of consolidation, and Hydro One fails to see how maintaining separate reports for parties involved in a consolidation will be of benefit to the Board on a go-forward basis in the effort to reduce consumer costs.

    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.*

57. Hydro One disagrees and notes that this suggestion by SEC is in disregard of the 2015 Policy. Hydro One submits that WHSI rates should be approved up to ten years. This is consistent with the 2015 Policy which states that there is no requirement for the consolidated entity to wait until the deferred rebasing period is completed to apply to the OEB for rebasing[54].

    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*

[52] EB-2013-0427/0428.

[53] EB-2014-0217/ 0223.

[54] 2015 Consolidation Policy, Page 7.

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.

58. WHSI's ratemaking during the deferred rebasing period will be based on a price index adjustment mechanism as noted in the evidence. Hydro One plans to file, in 2017, an application to rebase its legacy distribution rates for 2018. Obligating Hydro One to rebase as a consolidated entity within three years' time (including integration time) would restrict Hydro One's ability to recoup its costs in this transaction and would also have detrimental impacts to WHSI's ratepayers.

59. Hydro One's witnesses illustrated that the premium and transaction costs would not be recouped over five years,[55] hence the request for the extended deferral period. SEC's condition would directly contradict the observations made by the Board, based on the Board's understanding of the concerns of distributors in respect of consolidation policy:

"…given the nature and timing of these costs and savings, annual net benefits (operational costs less transition and integration costs) are in many cases negative during the first two to four years. Therefore, **it may take anywhere from six to ten years to reach a break-even point,** where the cumulative savings exceed the cumulative acquisition and integration costs"[56].

60. Furthermore, such a ruling would prejudice and likely preclude Hydro One from pursuing future consolidations, and have wide ranging industry implications as it may, more than likely reduce the likelihood of other consolidations which do not involve Hydro One. Hydro One believes that the intent of the policy, as noted earlier, is to provide distributors with the flexibility to manage their own unique circumstances. As such, Hydro One should not be forced to pursue IRM for years 4 to 10 due to an MAAD transaction that represents less than a 1% of Hydro One Distribution's net fixed assets[57].

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.*

61. Hydro One disagrees with this suggestion. The Price Cap IR increase that will take effect in Year 6 after the rate reduction and rate freeze will be based on the base distribution delivery rates as established in WHSI's last rate application. After the five-year rate reduction and rate freeze period has elapsed, the negative rate rider will fall off the rate schedule, as would any other existing riders. This is normal consistent practice regarding riders. The negative rate rider will not be utilized in establishing *base* distribution delivery rates going forward, nor should it.

[55] Transcript volume 2, Page 135.

[56] 2015 Consolidation Policy, Page 5.

[57] Exhibit A, Tab 3, Schedule 1, page 9.

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.*

62. Hydro One agreed at the oral hearing that upon closing, it would review the accounting that WHSI has done on its ICM rider. At that time, Hydro One will assess the balance on the account and determine the required length of the rider. Hydro One will then, if required, make a separate application to the Board to adjust the ICM rider, if necessary.[58]

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.*

63. Hydro One submits that the ROE can be calculated only for the consolidated entity, as WHSI will cease to exist as a stand-alone entity. This is consistent with Board Staff's submission[59] as well as the Consolidation Policy.

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.*

64. Hydro One disagrees with this condition. Please see Hydro One's response to SEC's comments on reliability, above.

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.*

65. Hydro One argues that these service quality and CDM conditions should be dismissed, as they are inconsistent with previous Board decisions, such as the Haldimand decision[60] and the Cambridge North Dumfries-Brant County Hydro Inc. Decision (EB-2014-0377). Moreover, this reply argument and the evidence in this proceeding have shown that Hydro

[58] Transcript volume 2 at pages 101-102.

[59] Board Staff Submission, Page 13.

[60] In the Haldimand decision, the Board noted that "The OEB does not view the possibility of some service metrics not being maintained consistently at the current level as warranting a refusal of the application. The OEB has a proactive service quality oversight framework and has the ability to intervene if action is warranted" EB-2014-0244, OEB Decision and Order, Page 4-5.

One has met the Board's no-harm test in respect of customer service and CDM, so there is therefore no reason for the Board to depart from its past practice in respect of these matters.

V. Conclusions

66. Hydro One submits that the submissions received from CSASWH and SEC fail to demonstrate that the no-harm test cannot be satisfied in the circumstances of the proposed transaction. On the contrary, Hydro One submits it has met all of the requirements of the no-harm test. Notably, Board Staff agrees with Hydro One on this substantive point.

67. These circumstances present the Board with an important opportunity to provide certainty on its interpretation of the 2015 Consolidation Policy. Hydro One's request for a ten-year deferral period is consistent with the requirements found in the policy. Complexities associated with past transactions and transitional issues should not override the request made by Hydro One. The time could not be better for the Board to demonstrate to the marketplace that the 2015 Consolidation Policy is now being applied consistent with its terms, affording greater flexibility and mitigating investment risk.

68. For these reasons, Hydro One requests timely approval of its amended Application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED DATED THIS 24TH DAY OF JUNE 2015

Gordon M. Nettleton
Counsel to Hydro One Inc. and Hydro One Networks Inc.

Signed in the Original