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**BY E-MAIL**

June 6, 2016

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Inc.  
Application for approval to purchase Great Lakes Power Transmission Inc.  
OEB File Number: EB-2016-0050**

In accordance with Procedural Order No. 1, please find attached OEB Staff Interrogatories in the above proceeding. The attached document has been forwarded to Hydro One Inc. and to all other registered parties to this proceeding.

Yours truly,

*Original Signed By*

Judith Fernandes  
Project Advisor

Encl.



## **OEB Staff Interrogatories**

**APPLICATION BY HYDRO ONE INC. FOR LEAVE TO PURCHASE ALL  
OF THE ISSUED AND OUTSTANDING SHARES OF GREAT LAKES  
POWER TRANSMISSION INC.**

**EB-2016-0050**

**June 6, 2016**

***Exhibit A – Part 3- Business of Transacting Parties***

**A-Staff-1**

**Ref: Exhibit A, Tab 1, Schedule 1, Page 6**

The application states that 1937672 Ontario Inc., a wholly-owned subsidiary of Hydro One Inc. (Hydro One) will own the limited partnership units of Great Lakes Transmission Holdings II LP and also states that there is no contemplated transfer or change in the ownership of the limited partnership interests in GLPT or GLPTLP.

- a) Please explain why Hydro One considers that no change of ownership will take place when the limited partnership units of Great Lakes Transmission Holdings II LP will now be owned by 1937672 Ontario Inc.
- b) Please confirm whether the limited partnership units currently held by Great Lakes Holdings LP will be owned by 1937672 Ontario Inc. after the transaction. If not, please provide a detailed explanation of the ownership structure of the limited partnership units of Great Lakes Power Transmission Holdings LP and Great Lakes Power Transmission LP following the transaction.
- c) Please comment on whether 1937172 Ontario Inc. will own the limited partnership units of Great Lakes Transmission Holdings II LP indefinitely or if, this is a temporary arrangement please comment on Hydro One's plans for the ownership of these limited partnership units going forward.

***Exhibit A – Part 4- Impact of the Proposed Transaction***

**A-Staff-2**

**Ref: Exhibit A, Tab 2, Schedule 1, Page 3**

Hydro One states that the transaction is expected to result in downward pressure on the cost structures of Hydro One and GLPT as compared to the scenario where the transaction

did not proceed. Hydro One states that this conclusion is supported by two comparative assessments: (1) Hydro One and GLPT's productivity improvements; and (2) savings opportunities relative to the status quo scenario.

- a) Please comment on the particular aspects of the transaction that will result in the anticipated productivity improvements.
- b) Please comment on any other productivity measures other than the OM&A per gross fixed asset that Hydro One could use in evaluating the impact on cost structures.
- c) Please identify any factors that may affect the achievement of the expected efficiencies and the recovery of costs associated with the proposed transaction in the timelines projected.

***Exhibit A – Part 4- Impact of the Proposed Transaction***

**A-Staff-3**

**Ref: Exhibit A, Tab 2, Schedule 1, Page 7**

Hydro One states that incremental transaction costs will be financed through productivity gains associated with the transaction and will not be included in either GLPT or Hydro One's revenue requirement and thus will not be funded by ratepayers.

- a) Please provide the magnitude of the incremental transaction costs that will be incurred as a result of this transaction.

***Exhibit A – Part 4- Impact of the Proposed Transaction***

**A-Staff-4**

**Ref: Exhibit A, Tab 2, Schedule 1, Page 8**

Hydro One states that the premium paid over book value on the transaction will not have a material impact on Hydro One's financial viability as the value of the transaction equates to approximately 2% of Hydro One's fixed assets. Hydro One also states that the premium will not be recovered through revenue requirement and no return will be earned on that

premium.

- a) Please confirm the amount of the premium that is being paid as well as the rate base portion of the price that is expected to be recovered from ratepayers.

***Exhibit A – Part 5- Rate Considerations***

**A-Staff-5**

**Ref: Exhibit A, Tab 1, Schedule 1, Page 8**

Hydro One states that it has selected a 10 year rate rebasing deferral period commencing on the closing date of the transaction. Should the transaction close before or during the first quarter of 2017, the rate rebasing deferral period would end December 31, 2016. Rates would then be rebased effective January 1, 2017. Hydro One also states that its understanding is that GLPT expects to file in 2016 a rate application for approval of its 2017 and 2018 revenue requirements in 2016.

- a) Please clarify if Hydro One is requesting a deferred rate rebasing period for 10 years beginning in 2017 or is Hydro One requesting a deferred rate rebasing period for 8 years, commencing in 2019.

***Exhibit A – Part 5- Rate Considerations***

**A-Staff-6**

**Ref: Exhibit A, Tab 3, Schedule 1, Pages 1-2**

Hydro One has requested the OEB's acceptance of the proposed methodology to calculate GLPT's revenue requirement for 2019 and for each subsequent year during the rate rebasing deferral period. In 2016, GLPT intends to file a rate application for approval of its 2017 and 2018 revenue requirements. For 2019 and each subsequent year of the rebasing deferral period, GLPT's annual revenue requirement will be calculated by using GLPT's prior year revenue requirement and adjusting this amount with an inflation factor.

- a) Will GLPT be making a request under section 78 of the OEB Act in its 2017/2018 rate application for its proposed methodology to calculate the GLPT 2019 revenue requirement and for each subsequent year during the deferred rebasing period?
- b) If Hydro One will not be making a request under section 78 of the OEB Act:

- a. Please explain what Hydro One is seeking from the OEB through the request made in this application
- b. Please provide the basis on which Hydro One is making this request, setting out in detail how this request is consistent with the *OEB Handbook to Electricity Distributor and Transmitter Consolidations*.

### ***Exhibit A – Part 5- Rate Considerations***

#### **A-Staff-7**

**Ref: OEB Filing Requirements For Electricity Transmission Applications, Chapter 2, Page 1**

The Filing Requirements set out two new transmission revenue plan options. One of these is an incentive-based revenue index plan of five years, comprising an initial application to establish a revenue requirement based on a single test year cost of service application, followed by incentive-based and indexed adjustments to revenue requirement for the balance of the term. Analogous to a Price Cap for distributors, this “Revenue Cap index” approach includes expectations for the development of an index, as well as productivity and stretch commitments. The OEB invites transmitters to propose and substantiate the appropriate method and commitments for these elements.

- a) If Hydro One is seeking the OEB’s approval for its proposed methodology for setting its revenue requirement for 2019:
  - a. Please confirm whether Hydro One has completed analysis to substantiate its proposal.
  - b. If this analysis has been undertaken, please advise whether this information is expected to be filed as part of GLPT’s rate application for 2017/2018. If not, please indicate when Hydro One expects to provide this information.
- b) Please comment on the impact to the transaction if the OEB does not accept Hydro One’s proposed methodology or indicates that it will not be dealt with as part of this application.

***Exhibit A – Part 5- Rate Considerations***

**A-Staff-8**

**Ref: Exhibit A, Tab 3, Schedule 1, Pages 2-3**

Hydro One has proposed an earnings sharing mechanism that will take effect during the last five years of the rebasing deferral period. GLPT's revenue requirement will be adjusted so that prior year excess earnings are shared with ratepayers on a 50:50 basis for all earnings that exceed 300 basis points above the ROE approved by the Board for 2018 in GLPT's 2017-18 rates application.

GLPT's audited financial statements will be used to calculate any earning sharing amounts if amalgamation has not occurred during the rebasing deferral period. If amalgamation occurs during the rebasing deferral period, GLPT's last available audited financial statement will serve as a proxy for the achieved ROE amount for purposes of calculating shared earnings. The shared amount will be held constant and treated as an annual credit to each subsequent revenue requirement amount in the remaining rebasing deferral period.

- a) Please confirm whether it is Hydro One's intention to share potential excess earnings with customers of both Hydro One and GLPT or whether the shared earnings will accrue only to the benefit of the customers of GLPT.
- b) Please confirm whether Hydro One has considered any other methods for the calculation of shared earnings, post-amalgamation. If so, please provide details on the alternative methods that Hydro One has considered.