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Our File No.	164119

July 6, 2016

VIA RESS, EMAIL AND COURIER

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

Attention: Kirsten Walli
Board Secretary

Dear Ms. Walli:

Re: EB-2016-0025: LDC Co.

Please find enclosed BOMA's Interrogatories.

Yours truly,

FOGLER, RUBINOFF LLP

Tom Brett

Thomas Brett
TB/dd
Encls.
cc: All Parties

EB-2016-0025

ONTARIO ENERGY BOARD

Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, and PowerStream Inc.

Application for approval to amalgamate to form LDC Co. and for LDC Co. to purchase and amalgamate with Hydro One Brampton Networks Inc.

Interrogatories of Building Owners and Managers Association, Greater Toronto ("BOMA")

July 6, 2016

Tom Brett
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Counsel for BOMA

<u>Interrogatories of BOMA</u>

1. ***Ref: Exhibit B, Tab 3, Schedule 2, Page 2 of 9***

Please provide a corporate diagram which shows the various Enersource companies after the creation of Enersource Holdings. Please confirm that Enersource Holdings will hold the Enersource Corporation's interest in LDC Co. What is the reason for the creation of Enersource Holdings' positional between Enersource and Enersource Hydro Mississauga Inc. and Enersource Services Inc.?

2. ***Ref: Ibid, Page 3; Attachment 17***

Horizon Utilities Corporation apparently owns a 99.99% ownership and is the managing partner of the Solar Sunbelt.

(a) Please provide a copy of partnership agreement between Horizon Utilities Corporation ("HUC") and the Solar Sunbelt General Partnership.

(b) Please provide the Services Level Agreement under which the HUC supplies management services to the Solar Sunbelt Partnership, including its general partner. If no such Agreement exists, please outline the service HUC supplies to the Partnership as managing partner, the compensation it receives, and the resources it uses to provide the service.

(c) Is Horizon Solar Corporation the general partner? If not, what role does Horizon Solar Corp. play in the partnership? If not, which company is? Is Solar Sunbelt

LP a limited partnership? If so, which entities are the limited partners? Is HUC the sole, limited partner? What are the percentage interests?

(d) Please confirm that HUC is an affiliate of Horizon Solar Corporation and Solar Sunbelt GP.

3. ***Ref:*** ***Ibid, Page 5***

(a) Is PowerStream Energy Holdings Trust ("PEHT" or the "Trust") the same entity as PowerStream Holdings Inc., the entity displayed in Figure 8? If not, please show where the trust fits in. Please provide the documents pursuant to which the Trust is created. What is its current function? Why does it remain on the most recent organization charts? Please provide a list of agreements between the PEHT and PowerStream or any of its affiliates.

(b) Please provide the amount of dividends that PowerStream Holdings Inc. has received from PowerStream Inc. in each of the last five years. Please provide similar information for the Enersource and Horizon holdcos.

4. ***Ref:*** ***Tab 3***

What are the net metering thresholds? What is their significance?

5. ***Ref:*** ***Tab 4, Schedule 1***

Please indicate for which of the steps from 1(a) to 7(b) you are seeking the Board's approval in this case, and under which sections of the Ontario Energy Board Act.

Benefits

6. ***Ref: Exhibit B, Tab 5, Schedule 1 – Overall Impact of Transaction***

(a) Page 2 – Please provide a copy of the OEB letter/decision under which Enersource received approval to defer the rebasing. When does Enersource intend to rebase?

(b) Page 3 – Is the applicant committed in a legally binding fashion to improving the quality, reliability and adequacy of electricity service for its customers? If so, to what extent. Please answer for each of "quality", "reliability", and "adequacy".

(c) Page 5 – Why is each of the Enersource, Horizon, PowerStream SAIDI higher in 2014 than it was in 2010? What is causing the diminished performance? Please discuss fully. Has the LDC Co. committed to any specific SAIDI targets over the deferred rebasing period or otherwise?

(d) For each of Horizon Utilities and PowerStream (the two largest partners), SAIFI is worse in 2014 – 1.91 and 1.72 vs. 1.24 and 0.81 than in 2010. Please explain why this is the case. Has the LDC Co. committed to any specific SAIFI targets over the deferred rebasing period or otherwise?

(e) In light of the declining performance in both SAIDI and SAIFI, why should the Board, and ratepayers believe that reliability will be maintained or enhanced by the merger? Please explain fully.

(f) Is the applicant committed in a legally binding fashion to maintaining the reliability, quality, and adequacy of the company, relative to the status quo?

Merger Implementation Costs

7. ***Ref: Exhibit B, Tab 5, Schedule 5***

Your evidence has mentioned two types of merger-related costs – Transaction Costs and Integration Costs.

(a) Please itemize the different categories of transaction costs, eg. legal costs, accounting costs, financial advisory costs, etc. for each of the applicants (holdcos). Please provide the total amount of each type of cost and the total costs by year incurred, or estimated to be incurred.

(b) In your presentation day comments and in your prefiled evidence, you mentioned that the transaction costs would be borne by the individual holdcos of each of the utilities, not by the LDCs themselves.

(i) Please confirm that is the case, and what is the amount for each holdco.

(ii) What is your estimate of merger post-closing transaction costs, including the transaction costs for the acquisition of Brampton Hydro? What are the amounts forecast to be, and provide separate amounts for the merger itself and the subsequent acquisition of Brampton Hydro?

(iii) Please provide same data for Brampton acquisition post-closing transaction costs.

8. ***Ref: Exhibit B, Tab 5, Schedule 5***

(a) The evidence suggests that growth opportunities will be pursued, where prudent. Does the merged utility have a particular optimal size for the utility, in terms of assets or numbers of customers, etc., or an idea of what geographic region it would eventually like to occupy?

(b) Given that the new utility will embrace the space of many large municipalities, including St. Catharines, Hamilton, Mississauga, Vaughan, Markham, Barrie, which reflect a substantial variation in economic strength and attractiveness to investing companies, how will the utility manage the competing pressure for investment in utility infrastructure, to facilitate economic development in each of the various municipalities?

(c) To what extent will the new utility be consistent with the configuration of six regional utilities proposed by the committee on utility consolidation [McFadden, Elston, Laughren]?

(d) The merger proposes three head offices for the utility. While one can understand the reluctance of municipalities and utility executives to give up a head office, especially when expensive new facilities have been constructed, why is it necessary to have a head office to "effectively utilize existing facilities"? Did the company assess the feasibility of selling or leasing some or all of the current PowerStream head office as an efficiency and consolidation measure?

(e) Why do "sustainability and innovation" need a separate "head office"? Are not sustainability and innovation desired characteristics for the organization rather than facilities which require their own facilities, much less a "head office"?

(f) What functions are included within sustainability and innovation? How many people work for each of these "functions"? Please provide an organization chart for these functions.

(g) Where will the ESCO head office be located? Please provide the service level agreements between the LDC Co. and the ESCO, which underpin sharing of common facilities costs with the ESCO.

9. ***Ref: Exhibit B, Tab 6, Schedule 2, Page 1; Schedule 1, Page 2, Figures 25, 27, 28***

Please provide a detailed description, and the calculation for each of the following: (a) claimed operational and capital investment costs; and (b) claimed savings, in the tables and in the text.

10. ***Ref: Consolidation Costs (or Integration Costs)***

(a) The integration cost (not including "transaction costs" that are to be paid by the utilities' owners, the holdcos) is estimated, in the evidence to be $43.1 million in operating costs, of which $37.6 million are "payroll related" costs, $5.5 million non-payroll related operating costs, and capital costs of $53 million. BOMA would like to gain a better understanding of the nature and make-up of these costs, and the year(s) in which they will be incurred. The payroll related costs of $37.6 million occur in years 2016 through 2020. Please break down the payroll cost into components, explain each component, and for each component, show the dollar amount and year(s) incurred.

(b) Please identify separately the costs of each OM&A item noted in Schedule 2, including:

(i) "integration of customers";

(ii) "alignment of financial and regulatory reporting requirements";

(iii) staff related costs;

(iv) transition of assets and related management to one standard;

(v) due diligence to negotiate the terms of the consolidation [are these transaction costs, or are they implementation costs, payable by ratepayers?];

(vi) costs associated with all regulatory, legal, and statutory reviews to and in order to receive necessary regulatory approvals [are these transaction costs, or are they implementation costs, payable by ratepayers, or a third category of costs?].

(c) For the non-payroll transaction costs of $5.5 million in years 2016 through 2020, a breakdown of these costs into constituent cost.

(d) The implementation capital cost of $53.3 million will be incurred in years 2016 through 2018. Please identify, describe and provide these costs for each of the IT system changes, including as noted in Tab 2, Page 1, CIS, ERP, GIS, OMS, SCDA, costs to create a single control room [initially, you propose two control rooms].

(e) Are the costs to move from two control rooms to a single control room included in the $53.3 million, or will they be incremental if and when a decision is made to move the single control room?

(f) Are there any other integration costs, other than the ones covered in Figures 25, 27, and 28?

11. ***Ref: Savings, Exhibit B, Tab 6, Schedule 1***

The synergy forecast at Tab 6, Schedule 1 asserts that the total anticipated savings, net of transaction costs over the proposed ten year rebasing deferral period, is $312 million in operating costs and $114 million in avoided capital costs, for a total of $426 million in total cash savings. BOMA would like to better understand the source of these savings.

(a) Please confirm that the "transaction costs" at Tab 6, Schedule 1, Page 1, Line 8 should read transition costs, or consolidation costs. BOMA understands transaction costs to be the costs incurred by the applicants, owners of the holdcos, and not recovered in rates, as explained at Tab 6, Schedule 2, Page 1, Lines 18-22. Please confirm our understanding, or explain if we are not correct.

(b) Please provide background details and calculations to support the claimed operating (payroll) cost savings (before costs) of $306.9 million over the ten year period 2016 to 2025 (Table 28). Please show the savings on an annual basis for that period. Please relate these cost savings to the payroll costs to be incurred, referred to in the previous question.

(c) Please provide background details, itemized by operating cost line items of the forecast $47.8 million in operating (non-payroll) cost savings over the years 2016 to 2025 and on an annual basis. The proposal appears to show no basis for the forecast reduction in non-payroll operating costs.

(d) The applicant has stated that the annual operating and capital savings are expected to be sustainable beyond the ten year deferred rebasing period. Will the applicants provide a firm and binding commitment to that effect, so as the issue does not become contentious at a future rebasing proceeding in the distant future? Please clarify what is meant by "sustainable".

12. ***Ref: Comparison to Status Quo – Exhibit B, Tab 6, Schedule 1, Page 4, Figure 26; Exhibit B, Tab 5, Schedule 1***

The applicants claim that ratepayers will benefit by lower distribution rates over the term of the merger, including over the term of the ten year deferred rebasing period to the extent of an average of $19.5 million per year, or 3.3%. These alleged benefits begin in 2017 at $2 million benefit [in 2016, there is no benefit – rather a loss] and increase to $31 million in 2026.

(a) Please provide detailed calculations justifying claimed savings relative to the status quo. Please do this by explaining both the proposed annual increases in the revenue requirements of the four utilities for each of the ten years under the status quo, and the revenue requirement of the LDC Co. as depicted in Figure 26, for each of the ten years of the deferred rebasing period, from 2016 to 2025. Please provide detailed explanations and costs comparisons. Please assume identical regulatory treatment of capital expenditures in both the status quo and merger cases, i.e. equal access to ICM (unless you can justify a different assumption), and explain any differences in proposed capital expenditures in the two cases.

(b) Please itemize the sources of the measures alluded to, in very general terms, under the heading "Customer Value Creation" at Exhibit B, Tab 3, Schedule 1, Page 2, and relate the answer to the question in detail to the discussion of savings above.

(c) Please relate the calculation on the status quo option to the OM&A costs in the status quo option scenario, depicted at Figure 22, with further breakdown of costs, and a buildup to the revenue requirement.

(d) The evidence states that during the deferred rebasing period, LDC Co. may apply for rate adjustments using the Board's ICM as may be necessary, and in accordance with applicable Board policies [Exhibit B, Tab 7, Schedule 1, Page 1]. Do the revenue requirement numbers for the merger option depicted in Tab 26 include any incremental revenue requirements due to the additional capital expenditures over the deferred rebasing period in the subsequent years of the project? Please discuss and provide details of the amount of capital expenditures and its impact on the revenue requirement. If not, please explain the lack of such numbers, and whether this lack compromises the comparison in Table 26. Please provide your best estimate of the incremental capex that will be undertaken during the period.

(e) What are the LDC Co.'s plans for applying under ICM in respect in each of the ten years commencing 2017 of rate year; over the first five years as a whole? Please list projects with best cost estimates available at this time.

(f) Please confirm that the planned capital spending during the deferred rebasing 2016-2025 period will be higher than in the subsequent period [2026-2039]. Why is that the case? Please provide an estimate of the planned capital expenditures for the two periods, cited above. Please indicate for the deferred rebasing period, how much of the proposed capital expenditure will be proposed pursuant to ICM requests, and how much will be absorbed by the utilities until rebasing.

(g) In dealing with (f) above, please provide any restraints or conditions imposed by the existing settlement agreements (Horizon) or Board decisions for each of PowerStream, Horizon, Enersource and Hydro Brampton.

13. ***Ref: Attachment 2 – Financial Summary***

(a) Please confirm that Table on Page 6 shows that the incremental net income earned by the merged utility relative to the forecast net income to be earned.

(b) Please provide a table showing the purchased HOBNI net income for each of the years from 2016 to 2039. Please correlate that with the net income in HOBNI's 2015, 2014, and 2013 audited Financial Statements.

14. ***Ref: Pages 8-9***

What is the customer benefit relative to the status quo during the ten year deferred rebasing period [Table – Customer Benefits/Distribution Revenue per Customer Trends]. Please provide the calculations underlying these proposed benefits. Please explain fully.

15. ***Ref: Dividends***

The table on page 8 shows the much larger holdco dividend (to its municipal owners) over the term of the project relative to the status quo.

(a) Please confirm the percentage of utility net income represented by the net income earned by the holdco over the period 2016-2025.

(b) Please provide the total amount of dividends paid (not NPV) over the twenty-five year period.

(c) Please provide the total amount paid over twenty-five years in excess of the total amount that will be paid under the status quo.

(d) Please provide the total amount and the excess amount relative to the status quo paid in each year of the deferred rebasing ten year period; and in each year during the subsequent fifteen year period. What level of dividend, as a percentage of net revenue, is assumed in the table on page 7 for each of those years?

(e) Please provide the calculations which justify the forecast dividends in both the merger and status quo case. Please show each line in the financial projections (model) used to develop these dividend amounts for each of the first ten years.

For each year, show the net income, how the net income is estimated, and what percentage of the net income is deemed allocated to dividends.

16. ***Ref: Page 6***

What is the NPV of the net income of LDC Co. vs. status quo net income over the first ten years? Figure 27 among others shows that total cash savings from the merger over the deferred rebasing period are $425.9 million relative to the total incremental costs of approximately $96 million. The savings are approximately 4.25 times the incremental implementation costs of the LDC Co. This result translates into an increase in net income of LDC Co. relative to status quo of approximately $366 million over the first ten years of the merger (see chart on page 6). Over the first five years, the amount is approximately $156 million. Please confirm that none of the $156 million is to be shared with the ratepayers and very likely none of the $366 million (which includes the $156 million is shared with ratepayers, given the very high 300 basis point deadband embedded in the Board policy). Please estimate, using your net income forecasts for the rebasing deferral period, and the 300 basis points (three percentage points) deadband in the current Board policy, the amount of net income in the years 21, 22, 23, 24, 25, the second five years of the deferred rebasing period that would be available to share with ratepayers.

Please confirm the incremental income is over three times the incremental costs incurred by the utility of $96 million over the same ten year period.

(a) Please provide the LDC Co. forecast return on equity over the ten year deferred rebasing period, including full calculations.

(b) Please confirm the figures, or provide corrections, in the above paragraph.

(c) Given the fact that the income under the merger scenario is 3.5 times the amount that the LDC Co. needs to pay implementation costs of the merger, please confirm that the balance of the net income will go to increase the LDC Co.'s profitability (return on equity).

(d) Given the fact that the incremental income resulting from the merger is over 356% of the merger implementation costs, why did the applicants not request a shorter rebasing period than ten years (other than the fact that they were authorized to go to ten years)? Please discuss fully.

(e) Attachment 2, Page 6: Please show the calculation, with respect to the contribution of HOBNI income to net income described in the text. Also show the HOBNI net income, net of the cost of purchasing that net income, amortized in a reasonable manner over the appropriate period, of the purchased income, and show what percentage of the total increase is net income relative to the status quo it provides, over each of the deferred rebasing term, and the balance of the term, in each case compared with the amounts contributed to net income by the proposed synergies.

(f) Please show a calculation that links the proposed savings to the net income over the ten year deferred rebasing period.

17. ***Ref: Attachment 4***

(a) What are the current debt ratings of each of the utilities; of each of the individual holdcos?

(b) Please describe in detail how the AFFO debt ratio is calculated.

18. ***Ref: Attachment 4, Page 2 – Exhibit B, Tab 2, Schedule 1, Page 5 of 16***

(a) Please explain fully the bullet "structural approach to equity financing to manage transfer and departure tax barrier". What are these barriers and how does the structural approach to equity financing remove the barrier? Please provide a detailed explanation, including the necessity for an Ontario Revenue Department ruling on the matter.

(b) When does the company expect a tax ruling on the structure?

(c) What would be the financial, business consequences of not obtaining the ruling?

(d) Are the applicants obliged to proceed with the transaction whether they obtain the ruling or not? Would they proceed without the ruling?

(e) What is the impact on ratepayers of the proposed approach to equity financing?

19. ***Ref: General***

(a) Please provide the deferred rebasing period that the Board allowed: (a) in the Woodstock case, and (b) in every other merger case approved in the last five years.

(b) Please provide a copy of the applicant's (on behalf of the LDC Co.) licence application.

20. ***Ref: Exhibit B, Tab 2, Schedule 1, Pages 10-11***

For each of the rate riders proposed by each of the four distributors, please indicate each rate order that will remain in place for the ten year deferred rebasing period, and why that is the case, and what mechanisms will be used to refund to ratepayers any over collection from that rate order. Please estimate the amount of over collection that will occur relative to the amount that the rate rider was designed to collect.

21. ***Ref: Attachment 23***

Please provide the audited 2015 Annual Financial Statements for each of the Enersource, Horizon, PowerStream, and Brampton utilities, as well as the 2016 first quarter (if available), unaudited financial statements.

22. ***Ref: Purchase***

The evidence is that the LDC Co. has agreed to purchase Brampton Hydro from the Province of Ontario for $607 million.

(a) What is the amount of the premium over the book value of Brampton Hydro? Please explain why a premium has been paid.

(b) When did Hydro One sell (or transfer) Brampton Hydro to the Province of Ontario, and what was the compensation paid by the Province? What compensation did Hydro One receive? Did the Province pay a premium over the then book value of Brampton Hydro to Hydro One? Please discuss.

(c) ***Ref: Attachment 23***: Please provide the financial calculation underpinning the pro forma financial statements for the first full year after the merger. Please show how the figures are derived, starting with the most recent numbers available from the four existing companies, any accounting charges, triggered by the merger process, and ending with the numbers as displayed.

(d) Please reconcile, or provide a continuity schedule for, the pro forma income statement for the first full year following merger completion, net income with the 2015 net income or the 2015 net income, for the four utilities (Enersource, PowerStream, Horizon, and Brampton), and separately for the three purchasing utilities.

(e) If, in answering part (d), the 2014 net income is used as the most recent available audited statements as a base, please also show major adjustments from 2014 to 2015 net income before doing the reconciliation with the pro forma financial statements, at Schedule 23.

(f) Please show the regulated company's (LDC Co.) pro forma statements in the same general format and explain the difference between the regulated entity numbers, and the LDC's corporate numbers, given that the LDC Co. includes an unregulated business division.

23. ***Ref: Presentation Day***

The slide, under the title "Centralized Utility Function" shows that certain utility functions will be centralized, including:

- corporate
- finance
- human resources
- regulatory affairs
- information technology
- procurement
- asset management and engineering
- services.

Please provide estimates of the savings (capital and OM&A) which you expect to achieve through centralization of these functions, which are now carried out by the four utilities, and over what period of time.

24. ***Ref: Ibid, Page 15***

(a) What will be the estimated savings in moving from four call centres to two call centres – Vaughan and St. Catharines?

(b) When will the consolidation be achieved? What is the target date for opening the two call centres, and closing the call centres in Vaughan and Mississauga?

25. ***Ref: Ibid, Page 20***

(a) What is the current capital structure of Brampton Hydro?

(b) What will be the capital structure of the merged utility?

(c) What amount will have to be injected into Merge Co (merger of holdcos) to maintain a prudent capital structure? How much will be contributed by each predecessor holdco?

(d) Why is the injection required? Please describe the capital structure that would prevail prior to the injection of the additional equity, and how does it arise? Please show all relevant calculations?

26. ***Ref: Ibid, Page 25***

What specific new technologies and best work practices will be introduced, and where, to improve or maintain overall service levels? Is there a commitment (firm) to maintain or to improve customer service levels?