July 6, 2016

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

Dear Ms. Walli:

Re: EB-2016-0025 – LDC Co Amalgamation - Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, and PowerStream Inc.

Please find, attached, interrogatories on behalf of the Consumers Council of Canada pursuant to the above-referenced proceeding.

Please feel free to contact me if you have questions.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All Parties

I HE MA E F the *Ontario Energy Board Act, 1998*, S.O. 1998 c.15, Schedule B;

A D I HE MA E F an Application for the relief necessary to effect the consolidation of Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, PowerStream Inc. and Hydro One Brampton Networks Inc. into an entity referred to in the Application as "LDC Co", in the manner set out in the Application.

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EB

1. Reference: Ex. B/T2/S1
What is the primary objective of the proposed consolidation?

2. Reference: Ex. B/T2/S1
Please confirm that under the Applicants' proposals it is possible that ratepayers will not receive any benefit associated with the merger savings until Year 11. This assumes that the ESM as proposed is approved, and earnings do not exceed 300 basis points over the allowed ROE in Years 6-10.

3. Reference: Ex. B/T2/S1/p. 1
The evidence states that the Application is the result of many months of negotiations and agreement among the Applicants and their Shareholders, and is reflective of the terms of the consolidation approved by six Municipalities, one private sector party, and the Province of Ontario. Please provide all correspondence between the Applicants, their Shareholders and the Province of Ontario regarding the consolidation.

4. Reference: Ex. B/T2/S1/p. 1
The evidence states that the Application is the result of many months of negotiations and agreement among the Applicants and their Shareholders, and is reflective of the terms of the consolidation approved by six Municipalities, one private sector party, and the Province of Ontario.

   a) Please explain the extent to which the LDC customers, those most impacted by this transaction, were engaged regarding the proposed consolidation discussions and how their views impacted the negotiations;

b) Did the LDCs specifically undertake surveys or focus groups related to the proposed transaction and the rate proposals that form part of the Application? If not, why not? If so, please provide all materials related to these engagement activities;

c) How were the proposals embodied in the Application impacted by customer engagement?

d) Please provide all communication provided to date to the LDCs' customers regarding the proposed transaction.

5. Reference: Ex. B/T2/S1/p. 2
The evidence states that over the course of the 10 year rebasing deferral period, customers will benefit from distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained. Assuming PowerStream receives approval of its five-year Custom IR plan as filed, how would the rates be any different relative to the status quo given the application assumed rates for a stand-alone entity? How will PowerStream's customers benefit in the first five years of the rebasing deferral period with respect to rates?

6. Reference: Ex. B/T2/S1/p. 2
The evidence states that over the course of the 10 year rebasing deferral period, customers will benefit from the distribution rates that are lower than they would have been had the status quo of four independent LDCs been maintained.

a) Given Horizon Utilities Corporation ("Horizon") is currently on a five-year Custom IR plan that is in place until December 31, 2019, how will its customers benefit in the first four years of the rebasing deferral period with respect to rates?

b) Given Hydro One Brampton Inc.'s rates are scheduled to be in place until December 31, 2019, how will its customers benefit in the first four years of the rebasing deferral period with respect to rates.

7. Reference: Ex. B/T2/S1/p. 3
The evidence states that it is the Applicants' submission that the proposed consolidation meets the Board's "no harm" test. This is on the basis that distribution rates would be lower that they would have been had the status quo been maintained. Why is it not considered "harm" to customers if they are paying rates that are based on costs that exceed the cost of providing them service?

8. Reference: Ex. B/T2/S1/p. 2
The evidence states that the Applicants anticipate realizing real cost synergies and operational efficiencies, as well as benefits from economies of scale. Please provide a detailed list of the specific areas where these synergies, operational efficiencies and benefits from economies of scale are expected to occur. Please indicate when

these synergies, operational efficiencies and benefits from economies of scale are expected to occur.

9. Reference: Ex. B/T2/S1/p. 3
Please explain how being the "second largest electricity distributor in the Province, based on number of customers" necessarily benefits the customer base.

10. Reference: Ex. B/T2/S1/p. 7
The purchase price for Hydro One Brampton networks Inc. is $607. How was this price arrived at? Please provide evidence that this payment will be in the best interests of the ratepayers of all of the Applicants' ratepayers.

11. Please provide copies of all presentations and reports made to each relevant municipal council (those involved in the consolidation) regarding the merger. For example, on September 22, 2015, the City of Vaughan was given a presentation by the City of Vaughan Staff. The documentation included the following:

a) Staff Memorandum dated September 18, 2015;

b) Memorandum from Gowlings LLP dated September 18, 2015;

c) MergeCo Business Plan;

d) MergeCo Business Case Overview; and

e) Navigant Consulting Ltd – Analysis of Business Case

Please include these documents and all other documents presented to each of the other municipalities.

12. Have each of the relevant municipalities approved the transactions based on the "no harm" test? If not, what were each of the approvals based on? Please provide evidence to support the answer. Have each of the municipalities approved the merger on the basis of increased dividends or on the basis of benefits to LDC ratepayers?

13. For each of the relevant municipalities please provide a list setting out the dividend payments received in 2015. In the materials provided to the City of Vaughan it estimated the payment to be $16 million. It also states that Vaughan can expect dividends to increase in the first 10 years, post transaction, by $62 million. What were the assumptions used to develop this forecast. What is the estimated increase in dividends expected for each of the relevant municipalities? Please include all assumptions.

14. Reference B/T2/S1/p. 9

The Applicants have confirmed that they have chosen to defer LDC Co's rebasing from the date of the closing the last of the proposed transactions. What specific relief are the Applicants seeking with respect to this proposal? Under what circumstances could this change and the Applicants seek an earlier rebasing?

15. Reference: Ex. B/T2/S1/p. 10
The evidence states that, "Pursuant to the Handbook, issues related to rate making for LDC Co's service area, including the treatment of any ESM, Capital Variance and/or Efficiency Adjustments, are matters for future rate applications and are not in scope for this Application, subject to the comments below regarding the treatment of existing rate orders an rate riders". Please explain:

a) Why these issues are not within scope of this proceeding;

b) How during the rebasing deferral period the ESM, Capital Variance Account and the Efficiency Adjustment embodied in the Horizon Settlement Agreement will be dealt with; and

c) Why it is appropriate to discontinue rate riders that reduce the revenue requirement during the rebasing deferral period, while maintaining rates that are recovering costs that are no longer relevant in providing service to customers of the combined entity. How are these two proposals consistent?

16. Reference: Ex. B/T5/S2/p. 1
Please provide all assumptions used to create Figure 22 – Comparison of Status Quo v. Post Consolidation OM&A.

17. Reference: OEB Presentation Day – PowerPoint (Slide 21)

a) The slide states that LDC Co will have total net operating savings, relative to the status quo of approximately $ 426 MM by year 10. Please explain how all of these numbers were derived. Please include all assumptions;

b) Are "Gross Synergies" costs savings or reductions in revenue requirement?;

c) In 2016 the Gross Synergies related to Capital are projected to be $23 million. What are these savings attributable to?;

d) If net savings are achieved in Year 2, why are these savings not going to be shared with the ratepayers?;

e) What is the <u>total</u> projected net savings/synergies flowing to the shareholders by the end of Year 5?

18. Reference: Ex. B/T6/S1/p. 4
Please provide all assumptions used to create the Table "Customer Benefits Distribution Revenue Trends".

19. Reference: Ex. B/T6/S2/p. 1
The aggregate consolidation costs are estimated to be $96.3 million. Please set out a schedule that provides all of the details of these cost estimates. Please include all assumptions. Please explain how all of these costs have been recovered or wil be recovered over the deferral rebasing period. Please indicate the process being proposed as to how the OEB will determine the prudence of these costs.

20. Reference: Ex. B/T6/S5/p. 5
The Applicants assume a 4% debt cost of financing for the HOBNI acquisition. Do the Applicants have access to financing from Infrastructure Ontario? Why have the applicants used 4%.? What is the current debt cost available to the LDCs?

13. Reference: Ex. B/T7/S1
The evidence states that during the rebasing deferral period LDC Co may apply for rate adjustments using the Board's ICM (Incremental Capital Module) as may be necessary an in accordance with applicable Board policies with respect to eligibility for, and the use of the ICM.

a) Please explain how the ICM would work given the new entity would not be keeping separate accounting records for each of the previous LDCs. How would the materiality thresholds be calculated?;

b) Would LDC Co potentially apply for an Enersource Rate Zone ICM, for example, even if there were capital savings in other areas of the merged entity? In that case why would an ICM be required? Why would this be fair to ratepayers in the Enersource Rate Zone when savings from LDC Co as a whole could fund the incremental capital requirements?; and

c) Would LDC Co apply for an ICM for any of its rate zones if it was earning returns above the Board allowed level?

14. Reference: Ex. B/T7/S2
The Applicants are proposing an ESM that would apply in Year 6. Earnings in excess of 300 basis points above the Board's established regulatory entity would be divided on a 50/50 basis between LDC Co and its ratepayers. The Handbook to Electricity Distributor and Transmitter Consolidations states that the ESM as set out in the March 2015 Report may not achieve the intended objective of consumer protection for all types of consolidation proposals. For these cases, applicants are invited to propose an ESM that better achieves the objective of protecting consumer interests during the deferred rebasing period.

a) Would the Applicants support the implementation of an ESM earlier, during the rebasing deferral period, in order to share any benefits realized in Years 1-5 with the ratepayers? If not, why not?;

b) Given the forecast costs and revenues presented in the Application for each year during the deferred rebasing period what would be the value of 300 basis points of ROE for LDC Co?;

c) Would the applicants be supportive of an ESM that shares the first dollar with its ratepayers above the allowed ROE? If not, why not? Would this not result in a better balance between the interests of the ratepayers and the municipal shareholders with respect to the merger? If not, why not?

d) Would the Applicants be supportive of an ESM that gives back all earnings above the allowed ROE to the ratepayers once the transition costs are recovered? If not, why not?;

e) Does the Applicants' proposal allow for a scenario whereby LDC Co's returns overall are exceeding the Board approved levels, but an application is made for ICM relief in on of the rates zones? If yes, please explain how this would operate. Please explain why this would be fair to the customers required to pay the cost of the incremental capital; and

f) Have the Applicants undertaken any consumer engagement or customer research specifically related to the proposed ESM? If not, why not?

15. Please explain why the LDC Co's customers should support the proposals embodied in the Application, rather than alternative proposals that flow through merger savings to those customers during the deferred rebasing period.

16. Do the Applicants believe it is more appropriate to take the savings that result from the merger and flow those savings to the municipalities for other purposes outside the electricity sector, rather than flowing those savings back to the electricity sector and the electricity ratepayers? If so, please explain why.