B-STAFF-1

Reference(s): Exh B/T2/ Sch 1, p. 2
Exh B/T5/ Sch 2

Preamble:

It is stated that it is the intention of the applicants that the proposed consolidation provide a material benefit to their customers. The applicants submit that the proposed consolidation will not have an adverse effect in terms of the factors identified in the Board's objectives in section 1 of the OEB Act. Rather, as can be seen in Exhibit B, Tab 5, Schedule 2 (in which the applicants have provided a comparison of the cost structure among the parties, status quo versus post consolidation), it is anticipated that customers will benefit from the consolidation.

a) Please comment on the particular aspects of the transaction that will result in the anticipated productivity improvements.

b) Please identify any factors that may affect the achievement of the expected efficiencies.

Response:

a) The OM&A synergies in Figure 22 of Exhibit B, Tab 5, Schedule 2 correspond to the line "Total OPEX Savings" of Figure 27 – Total Cash Savings in Exhibit B, Tab 6, Schedule 2. These synergies/ savings are net of transition costs provided in the line "OPEX Transition Costs" of Figure 27 – Total Cash Savings in Exhibit B, Tab 6, Schedule 2.

Please refer to page 77 and 78 of the Business Plan document submitted as B-STAFF-1-ATTACH1 which describes, in summary, the particular aspects of the transaction that will result in the anticipated productivity improvements. Specifically, this reference describes the payroll and non-payroll cost savings anticipated as a result of the merger.

The nature of the "OPEX Transition Costs" in the reference provided above are described on page 78 of the document.

b) The risk of achieving the magnitude of expected sustained efficiencies (i.e., $42.5MM following the transition period and associated costs) is assessed as low. In other terms, LDC Co expects to achieve $42.5MM of sustained efficiencies following a planned three-year transition period.

The principle risk factor affecting the aggregate $311.6MM net OM&A savings across the 10-year period provided in Figure 22 of Exhibit B, Tab 5, Schedule 2 and Figure 27 of Exhibit B, Tab 6, Schedule 2 is the actual length of time required to complete transition activities. A longer than expected transition period would defer full realization of the $42.5MM of sustained efficiencies.

The principle activities underlying the transition period are systems and process convergence. LDC Co has plans to transition to common systems and processes among the four utilities based on proper review and due diligence with respect to: i) the assessment of systems and processes chosen from among the four utilities; and ii) integration planning.

The achievement of systems and process convergence is fundamental to realizing payroll savings and non-payroll savings such as software licensing and maintenance fees. Headcount and corresponding payroll reductions are largely linked to the timing of moving to common systems and processes.

LDC Co would not expect significant delays in completing transition activities if such were to occur. As a consequence, the risk of not achieving the sustained efficiencies within close proximity to the planned three-year transition period is assessed as remote.

B-STAFF-2

Reference(s): Exh B/T5/Sch 1, p.1-2

Preamble:

The proposed consolidation is expected to deliver material electricity ratepayer savings relative to the status quo, i.e., in the absence of a consolidation. Ratepayers of LDC Co are expected to enjoy lower rates through the ten year rebasing deferral period in comparison to the status quo for the reasons discussed below. Ratepayers are also expected to experience greater savings in comparison to the status quo from the time of the first anticipated rebasing, ten years following the completion of the consolidation, due to cost savings resulting from synergies.

a) Please identify the particular areas of business in which the applicants expect to derive synergies as a result of the proposed consolidation.

b) Please explain what assumptions have been made by the applicants with respect to the expected synergies and ratepayer savings.

c) Please identify any risks that may impact the anticipated synergies and savings.

Response:

a) The Applicants expect to derive synergies in the following areas of the business:

- More efficient delivery of corporate services such as Human Resources, Supply Chain, Information Technology, Facilities, Fleet and Finance;
- More effective delivery of core services such as customer service, engineering, asset management and operations; and
- More effective use of consultants, auditors and legal counsel.

b) Ratepayer savings are in two main areas:

- The price cap rate regime in effect during the rebasing deferral period results in rates that will be lower than if the applicants had remained standalone distributors; and
- The outcome of the first rebasing following the rebasing deferral period.

c) Please refer to Attachment 2, page 11 of the Application for a listing of risks that may impact the anticipated synergies and savings.

B-STAFF-3

Reference(s): Exh B/T5/ Sch 1, p.2
Exh B/T5/Sch.5, p.3-4

Preamble:

It is stated that LDC Co will be focused on reducing operating expenditures. It will improve productivity through better utilization of existing assets. In the description provided on distribution system operations, a distinction is made between decentralized regionalized functions, as those focused on the delivery of service at the asset level in the field and centralized transactional/informational services/functions that are technology focused. Figure 24 provides a listing of centralized and decentralized functions.

a) Please provide the anticipated reduction in operating expenditures in each of the functions listed in Figure 24.

b) Please provide the assumptions that the applicants are making for the anticipated operating expenditure reductions.

c) Please provide the extent of synergies that the applicants expect to be generated from the centralized functions and from the decentralized functions.

Response:

a) Table 1 below identifies the anticipated reductions in operating expenditures by the functions listed in Figure 24.

Table 1 - Anticipated Reductions in Operating Expenditures by Function by Year ($MM)

Functions	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Centralized	**2.4**	**7.7**	**16.1**	**19.1**	**20.9**	**20.9**	**20.9**	**20.9**	**20.9**	**20.9**	**170.7**
Asset Management & Engineering	0.9	2.5	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	23.2
Corporate	0.1	0.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.6
Finance	1.4	2.0	3.6	4.2	4.6	4.6	4.6	4.6	4.6	4.6	38.8
Human Resources	(0.8)	1.4	2.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	23.9
Information Technology	0.5	0.5	4.3	5.5	6.0	6.0	6.0	6.0	6.0	6.0	46.8
Procurement	0.4	0.6	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	12.0
Regulatory	(0.1)	0.6	1.6	1.7	2.6	2.6	2.6	2.6	2.6	2.6	19.4
De-centralized	**4.8**	**12.4**	**15.6**	**21.5**	**21.6**	**21.6**	**21.6**	**21.6**	**21.6**	**21.6**	**183.9**
Customer Service	-	0.8	2.0	7.6	7.5	7.5	7.5	7.5	7.5	7.5	55.4
Metering	0.3	1.0	1.2	1.6	1.7	1.7	1.7	1.7	1.7	1.7	14.3
Facilities, Logistics, Fleet	0.8	2.9	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	29.2
Construction, Control Room, Trouble Response	3.7	7.7	9.3	9.1	9.2	9.2	9.2	9.2	9.2	9.2	85.0
Grand Total	**7.2**	**20.1**	**31.7**	**40.6**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**42.5**	**354.6**

b) The key assumptions that underlie and support the anticipated operating expenditure reductions are as follows:

- Consolidation of core enterprise applications and processes during years one, two and three post consolidation; including (i) legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing system; (ii) legacy Enterprise Resource Planning systems will be migrated to a single consolidated system; and (iii) legacy Geographic Information Systems and Outage Management Systems will be consolidated to a single system;

- Consolidation of four existing Call Centres to two, and four existing Control Rooms to two;

- Utilization of six existing service centres for Construction and Maintenance, Trouble Response, Logistics, Fleet Services and Metering; and

- The Parties will integrate asset management including: (i) evaluation of long term capital plans; (ii) maintenance practices; (iii) design standards; and (iv) operating standards.

c) Please refer to Table 1 above for the expected synergies that the Applicants expect to be generated from centralized and de-centralized functions.

B-STAFF-4

Reference(s): Exh B/T5/ Sch 5, p.7

Preamble:

It is stated:

LDC Co will set the following IT objectives for business applications:

- **Establish a stable, consolidated, secure information technology infrastructure environment to sustain the operations of the new company and minimize operational risk during the transition period following the consolidation;**

IT related cost savings range from $1.1MM in year one post consolidation up to $10MM in year five and beyond.

a) Please explain what is meant by "establish a stable, consolidated, secure information technology infrastructure environment". Please explain whether this entails the establishment of a new IT system or whether this only involves the combination of the individual IT systems of the four distributors.

b) Please provide the assumptions that are being made for the projected savings.

Response:

a) "Establish[ing] a stable, consolidated, secure information technology infrastructure environment" refers to the consolidation of four production data centres and four disaster recovery data centres into one production data centre and one disaster recovery data. This requires the consolidation of the physical, network, and security infrastructures by consolidation, optimization, and standardization of infrastructure components utilizing existing Information Technology ("IT") assets as much as possible.

b) The assumptions for IT related cost savings that range from $1.1MM in year one post consolidation up to $10MM in year five are related to reductions in OM&A costs (salaries, maintenance, managed services, software licensing) associated with consolidation and decommissioning of redundant information technology infrastructure and enterprise applications systems, such as Enterprise Resource Planning ("ERP"), Customer Information

Systems ("CIS") and Geographic Information Systems ("GIS") systems as provided in Exhibit B, Tab 5, Schedule 5, page 6. These savings are based on the timing of infrastructure and application systems consolidations and decommissioning.

B-STAFF-5

Reference(s): Exh B/ T5/ Sch 5, p.8

Preamble:

It is stated:

Two call centres will be designated for LDC Co: one in St. Catharines; and the other in Vaughan. A possible future consolidation to one call centre will be evaluated for its feasibility. Two control rooms will be designated for LDC Co: one in Hamilton; and the other in Vaughan. A possible future consolidation to one control room will be evaluated for its feasibility.

a) Please advise of the present number of call centres and control rooms among the consolidating distributors.

b) Please explain what impact the proposed call centre/control room consolidation will have on service quality and reliability of service.

Response:

a) There are currently four call centres and four control rooms among the consolidating distributors.

b) The proposed call centre/control room consolidation is expected to have no adverse impact on service quality and reliability of service. Customers are expected to benefit from being served by a larger utility that will have an expanded ability to monitor, report on and improve system reliability and power quality, given its greater resources (Exhibit B, Tab 5, Schedule 1, p.3).

B-STAFF-6

Reference(s): Exh B/ T5/ Sch 5, p.8,9

Preamble:

It is stated:

The head offices of each of Holdco, LDC Co and ES Co will be located in respective separate communities to efficiently utilize existing facilities. The determination of locations for the head offices and each of operating entities was based on practical considerations for both current and future business requirements.

All three offices will continue to support the regulated function.

a) Please confirm whether the applicants plan to build any additional offices.

Response:

a) The Applicants have no plans to build any additional offices.

B-STAFF-7

Reference(s): Exh B/T5/ Sch 5, p.8

Preamble:

The Applicants have estimated that sustained operating, maintenance and administration (“OM&A”) savings net of transition costs will be approximately $42.5MM in year five and beyond. The OM&A savings will be achieved through $270MM (net of transition costs) in savings over the first ten years post consolidation from payroll reductions and $42MM (net of transition costs) for non-payroll cost reductions. The OM&A budget for LDC Co is therefore anticipated to be approximately 15% lower than the sum of the OM&A budgets for the Parties, three to five years following completion of the consolidation.

a) Please identify the specific operational areas/functions where the planned payroll and non-payroll reductions will occur.

b) Please explain what assumptions have been made by the applicants for the proposed payroll and non-payroll reductions.

c) Please identify risks that could negatively impact the applicants’ projected OM&A savings, setting out the applicants’ projected savings if those risks materialize.

Response:

a) Table 1 below identifies the specific operational areas/functions where the planned payroll and non-payroll reductions are anticipated to occur.

Table 1 – Payroll and Non-Payroll Reductions by Operational Area/Function ($MM)

[redacted]

[redacted]

b) Please see the Applicants' response to Interrogatory B-Staff-3b).

c) The primary risks that could negatively impact the Applicants' projected OM&A savings relate to projected synergies and transition costs in respect of the consolidation of the following core enterprise applications during the three years post consolidation: (i) legacy Customer Information Systems will be migrated to a single consolidated Oracle Customer Care and Billing system; (ii) legacy Enterprise Resource Planning systems will be migrated to a single consolidated system; and (iii) legacy Geographic Information Systems and Outage Management Systems will be consolidated to a single system.

The Applicants expect $270MM (net of transition costs) in savings over the first ten years from payroll reductions. The savings result from redundant positions largely in administration and back-office functions.

Additionally, the Applicants expect $42MM (net of transition costs) in savings in the first ten years from other non-payroll reductions. Savings are related to the elimination of costs due to the duplication of business processes across the four entities and adoption of best practices.

Delays in the completion of one or more of the aforementioned IT systems consolidation projects would likely result in a deferral of projected net OM&A savings; principally from projected savings from redundant administration and "back-office" functions. Additionally, such delays may potentially result in additional transition costs to complete IT system migration and integration.

B-STAFF-8

Reference(s): Exh B/T6/ Sch 1, p.1

Preamble:

It is stated:

The total anticipated savings net of transaction costs over a ten year rebasing deferral period resulting from the merger of Enersource, Horizon Utilities and PowerStream, and the acquisition of HOBNI total approximately $312MM in operating costs and approximately $114MM in avoided capital costs, which represent $426MM in total cash savings.

These operating and capital savings will benefit customers through lower rates than the status quo, and will benefit shareholders through increased and more stable dividends.

The approximately $114MM in capital savings, net of any transition costs (Figure 25, below), over the ten year rebasing deferral period arise mainly due to moving to single, common Information Systems (a single customer billing system, for example) and Operating Systems (a single Control Room, for example), harmonizing engineering standards and adopting best work practices.

a) Please identify the areas of the distributors' businesses where the applicants anticipate these savings to be generated.

b) Please identify risks that could negatively impact the projected savings, setting out what the applicants' projected savings would be if those risks materialize.

Response:

a) The Applicants anticipate capital savings to be generated in the following business areas in the first five years:

- Information Technology $89.4MM
- Procurement and Strategic Sourcing $13.4MM
- Operations / Control Room $10.5MM
- Other $14.3MM

For years six to ten, an $8.0MM in annual capital savings is forecast.

The Applicants anticipate operating savings to be generated in the following business areas in the first five years:

• Operations / Control Room	$36.8MM
• Finance	$26.2MM
• Procurement and Strategic Sourcing	$24.4MM
• Customer Service / Billing / Call Centres	$21.3MM
• Human Resources	$18.6MM
• Other	$37.6MM

For years six to ten, a $42.5MM in annual OM&A Savings is forecast.

b) The Applicants have identified the following risks that could negatively impact the projected savings by either increasing transitional costs or decreasing energy savings:

- Information Technology
  - scope or timeline changes related to CIS Integration, ERP Integration, or other key system integrations – risk to synergy savings
  - actual RFP costs vs forecasts – risk to transitional costs

- Union Agreements
  - ability to negotiate a satisfactory Collective Agreement – risk to synergy savings

- OEB Decision Timing
  - a delay would increase purchase price of HOBNI – as additional capital will be spent in the normal course of business

The Applicants cannot estimate the impact on projected savings should these risks materialize.

B-STAFF-9

Reference(s): Exh B/T6/ Sch 2, p.1

Preamble:

The applicants state that the aggregated consolidation costs are approximately $96.3 million and that these costs will be funded through the anticipated productivity savings expected from the consolidation during the ten year rebasing deferral period and will not be included in the ratepayer funded LDC Co revenue requirement.

The consolidation costs are stated as follows:

> **…include, but are not limited to: due diligence on the part of all Parties; due diligence to negotiate the terms of the consolidation; costs associated with all regulatory, legal and statutory reviews in order to receive necessary regulatory approvals; integration costs of IT systems including CIS, ERP systems and other technology-related support systems; integration of operational systems including GIS, OMS and Supervisory Control and Data Acquisition ("SCADA") systems; integration of customers; alignment of financial and regulatory reporting processes; staff related costs and transition of assets and related management to one standard.**

a) Please provide a breakdown of the $96.3 million of aggregated consolidation costs into the categories outlined above by year. Please specify whether the anticipated savings are capital or expense dollars.

b) Please provide the non-unionized staff related costs associated with the consolidation.

c) Please state how the merged entity will ensure that these costs will not be included in the ratepayer funded LDC Co revenue requirement.

d) 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.

Response:

a) A breakdown of the $96.3MM of aggregated consolidation costs into the requested categories is provided in Table 1 below.

Table 1 – Breakdown of Transition Costs ($MM)

	Transition Cost - Operating					Transition Cost Capital					
	2016	**2017**	**2018**	**2019**	**2020**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Human Resources	15.8	9.1	7.6	2.1	0.3	-	-				34.9
IT - CIS Consolidation	0.5	0.8	0.3	-	-	13.8	9.1	2.0	-	-	
IT - ERP Consolidation	1.5	0.3	-	-	-	5.9	2.0	-	-	-	
IT - Engineering Systems Consolidatio	-	-	-	-	-	4.8	3.1	2.4	-	-	
IT - Infrasctructure Consolidation	0.3	0.0	-	-	-	7.5	0.5	-	-	-	
Corporate Branding	2.1	0.2	-	-	-	1.4					3.6
Consolidation of operational activities	0.6	0.7	0.3	0.2	0.2	0.4	0.4	-	-		2.8
TOTAL	**20.9**	**11.1**	**8.2**	**2.3**	**0.5**	**33.7**	**15.2**	**4.4**	**-**	**-**	**96.3**

b) The non-unionized staff related costs associated with the consolidation are $20.2MM.

c) The Applicants confirm that transition costs will not be included in the rate base calculation on the rebasing of the consolidated entity and will be tracked separately.

d) Please see the Applicants’ response to Interrogatory B-Staff-8b).

B-STAFF-10

Reference(s): Exh B/T6/Sch 2, p. 2

Preamble:

On the above referenced page, Figure 27 – Total Cash Savings and Figure 28-Total Operating Expenditure Savings are presented which provide savings by year for these two categories for the period 2016 to 2025.

a) Please provide a breakdown of the anticipated CAPEX savings shown in Figure 27 equivalent to what is provided for the OPEX savings in Figure 28.

b) Please provide an equivalent version of "Figure 27 – Total Cash Savings" with total savings shown on an accounting accrual basis.

Response:

a) The Applicants did not determine the capital synergy savings by payroll costs vs. non-payroll categories.

b) The Applicants do not anticipate significant differences between cash and accounting accrual basis.

B-STAFF-11

Reference(s): Exh B/ T2/Sch1, p.10-11
Exh B/ T8/Sch1, p. 1

Preamble:

The applicants are requesting that the rate orders of the predecessor distributors be transferred to LDC Co following the completion of the consolidation. Each of Enersource, Horizon and Hydro One Brampton has a rate order that contains a number of rate riders established in order to dispose of balances in specified deferral and variance accounts. The applicants provided their 2016 OEB approved (Enersource, Horizon and Hydro One Brampton) and the proposed (PowerStream) rate riders.

a) For the rate riders approved by the OEB which have an expiry date within the requested deferred rebasing period, please confirm whether any extension or amendment is being sought through this application and if so, provide details for each rate rider.

b) Exhibit B, Tab 8, Schedule 1, Page 1 refers to the implementation of new or extension of existing rate riders. Please confirm if new rate riders will be applied for during the deferred rebasing period, and if so, please confirm if the request for new rate riders is being made in this application and provide details of those rate riders.

c) For rate riders approved by the OEB which do not expire during the deferred rebasing period, the applicants suggest that the OEB may have to limit the duration of certain riders:

i. Please identify the specific rate riders for each of Enersource, Horizon and Hydro One Brampton for which the applicants suggest that the OEB may have to limit the duration of certain riders.

ii. Please confirm that the applicants are requesting through this application that the OEB limits the duration of the specific riders identified in a. above.

Response:

a) The Applicants are not requesting an extension or amendment for any rate riders approved by the OEB which have an expiry date within the identified rebasing deferral period as provided in Table 1 of the Applicants' response to Interrogatory B-EP-3.

b) The Applicants may apply for ICM rate riders during the rebasing deferral period as identified on page 1, Exhibit B, Tab 7, Schedule 1 of the MAADs Application (EB-2016-

0025) (the “Application”). The request for specific ICM rate riders is not being made in this Application. ICM requests will be made as necessary during the deferred rebasing period and in accordance with applicable Board policies with respect to eligibility for, and the use of, the ICM. Further, the Applicants may, either in Annual Filings or in Incentive Regulation Mechanism (“IRM”) applications (as applicable) file for the disposition of (i) Group 1 Deferral and Variance account balances and (ii) Group 2 Lost Revenue Adjustment Mechanism Variance Account balances in accordance with the OEB’s Chapter 3 Filing Requirements for Incentive Rate-Setting Applications. Such filings may result in the implementation of new riders. With respect to new rate riders to dispose of Group 2 balances (with the exception of LRAMVA) during the rebasing deferral period, the Applicants request disposition of Group 2 accounts in Annual Filings or in Incentive Regulation Mechanism (“IRM”) applications should the balances in these accounts become material. While the OEB’s current policy allows for disposition of Group 2 accounts in rebasing applications only (with the exception of LRAMVA), it is anticipated that the balance in some of these accounts such as 1508 Other Regulatory Assets – OEB Cost Assessment Variance and 1508 Other Regulatory Assets - OPEB Deferral Account could become material prior to the end of the rebasing deferral period. A listing of each of the Parties’ Group 2 accounts, for which early disposition could be requested, is identified in the Applicants’ response to Interrogatory B-EP-4b).

c) i) Please see the Applicants’ response to Interrogatory B-EP-3.

ii) N/A

B-STAFF-12

Reference(s): Exh /T2/Sch1, p. 11

Preamble:

It is stated:

Enersource has an adjustment that contains an OEB-approved reduction to revenue requirement for International Financial Reporting Standards-Canadian Generally accepted Accounting Principles (“IFRS-CGAAP”) Transitional Property Plant and Equipment (“PP&E”) Amounts, calculated based on a four year normal Cost of Service (“COS”) rate cycle (2013-2016). This adjustment should not continue beyond 2016. Unlike approved rate riders, this is an annual reduction to revenue requirement whereby a variance account was not established to track any over/under refund.

a) Please advise how and when the applicants intend to address this matter.

Response:

a) In its Decision of the Board for Enersource’s 2013 Cost of Service application (EB-2012-0033) dated December 13, 2012, the Board stated that it "approves the disposition of $16,474,719 in Account 1575 to be amortised over four years to align with Enersource’s expected rebasing cycle. The period of amortization may be revisited by a subsequent panel should Enersource chose to rebase under an alternative cycle under the Board’s Renewed Regulatory Framework for Electricity."

Enersource is now choosing to defer rebasing for a period of ten years, in the context of this MAADs Application, and must address the intended expiry of the disposition or credit to ratepayers. Enersource intends to file an IRM application in August, 2016 for rates effective January 1, 2017, proposing to amend the revenue requirement by the amount of the disposition, via adjustments to rates.

B-STAFF-13

Reference(s): Exh B/T4/ Sch1, p. 2

Preamble:

In Step 6, the applicants state that articles of amendment are filed for Horizon Solar Corp., PowerStream Energy Services Inc. and Hydro One Brampton Networks Inc. to change the names of those corporations and also states that these actions do not require Board approval.

a) Hydro One Brampton Networks Inc. is an OEB licensed entity whose licence, it appears, would be affected by a name change. Please confirm whether an application will be made for a licence amendment for the proposed name change.

Response:

a) To date, no articles of amendment have been filed in respect of the name of HOBNI. The Applicants are requesting Board approval to transfer the HOBNI distribution licence, as well as the distribution licences of Enersource, Horizon Utilities and PowerStream, to LDC Co, pursuant to Section 18 of the OEB Act. If a name change for HOBNI is to take place prior to the issuance of a distribution licence to LDC Co, an application will be made for a licence amendment for the proposed HOBNI name change. The Applicants anticipate that the OEB will consider and process an application of that nature as an administrative matter, because only the name of the distributor will be changing.

B-STAFF-14

Reference(s): Exh B/T2/Sch1, p. 5

Preamble:

It is stated:

Subject to supportive tax rulings sought from the Ministry of Finance 1 (Ontario), the Parties envision a transfer of the distribution business from LDC Co to a Limited Partnership structure ("LDC LP") in order to attract investment while managing certain taxes imposed under the Electricity Act, 1998, such as Transfer Tax and Payments in Lieu of Taxes.

a) **Please confirm whether parties anticipate an increase in private ownership as a result of the envisioned transfer of the distribution business from LDC Co to a limited partnership structure.**

b) **Please explain if this corporate structure is expected to affect the tax provision that would be included in rates.**

Response:

a) The Applicants would anticipate an increase in private ownership (and corresponding investment) as a result of the envisioned transfer of the distribution business from LDC Co to a limited partnership structure. However, such increase in private ownership would only be anticipated if and when there is a requirement for corresponding investment.

b) The Applicants are not seeking relief for such transfer in this Application and expect that any such transfer, including rate implications, would be the subject of a future application to the OEB.

The tax provision may or may not be affected by the partnership structure.

Partnerships do not pay tax. Partnerships distribute taxable income to partners, which may be subject to tax.

Taxable income and taxes payable with respect to regulated rate based income would be unchanged where the partners are all subject to tax (whether PILs or taxes payable under the Income Tax Act (Canada) and Corporations Tax Act (Ontario)). In this instance, the Applicants submit that the tax provision included in rates would not be affected by the partnership structure.

Taxable income and taxes payable with respect to regulated rate based income would be changed where one or more partners are exempt from tax. In this instance, the Applicants submit that the tax provision included in rates would be affected by the partnership structure. Specifically, the provision would be reduced to the extent of partnership income allocated to tax-exempt partnership interests.

B-STAFF-15

Reference(s): Ref: Exh B/T2/ Sch1, p. 15

Preamble:

The applicants are requesting approval to continue to track costs to the regulatory asset accounts currently approved by the OEB and to seek disposition of their balances at a future date. Regarding the applicants' plans for deferral and variance accounts:

a) The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report provides that under the Price Cap IR, the distributor's Group 1 audited account balances will be reviewed and disposed if the pre-set disposition threshold is met. Please confirm that the applicants plan to request their deferral and variance accounts for disposition consistent with this policy.

b) Please explain how the account balances will be tracked (i.e. separately for each distributor or on a consolidated basis).

Response:

a) The Applicants confirm that they plan to request the Group 1 deferral and variance accounts for disposition consistent with the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review* and other direction as provided by the Board. Please see the Applicants' response to B-Staff-11b).

b) The method by which the Applicants track deferral and variance account ("DVA") balances is dependent on the group and purpose of the DVA; and the period to which the DVA applies. DVA balances in place on the date of closing the last of the proposed transactions will continue to be tracked separately for each distributor until they have been disposed of. These balances will be recovered through separate rate riders from the customer base to which the balance is attributed (i.e., separately by distributor). The Applicants have not yet determined whether DVA balances which arise after the date of closing the last of the proposed transactions will be tracked separately or on a consolidated basis.

B-STAFF-16

Reference(s): Ref: Exh B/T4/, Sch 2, p. 2

Preamble:

LDC Co is to acquire Hydro One Brampton for a purchase price of $607M, subject to certain purchase price adjustments. With the most current information to date, please provide an estimate of the final purchase price after these adjustments.

Response:

Based on preliminary forecasts, it is estimated that the net purchase price of HOBNI is in the range of approximately $601 to $607MM. The estimated net purchase price is calculated in Table 1 below.

Table 1 - Estimated HOBNI Purchase Price after Adjustments

	September Forecast 2016	October Forecast 2016	November Forecast 2016	December Forecast 2016
(in $millions)				
Negotiated HOBNI base Purchase Price	607.00	607.00	607.00	607.00
Estimated Working Capital adjustment	10.73	11.89	11.60	15.79
Estimated Fixed Asset adjustment	13.81	15.30	17.78	15.20
Total estimated Purchase Price	631.54	634.18	636.39	637.99
Less: estimated cash balance*	(25.74)	(27.61)	(29.23)	(36.54)
Net effective Purchase Price	605.80	606.58	607.16	601.45

*Note: The business case assumes zero cash on the acquisition date.

B-STAFF-17

Reference(s): Exh B/T6/ Sch 4, p. 1

Preamble:

It is stated that:

Subject to purchase price adjustments previously described, the $607MM of consideration payable for HOBNI is $202MM (the "Premium") above its projected 2015 OEB approved rate base of $405MM. Subject to ongoing rate applications and OEB reviews, the rate base portion of the consideration payable is recoverable from ratepayers. The Premium is not recoverable from ratepayers….

a) Please state how the rate base portion of the consideration payable is proposed to be recovered from ratepayers.

b) Please state how it will be ensured that the premium payment will not be recovered from ratepayers.

Response:

a) The rate base portion is recovered through OEB rate-making policy. Such policy provides for a recovery of the prudently incurred fixed asset component of rate base over time (i.e., depreciation) along with a regulated rate of return on the sum of: i) prudently incurred fixed assets; and ii) a working capital allowance ("WCA"). The Applicants would expect rate-regulated recoveries on rate base in this manner, as may be adjusted through future re-basings.

On reflection, the Applicants recognize that the working capital component of rate base is not directly recoverable in distribution rates. LDCs only recover the regulated cost of capital on such component. Consequently, the reference statement may be confusing in that regard. The Applicants trust that this clarifies the reference statement relative to OEB rate-making policy.

The business case has been developed in a manner consistent with this response.

b) Section 2.2.2 of the *Report of the Board: Rate-making Associated with Distributor Consolidation* dated July 23, 2007 provides as follows:

> *"It is not appropriate for a distributor to also be permitted to recover an acquisition premium or net consolidation losses in whole or in part through rates while retaining the realized benefits of the transaction over the deferral period."*

Consequently, it would be inappropriate for the parties to adopt record-keeping or any other regulatory treatment that would seek to recover the premium payment.

On this basis, the Applicants will adopt record-keeping that clearly segregates the premium paid for HOBNI from regulatory accounts underlying future rate applications and associated rate recoveries.

The premium is specifically identifiable and auditable as a result of the transaction. The Applicants will be undertaking a valuation of the assets of HOBNI as of closing for purposes of allocating the premium to various classes of assets. At this time, it is unknown the extent to which such premium may be allocated to depreciable fixed assets or non-depreciable property such as land or goodwill.

Irrespective of the nature of allocation of the premium, the Applicants will ensure that the consolidated entity adopts record keeping that clearly segregates such from the following:

- Fixed asset accounts included in rate applications as a component of regulated rate base;
- OM&A and depreciation accounts included for recovery in rate applications to the extent that the premium is amortized for accounting purposes or may represent OM&A;
- Balances used for purposes of lead-lag or other studies underlying the determination of a regulated WCA rate.

The Applicants believe such segregation of premium from rate base is relatively self-evident and will be prepared to provide evidence in future rate applications substantiating such segregation.

ATTACH2-STAFF-18

Reference(s):

Attachment 2, p. 6, 12

Preamble:

It is indicated that merged net income is higher than status quo net income as a result of Hydro One Brampton's net income plus capital and operating synergies.

Per the 2015 financial statements filed with the OEB in the Reporting and Record-Keeping Requirements (RRR) filings, the applicants' net incomes are as follows:

(In Thousands)	Enersource	Horizon	Powerstream	Hydro One Brampton
2015 Net Income	$ 19,583	$ 25,012	$ 25,445	$ 14,253
2014 Net Income	$ 2,295	$ 4,140	$ 13,874	$ 13,701

a) Hydro One Brampton had the lowest 2015 net income out of the four distributors. Please explain why Hydro One Brampton's net income is identified as a main contributing driver for the higher merged net income.

b) The graph on page 12 presents net income sensitivity, where 100%, 75% or 50% of synergies are achieved.

i. The forecasted synergies throughout the application equate to the 100% of synergies achieved scenario in the sensitivity analysis (e.g. merged net income of $87M). Please indicate whether this means that the forecasted synergies in the application are the most optimistic scenario that can be predicted to be achieved.

ii. Please comment on the reasonableness of the forecast and the assumptions used in the forecast (e.g. whether assumptions are aggressive or conservative).

iii. Please explain the expected likelihood of meeting 50%, 75% and 100% of expected synergies, and key dependencies.

Response:

a) The comment included in the attachment was related to the consolidated entity, which includes the net income from HOBNI, whereas the stand-alone scenario did not include HOBNI. Existing shareholders will now share the net income of HOBNI and therefore this is indicated as a main driver. The increase in the net income is the result of the net synergies for the first ten years and the contribution of HOBNI's net income for that time period.

b) i) Please see the Applicants' response to Interrogatory ATTACH2-AMPCO-21.

ii) Please see the Applicants' response to Interrogatory ATTACH2-AMPCO-21.

iii) As indicated above, the 100% synergy savings achievement is the most likely scenario and is the scenario included in the Application. The Applicants chose to portray 50-75% attainment of synergies as a sensitivity analysis. There were no estimates of the expected likelihood of the 50-75% scenarios. The achievement of these synergies is dependent on the achievement of system integration in a timely and cost effective manner; and an effective human resource strategy.

ATTACH2-STAFF-19

Reference(s):

Attachment 2, p. 6, 10

Preamble:

On page 6, it is indicated that merged net income is higher post rebasing as a result of contribution of Hydro One Brampton income partially offset by lower ongoing capital expenditure requirements and resulting lower rate base.

a) Please explain why Hydro One Brampton's income is expected to be a contributor to higher merged net income in the post rebasing period.

b) Please explain why there are lower ongoing capital expenditure requirements starting in the rebasing year.

c) On page 10, capital synergies drop from $30M to $8M in 2021. Please explain why there is a drop and how it impacts net income as presented on page 6.

Response:

a) After a ten year period the synergies will be fully to the benefit of LDC Co customers. In relation to increases in net income over the *status quo*, after ten years the main contributing factor to LDC Co's increased net income will be the share of HOBNI's net income (not included in the *status quo*) due to the purchase.

b) The lower ongoing capital expenditure requirements starting in the rebasing year as compared to the *status quo* are as a result of (i) the move to single, common Information Systems (a single customer billing system, for example) and Operating systems (a single control room for example) which require lower ongoing capital expenditures than multiple systems; and (ii) lower general plant expenditures associated with a lower LDC Co headcount versus the *status quo.*

c) Capital synergies are evident in the first five years and relate primarily to saving on major IT investments planned under the *status quo* scenario of four independent LDCs. Synergies savings drop in 2021 as most of the IT related synergies have been realized.

ATTACH2-STAFF-20

Reference(s):

Attachment 2, p. 9

Preamble:

Please explain the causes/assumptions that are the basis for the $19.5M, or 3.3% reduction in revenues relative to status quo in the first ten years of the consolidation.

Response:

The Applicants observe that the question refers to page 8 of Attachment 2.

The reduction in distribution revenues in the first ten years relative to the *status quo* is due to the fact that after the consolidation LDC Co would not be rebasing before the end of the deferral period, while in the *status quo* scenario the Parties would be submitting Custom IR applications during that time. For example, while in the *status quo* scenario, Horizon Utilities would submit a Custom IR application in 2020 and PowerStream in 2021. After the consolidation, both of those rate zones will move to Price Cap IR after the expiry of their current rate regimes, resulting in lower distribution rates for the customers in those two rate zones. Similarly, Enersource and Hydro One Brampton will stay on Price Cap IR after the merger, while in the *status quo* scenario those parties would have rebased in 2017 and 2020, respectively.

B-STAFF-21

Reference(s): Exh B/T6/ Schs 4-6

Preamble:

The applicants have arranged for a $500 million Working Capital Facility and a $625 million Acquisition Facility to finance the Hydro One Brampton acquisition at a purchase price of $607 million.

The targeted amount of debt financing for the acquisition transaction is $424.9 million. The remaining $182.1 million will be financed by shareholder contributions.

a) Please explain how the applicants determined that a $500 million working capital facility was appropriate.

b) Given that the amount of debt financing for the acquisition transaction is stated as $424.9 million, which exceeds the projected 2015 OEB approved rate base of $405 million, please explain why this should not raise concerns that costs related to the premium would be recovered from ratepayers.

c) It is indicated that the premium of $202 million is not recoverable from ratepayers. The remaining $405 million, which represents the projected 2015 OEB approved Hydro One Brampton rate base, will be recoverable from rate payers. Even if the full $405 million is recoverable from ratepayers, recovery will occur over a number of years whereas the Acquisition Facility is a two year term loan. Please explain how the applicants will ensure that it has sufficient cash flows to repay the withdrawn amount in two years as well as in future years, when the Holdco's own trust indenture needs to be repaid.

d) Please explain how the applicants plan to maintain sufficient cash flow to pay the interest expense from drawing on these facilities.

e) In Schedule 6, debt facilities as at December 31, 2014 for each of the applicants are discussed. The projected debt structure post consolidation only includes the Working Capital Facility, Acquisition Facility and the Debenture Program.

   i. Please indicate how much existing debt of each of the applicants will still be in place after consolidation.

   ii. If no existing debt will be in place post-consolidation, please explain and discuss whether the Working Capital Facility is sufficient to meet LDC Co.'s cash flow needs stemming from each applicant as well as new cash flow needs from the consolidated entity.

iii. Please provide the weighted average interest rate and annual debt cost of all of LDC Co.'s regulated constituents that are currently reflected in customers' rates.

iv. Please provide details on the total amount of debt issued by affiliates, the terms, and expiry dates. Please explain the parties' proposal for renewing any affiliate debt over the term.

f) LDC Co. plans to establish a long-term borrowing program through the issuance of senior unsecured debentures under a new trust indenture.

i. Please explain LDC Co.'s strategy in ensuring that it will be able to successfully attract the required debt capital.

ii. The applicants expect the terms of such program to be usual and customary to large publicly-rated rate-regulated utilities. Please explain what financing terms are expected.

Response:

a) The $500MM facility was determined to be appropriate by reviewing current short term debt requirements and IESO prudentials.

b) Please see the Applicants' response to Interrogatory B-STAFF-17b).

c) The Applicants will implement a long-term debt facility to repay the two-year HOBNI acquisition facility. Additionally, it is expected that the combined rate base will continue to grow as a result of the ongoing distribution system investments planned by the Applicants. The debt capacity available through the anticipated growth in rate base will provide cash flows sufficient to satisfy the debt requirements.

d) As mentioned in c) above, the debt capacity available through the anticipated growth in rate base will provide sufficient cash flows to satisfy the requirements for all debt forecast to be incurred by LDC Co.

e) i) All existing long-term debt within PowerStream, Horizon Utilities and Enersource will be in place following the consolidation. All short-term debt facilities of each of the Applicants will be extinguished and funded through the $500MM Working Capital Facility.

ii) As explained at Exhibit B, Tab 6, Schedule 6, page 9 of 9, line 6, the existing trust indentures of the Applicants and the debt issued under those trust indentures continue in LDC Co. To clarify, all new issuances of senior unsecured debentures will be issued under the Debenture Program.

iii) The existing weighted average interest rate and annual debt cost for each of the Parties is provided in Table 1 below.

Table 1 – Existing Weighted Average Interest Rate and Annual Debt Cost

($MM)	Enersource (EB-2012-0033)	Horizon Utilities (EB-2014-0002)	HOBNI (EB-2014-0083)	PowerStream (EB-2012-0161)
Long Term Debt Rate	5.09%	3.47%	6.07%	4.15%
Short Term Debt Rate	2.08%	2.16%	2.16%	2.08%
Long Term Debt Component	56%	56%	56%	56%
Short Term Debt Component	4%	4%	4%	4%
WACC of Total Debt	*2.93%*	*2.03%*	*3.49%*	*2.40%*
Approved Rate Base	*$ 610,457*	*$ 488,375*	*$ 404,619*	*$ 832,077*
Total Deemed Debt Costs	*$ 366,274*	*$ 293,025*	*$ 242,771*	*$ 499,246*
Deemed Interest in Rates	*$ 17,913*	*$ 9,916*	*$ 14,110*	*$ 20,009*

iv) The total debt issued by affiliates with terms and expiry dates are provided in the Application at Exhibit B, Tab 6, Schedule 6:

- Page 1 for Enersource
- Page 3 for Horizon Utilities
- Page 4 for PowerStream

HOBNI will have no existing debt at the time of purchase.

f) i) The Applicants intend to maintain an A-range credit rating. A maximum debt level of approximately 63.5% of total equity is forecast. The Applicants anticipate that these statistics will attract an appropriate level of investors for LDC Co's debt offerings.

ii) Please refer to the following Summary of Offering for an example of general financing terms within a new trust indenture.

*The following is a summary only of the material attributes and characteristics of the Series A Debentures and Series B Debentures (together the "**Debentures**") and is qualified in its entirety by the detailed provisions of the trust indenture to be dated on or about •, 2011 between the Corporation and the Trustee (the "**Master Indenture**"), and the first supplemental indenture and the second supplemental indenture each to be dated on or about •, 2011 between the Corporation and the Trustee (collectively with the Master Indenture, the "**Trust Indenture**"), which may be reviewed at the offices of the Trustee during normal business hours during the period of distribution of the Debentures. Capitalized terms used herein have the meaning set forth in the Trust Indenture unless otherwise defined.*

SUMMARY OF THE OFFERING

Issuer:	Enersource Corporation (the "**Corporation**").
The Offering:	$• Series A Senior Unsecured Debentures (the "**Series A Debentures**"). $• Series B Senior Unsecured Debentures (the "**Series B Debentures**").
Credit Rating:	Preliminary credit rating of A from DBRS. Preliminary credit rating of A from Standard & Poor's.
Maturity:	Series A Debentures: •, 2021 Series B Debentures: •, 2041
Price:	$1000 per $1000 principal amount of Debentures.
Interest:	Series A Debentures: •% per annum, payable in equal semi-annual instalments in arrears on • and • in each year commencing •, 2011 until maturity. Series B Debentures: •% per annum, payable in equal semi-annual instalments in arrears on • and • in each year commencing •, 2011 until maturity.
Rank:	The Debentures will be direct senior unsecured obligations of the Corporation and will rank equally with all of the Corporation's other senior unsecured obligations.
Minimum Subscription:	$150,000
Covenants:	The Trust Indenture contains covenants of the Corporation including: (a) neither the Corporation nor any Designated Subsidiary may give security in respect of any obligation unless (i) it is a Permitted Encumbrance or (ii) the Corporation causes the Debentures to be secured equally and rateably; (b) neither the Corporation nor any Designated Subsidiary may incur any Funded Obligation unless the aggregate principal amount of the Consolidated Funded Obligations does not exceed 75% of the Total Consolidated Capitalization and no event of default shall have occurred and be continuing; and (c) the Corporation may not amalgamate, merge or dispose of substantially all of its assets unless, among other things, the successor entity assumes the Corporation's covenants and obligations under the Trust Indenture.

Designated Subsidiary:	The directors of the Corporation (or any two officers if so authorized by the directors) may elect: (a) to designate a Subsidiary in addition to Enersource Hydro Mississauga Inc. (**"Enersource Hydro"**) as a Designated Subsidiary provided that any such Subsidiary may only be so designated if: (i) after giving effect thereto, the Corporation would be entitled to issue Funded Obligations in the principal amount of at least $1.00; and (ii) none of the shares of the Subsidiary are owned by a Subsidiary that is not itself a Designated Subsidiary; and (b) that a Designated Subsidiary other than Enersource Hydro cease to be a Designated Subsidiary provided that such election may not be made in respect of any Designated Subsidiary if: (i) such Designated Subsidiary owns any Funded Obligations of the Corporation or any shares or Funded Obligations of another Designated Subsidiary; or (ii) after giving effect to such election, the Corporation would not be entitled to issue Funded Obligations in the principal amount of at least $1.00. The Corporation shall give prompt notice to the Trustee of any such election.
Redemption:	The Debentures may be redeemed by the Corporation in whole or in part at the Redemption Price together with accrued and unpaid interest to the Redemption Date. The Redemption Price is equal to the greater of the applicable Canada Yield Price and 100% of the principal amount of the Debentures being redeemed.
Delivery and Registration:	The Series A Debentures and the Series B Debentures will each be issued in the form of a fully registered Global Debenture, registered in the name of CDS & CO., as nominee of CDS. Except in limited circumstances, owners of beneficial interests in the Global Debentures will not be entitled to receive Debentures in definitive form.
Events of Default:	The Trust Indenture sets forth certain events that constitute Events of Default (with applicable grace periods) including, but not limited to: (a) failure to pay principal or interest owing in respect of the Debentures; (b) failure to perform any other covenant; (c) payment defaults on, or acceleration of, Indebtedness exceeding the greater of $25 million and 10% of the Consolidated Net Worth of the Corporation; and (d) certain events of bankruptcy, insolvency or reorganization of the Corporation or a Material Subsidiary under bankruptcy or insolvency laws.
Purchase for Cancellation:	The Corporation, when it is not in default, may purchase Debentures in the market, by tender or by contract at any price from time to time. All Debentures so purchased shall be delivered to the Trustee and shall be cancelled.

Defeasance:	The Corporation will be entitled to make due provision for the payment of Debentures and thereby be released from its obligations under the Trust Indenture.
Details of the Offering:	The section below captioned "Details of the Offering" more fully describes the terms set out in the summary and certain other provisions of the Trust Indenture.
Trustee:	BNY Trust Company of Canada
Use of Proceeds:	The net proceeds of the Debentures will be used to repay the amount owed by the Corporation to Borealis Infrastructure Trust due May 2, 2011 and the balance will be used for general corporate purposes including capital expenditures.
Agents:	CIBC World Markets Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc. and TD Securities Inc.
Governing Law:	The Province of Ontario.

B-STAFF-22

Reference(s): Exh B/T6/Sch 3, p. 1

Preamble:

It is stated that:

Subject to assumptions and risks further described herein, the proposed consolidation is expected to deliver meaningful shareholder benefits summarized as follows:

Holdco

- **Increase in the Net Present Value ("NPV") of earnings of approximately $276MM from $1,154MM to $1,430MM from 2016 to 2036 (the "Forecast Period") relative to the status quo, a 24% increase.**

a) Please state the rate-setting assumptions (e.g. annual rebasing, rebasing every five years with annual IR for the intervening years) that were assumed in both the status quo and merge scenarios and the reasons for any differences

b) Please state the impacts of these assumptions on the identified expected NPV increase of approximately $276 million.

Response:

a) The rate setting assumptions for the merged scenario are provided in Exhibit B, Tab 7, Schedule 1, p.1:

> "*Consistent with the Consolidation Policy and the Handbook, MergeCo will defer its first rebasing for 10 years from the date of transaction closing. During the deferral period, Enersource and HOBNI will stay on Price Cap IR, PowerStream is assumed to be on Custom IR in 2016-2020 and move to Price Cap IR in 2021, and Horizon is assumed to be on Custom IR until 2019 and move to Price Cap in 2020.*"

The rate setting assumptions for the *status quo* scenario are as follows:

- Enersource – Custom IR for 2017-2021 and thereafter;
- Horizon Utilities – Custom IR for 2015-2019 and thereafter;
- PowerStream – Custom IR in 2016-2020 and thereafter; and

- HOBNI – 2015 rebasing; Price Cap regime in 2016-2019 and Custom IR starting in 2020 and thereafter.

The difference between the two sets of assumptions is the result of the Report of the Board: "*Rate-making Associated with Distributor Consolidation*", dated March 26, 2015, whereby LDCs move to Price Cap IR after the expiration of the Custom IR period.

Please also see the Applicants' response to B-CCC-18.

b) The difference in rate setting assumptions, or between the merged scenario and the *status quo* scenario, accounts for approximately $98MM of the identified expected NPV.

B-STAFF-23

Reference(s): Exh B/T6/Sch 3, p. 1

Preamble:

It is stated that:

Holdco expects to adopt a dividend policy with dividends computed on shared earnings determined in a manner consistent with that used by the OEB for purposes of its distribution rate-making policies. Such basis is commonly referred to as Modified International Financial Reporting Standards ("MIFRS"). MIFRS is a modified basis of IFRS used by Canadian corporations for financial statement purposes. Holdco generally expects to pay dividends of up to 60% of earnings on this basis.

a) Please state whether or not the anticipated dividend policy would be different from the policies that would have been anticipated in the absence of the merger and, if so, how

Response:

a) The anticipated dividend policy will be different from the current dividend policies of the Applicants.

The anticipated dividend policy for the consolidated entity provides for a dividend of up to 60% of net income whereas PowerStream's dividend payment is presently based on 50% of the MIFRS net income. Both Horizon Utilities and Enersource presently calculate dividends based upon 60% of the MIFRS net income.

Enersource pays an annual dividend, whereas Horizon Utilities and PowerStream pay dividends quarterly.

B-STAFF-24

Reference(s): Exh B/T6/Sch 5, p. 2

Preamble:

It is stated that:

LDC Co anticipates maintaining a financial capital structure of approximately 60% debt as a result of the acquisition of HOBNI. Holdco will manage its business to continue to support an A range rating.

a) Please state where in the A range rating referred to above Holdco is assuming that it will manage its business to be at, e.g. high, middle, low.

b) Please provide a sensitivity analysis as to how much of an impact this assumption would have on the costs of the merger.

Response:

a) As a practical matter based on rating methodology, there is a remote likelihood of any Ontario distributor being rated A(high). Consequently, the practical range of outcome is A(mid) to A(low); which is the general range for rated distributors in Ontario (including Hydro One). It is the understanding of the Applicants that the OEB permits rate recovery of interest costs in this range of rating.

Holdco is targeting a rating of A(mid) but expects that such will not be lower than A(low). This is the assumption underlying the Business Plan as filed by the Applicants in Interrogatory B-STAFF-1.

The risk of Holdco being rated below the A-range is remote based on the Business Plan.

b) The Business Plan is indifferent to a rating within the A(mid) to A(low) range. The cost of incremental borrowing in the Business Plan was assumed at 4% based on a conservative view of an indicative A(mid-low) corporate long-bond rate at the time of its development (August-September 2015).

The current range of credit spread between an A(mid) and A(low) corporate long-bond is 0.05% to 0.15%. The conservative assumption used in the Business Plan effectively absorbs such a small range of interest volatility without any material cost implication.

Consider that a recent indicative rate (July 11, 2016) for a 30-year A(mid) rated Holdco corporate bond is 3.363%.

Additionally, it is likely that Holdco will issue some amount of ten-year debt over time to support its incremental financing requirements post-merger. The indicative ten-year rate for Holdco (July 11, 2016) at A(mid) is 2.376%.

Based on the Business Plan assumption of 4% and management flexibility with respect to the duration of incremental debt issuances, there is no practical or material interest cost implication to Holdco within a rating range of A(mid) to A(low).

Interest rate risk to Holdco and corresponding cost implications align more closely to market based factors outside of its control, such as: i) changes in underlying Government of Canada yields; and ii) changes in the credit spreads required by investors in debt securities for A(mid-low) bonds.

B-STAFF-25

Reference(s): Exh B/T6/Sch 5, p. 3

Preamble:

It is stated that:

The level of borrowing to support the transaction has been set in a range of 70-75% of the HOBNI purchase price to optimize the cost of financial capital for Holdco, while also providing sufficient ongoing liquidity to support its sustainment-based investment requirements at a target A-range credit rating.

a) Please state how it was determined that a range of 70-75% of the Hydro One Brampton purchase price was the appropriate one to optimize the cost of financial capital for Holdco.

Response:

a) Please refer to pages 92-93 and Appendix 6-F of the Business Plan provided in the Applicants' response to Interrogatory B-Staff-1 for the principles, approach, sensitivity, and expected outcomes with respect to the determination of the range of borrowing to finance the HOBNI purchase price.

In summary, the range was determined relative to the key financial statistics used by rating agencies to assess the financial profile of a corporate utility.

It is expected that the business profile of Holdco will be unchanged relative to the Parties. This is a reasonable assumption since the nature of the Holdco business is effectively the combination of the business risk profiles of the parties; all of which are very similar.

Consequently, the principle rating concerns correspond to financial targets; principally Adjusted Funds from Operations ("AFFO") as a ratio of Debt and, to a lesser extent, Debt to Total Capitalization.

The financing range was optimized relative to the rating statistics for an A(mid) rating.

B-STAFF-26

Reference(s): Exh B/T6/Sch 5, p. 5

Preamble:

It is stated that:

The Applicants assume a 4% debt cost of financing for the HOBNI acquisition; which is reasonable relative to recent bond forecasts. This suggests that Holdco may be able to achieve or modestly outperform the debt cost assumption in the model if it were to issue fixed-rate debt within three to twelve months following the closing of the transaction.

a) Please provide supporting calculations and/or assumptions on which the 4% debt cost assumption is based.

b) Please state the basis for the view expressed that Holdco may be able to achieve or modestly outperform the debt cost assumption in the model if it were to issue fixed rate debt within three to twelve months following the closing of the transaction.

Response:

a) The cost of incremental borrowing in the Business Plan, as provided in the Applicants' response to B-STAFF-1, was assumed at 4% based on a conservative view of an indicative A(mid-low) corporate long-bond rate at the time of its development (August-September 2015). This assumed that the merger and acquisition would close December 31, 2015.

A July, 2015 forecast of the Government of Canada 30-year benchmark yield between September, 2015 and March, 2016 was approximately 2.50%. The Applicants assumed an indicative credit spread of 1.50%. The aggregate of these amounts yielded the assumed incremental borrowing cost of 4.00%.

b) As described in a), the notion of achieving the debt cost assumption underlying the Business Plan was consistent with the bond forecasts through to March, 2016 i.e., three months following the assumed closing date of December 31, 2015.

Based on the closing date and funding assumptions, Holdco had opportunity to over-achieve the Business Plan assumption to the extent of issuing some measure of ten-year bonds and, thus, taking advantage of the favourable spread between ten and 30 year debt. Ultimately, those determinations will be made based on market conditions at the time of financing decisions.

ATTACH3-STAFF-27

Reference(s): Attachment 3, pages 6, 7
Exh B/T6/Sch 5, p. 3

Preamble:

a) Please explain how the information presented in Attachment 3, page 6 correlates to that in Figure 33 of Exhibit B, Tab 6, Schedule 5, Page 3.

b) In Figure 33, new equity for HHI is ($7.2M). Please explain why the amount is negative and what this means in terms of the financing Horizon is contributing.

c) In Attachment 3, page 6, please explain what the "Chips" represent.

d) In Attachment 3, page 7, the rating trigger of 13% is met under the 100%, 75% and 50% synergies scenario at some point from 2016 to 2038.

- **i. Please explain the impact of the rating trigger to LDC Co.**
- **ii. Please explain what action LDC Co. will take when the rating is triggered.**
- **iii. With reference to the expected likelihood of meeting 50%, 75% and 100% of expected synergies requested at 1-Staff-15 above, please explain if and quantify how meeting 50% and 75% of synergies could affect the cost of capital.**
- **iv. Please explain the applicants' strategy for mitigating the effects of higher borrowing costs, which would impact customers upon rebasing.**
- **v. Please describe the applicants' strategy for managing new or changing debt costs in the interest of its customers over the long term**

Response:

a) The information in Figure 33 of Exhibit B, Tab 6, Schedule 5, Page 3 is a summary of the calculations represented in Attachment 3, page 6. The second column of Figure 33, "Debt Capacity", shows the split of $424.9MM total debt capacity among the Parties. This corresponds to the "Total Debt Financing" line in the table on page 6 in Attachment 3, and represents 70% of the $607M HOBNI Purchase Price. The acquisition of HOBNI is financed by borrowing $201.6MM against its rate base of $405.4M and by using $223.3MM of borrowing capacity of the Parties, as shown in the summary table in Figure 33 in the debt column and as shown on the "re-leverage chips" lines in the table on page 6 in Attachment 3.

The third column of Figure 33, "New Equity", shows the split of additional equity contributions required from PowerStream, Enersource and Horizon Utilities shareholders to finance the purchase of HOBNI. The total equity required is $182.1MM (30% of the $607MM purchase price) and this corresponds to the "Total Equity Financing" line in the table on page 6 in Attachment 3, and to the corresponding split of the equity contributions among Applicants as shown above this line. The last column in Figure 33, "Total", shows the total funding by each Party, with the total of $607MM corresponding to the "Total Acquisition Funding" line in the table on page 6 in Attachment 3.

b) Based on its projected balance sheet to the end of December 31, 2015, HHI demonstrates debt capacity of $100.6MM based on a target of 60% debt in its total capitalization. However, based on the proportionate shareholdings allocated to the shareholders of HHI and the 70% HOBNI debt financing assumption, HHI is only required to contribute $93.4MM of debt capacity to the HOBNI acquisition. The difference of $7.2MM represents a closing credit to the account of the HHI shareholders that would be settled through the closing adjustment mechanism in Schedule 2.3 of the Merger Participation Agreement.

c) The "Equity Financing Requirement" and "Chips" in combination, in the table on page 6 in Attachment 3, represent expected settlements among the Applicants based on their relative contributions of debt capacity, working capital, and other assets. This approach normalizes the balance sheets of the Parties and ensures that the balance sheet of one Party does not cross-subsidize the balance sheet of another without an appropriate normalization settlement. These settlements are provided for in Schedule 2.3 of the Merger Participation Agreement.

d) i) The ratings trigger shows the general level of AFFO to Debt that is monitored by the debt rating agencies. If an organization operates below the trigger on an ongoing basis, it is likely that the debt rating agencies will take action on the rating. The Applicants believe that the 100% synergy savings target will be achieved and the requirement met for an A-range credit rating. The sensitivity analysis of 50-75% synergies was to stress test the assumptions and is not meant as a likely scenario.

ii) There have been no formal discussions on ratings triggers. The Applicants anticipate that the targets set out are achievable and that there is the necessary flexibility to achieve them.

iii) As indicated above, the 50-75% synergy attainment was a stress test of the model. Potentially, there would be an increase in the cost of borrowing for new debt if Holdco were downgraded to an 'A-' credit rating. This is not a likely scenario, as other actions could be taken to ensure sustainment of Holdco's credit rating at the A level.

iv) The Applicants anticipate that Holdco will maintain an A credit rating. Holdco will be better positioned because of its size and the ability to be a regular debt issuer, to borrow in a cost effective manner than each Party could on a stand-alone basis.

v) As discussed above, the Applicants expect that Holdco will be better positioned to borrow in a cost effective manner. Due to the size of the organization, Holdco will be able to issue debt more regularly in the market which will make access to financing easier and cost effective for both Holdco and market participants who purchase Holdco debt.

B-STAFF-28

Reference(s): Exh B/T6/ Sch 3, p. 1

Preamble:

It is stated that "The assumption for future rate levels in the valuation was based on annual rebasing for the Applicants going forward from the time of the next rebasing application."

a) Please elaborate on the above specifically discussing why annual rebasing was assumed from the time of the next rebasing and what impact this assumption had on the valuation as compared to an assumption that rebasing would occur only every five years.

b) Please state the plan for all applications for rate changes from the merged entity or its rate zones which are presently anticipated in the period until 2025. Please include in this plan when the applicants propose seeking approval for certain rate-setting issues such as:

i. The earnings sharing mechanism for the Horizon rate zone

ii. The stretch factor to be used for the zones on the Price Cap IR

iii. The ROE to be used for earnings sharing of the consolidated entity

iv. Any rate riders that are expected to end during the term

Response:

a) Please see the Applicants' response to Interrogatory B-Staff-22a).

b) Figure 1 below provides the plan for anticipated applications for rate changes for the rate zones over the period to 2025, and including 2026 (tenth year of the rebasing deferral period).

Figure 1 – Rate Setting During the Ten Year Rebasing Deferral Period

	1	2	3	4	5	6	7	8	9	10
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Enersource	IRM with potential for ICM									
Horizon Utilities	Custom IR (Annual Filing)			IRM with potential for ICM						
PowerStream	Custom IR (Annual Filing)*				IRM with potential for ICM					
HOBNI	IRM with potential for ICM									

*PowerStream presently has a Custom IR application for 2016-2020 electricity distribution rates before the OEB.

i) The Applicants will file the outcomes relative to the Horizon Utilities earnings sharing mechanism for Horizon Utilities' rate zone in each of the remaining Annual Filings for 2018 and 2019 and in the IRM applications for 2020 and 2021.

ii) The OEB assigns the stretch factor in its release of the Pacific Economics Group ("PEG") Report, annually.

iii) Please refer to the Applicants' response to Interrogatory B-STAFF-31i).

iv) Please refer to the Applicants' response to Interrogatory B-Staff-11.

B-STAFF-29

Reference(s): Exh B/T7/Sch 1, p. 1

Preamble:

It is stated that:

During the rebasing deferral period, LDC Co. may apply for rate adjustments using the Board's ICM as may be necessary and in accordance with applicable Board policies with respect to eligibility for, and the use of, the ICM.

Given that it is also stated that Enersource, Hydro One Brampton, Horizon and PowerStream would be separate rate zones and LDC Co. would not be expected to file its first rebasing application with the OEB for ten years, please state the basis on which it is envisaged that the OEB would assess an ICM application from LDC Co. filed during the rebasing deferral period. For example, would ICM applications be expected for the separate rate zones, or would they be at the LDC Co. level and if the latter how this would be done given that LDC Co. would not yet have rebased.

Response:

The Applicants expect to file separate ICM applications for the rate zones, as applicable. The Applicants expect the OEB to rely upon its policies and filing guidelines to successfully assess ICM applications filed by LDC Co.

ATTACH3-STAFF-30

Reference(s): Attachment 3/Summary of the Financing Plan

Preamble:

The evidence indicates that a key assumption of the plan is that "Holdco may file for ICM in each year".

a) Please provide the current estimate of the total incremental capital to be sought via ICM until rebasing.

b) Please provide details on what ICM amounts, if any, are reflected in the revenue and net income projections in Attachment 2.

c) Please confirm that any ICM would only be for those rate zones that will be on the Price Cap IR rate-setting.

Response:

a) The Applicants estimate that the total incremental capital to be sought via ICM until rebasing is $414MM.

b) The ICM amounts in Attachment 2 include approximately $130MM for the revenue projection and $107MM for the net income projection.

c) The Applicants note that ICM is available for distributors on the Price Cap IR rate-setting framework. The Applicants confirm that they expect to make use of that option for the rate zones, as applicable. Please also see the Applicants' response to Interrogatory B-Staff-29.

B-STAFF-31

Reference(s): Exh B/T7/S2, p. 1-2

Preamble:

It is stated that:

Earnings in excess of 300 basis points above the Board's established regulatory return on equity ("ROE") for the consolidated entity would be divided on a 50/50 basis between LDC Co and its ratepayers. The ratepayer share of earnings will be credited to a newly proposed deferral account, for clearance at the next applicable annual IRM application filing. For example, if LDC Co over-earned in year six post consolidation, it would report the balance in the deferral account in the year eight IRM application which would be filed in year seven, and refund 50% of this balance to ratepayers over the twelve months commencing January 1 of year eight.

a) LDC Co. will be comparing the current year's ROE to the OEB's established ROE for the consolidated entity.

   i. Please explain how LDC Co. proposes that the "OEB's established ROE" would be calculated as this would include the established ROEs of four distributors with no adjustment to these numbers for 10 years.

   ii. Please explain how the proposed deferral account will operate and how ESM amounts will be tracked in the account. Please provide a draft accounting order that includes a description of the mechanics of the account and examples of general ledger entries.

b) For the example cited above with LDC Co. over-earning in year six post consolidation, please state how the refunding of the 50% balance to ratepayers is envisaged to occur given the existence of the four rate zones. Please discuss in this response whether or not in a scenario in which the LDC Co. earnings in excess of 300 basis points were attributable to some rate zones, but not all, whether it is envisaged that customers in all rate zones, or only customers in the over-earning rate zones would receive refunds.

c) LDC Co. would begin reporting on the ROE outcome for ESM purposes commencing in year 7 post consolidation, for audited year 6 results. Does LDC Co. intend to report ROE for years 1 to 6 for RRR purposes? If not, why not

Response:

a) i) The Applicants have not made a determination on this matter but may propose to calculate a rate base weighted average ROE for LDC Co based on the OEB-approved values for each of the predecessor utilities in place at the time. The Applicants identify that pursuant to the OEB Decision in its Custom IR proceeding (EB-2014-0002) Horizon Utilities' ROE will be updated annually each year during the OEB's annual rate adjustment proceeding for Horizon Utilities using the OEB-approved parameters for the following year. Similarly, PowerStream has filed its Custom IR Application (EB-2015-0003) seeking approval for an annual adjustment to its ROE. A decision on that application is pending.

ii) The Applicants expect that any ratepayer share of earnings will be credited to a newly proposed deferral account, for clearance at the next applicable annual rate filing. The regulatory net income will be calculated, for the purpose of earnings sharing, in the same manner as net income for regulatory purposes under the RRR filings. The Applicants understand that that will exclude revenue and expenses that are not otherwise included for regulatory purposes.

The Applicants have relied upon the guidance in the OEB's *Handbook to Electricity Distributor and Transmitter Consolidations* in the structuring of the transaction, including the implementation of any ESM in years six to ten of the rebasing deferral period, and will look to existing policies such as the Board's *RRR 2.1.5.6 ROE Complete Filing Guide* issued March 1, 2016, to inform the mechanics and general ledger entries.

Please also see the Applicants' response to Interrogatory B-EP-2.

b) It is envisaged that any revenue sharing would be allocated equitably among all customers.

c) LDC Co intends to be compliant with OEB RRR filing requirements, post consolidation, including the reporting of ROE data.