

**OEB STAFF INTERROGATORIES**  
**Erie Thames Powerlines Corp. and West Coast Huron Energy Inc.**  
**MAADs Application**  
**EB-2018-0082**

**June 4, 2018**

**Staff IR #1**

Reference: Exhibit B, Tab 2, Schedule 1, p. 1

Preamble:

The Applicants State “This is an application (“Application”) to the Ontario Energy Board (“OEB” or the “Board”) for the relief necessary to effect the amalgamation of West Coast Huron Energy Inc. (“WCHEI”) *into* [emphasis added] Erie Thames Powerlines Corporation (“ETPL”) to create a single local distribution company.”

***and***

Reference: Exhibit B, Tab 4, Schedule 1, p. 1

The Applicants State “Subject to Board approval, the **consolidation** [emphasis added] proposed in this Application will be implemented by way of two transactions that will culminate in a single distributor carrying on business as a single corporation.”

Questions:

- a) Throughout the application, the Applicants use inconsistent terminology in order to describe the type of merger/amalgamation being entered into by the parties. An example of the various terms used by the Applicants is demonstrated in the preamble.
  - i. Please clearly describe the form of merger/amalgamation being entered into by the Applicants. Please clearly identify how the merger is most accurately characterized. E.g., is the merger best described as an alliance, the absorption of WCHEI into ETPL, or other?
- b) Please provide an organizational chart that demonstrates the post-amalgamation management structure of the merged entity. Please indicate from which distributor, WCHEI or ETPL, each member of the management team is from. For clarity, the management team includes any member of the merged entity with the title of Manager and above.

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**Staff IR #2**

Reference: Exhibit B, Tab 2, Schedule 1, p. 1

Preamble:

The Applicants State “This Application is the culmination of a long-standing relationship and shared service arrangements between the Applicants. In particular, ETPL and its holding company, ERTH Corporation (“ERTH”) and its competitive affiliates have provided a variety of services to WCHEI since 2002.”

***and***

Reference: Exhibit B, Tab 5, Schedule 1, p. 1

The Applicants State “ETPL, ERTH and its electricity sector affiliates already provide an extensive amount of services to WCHEI and accordingly, it is expected that the transition of ownership will be relatively seamless from the perspective of the customer and constitute an enhancement of services currently provided.”

Questions:

- a) Please confirm the services that ERTH’s affiliates are currently providing and/or have previously provided to WCHEI.
  - i. Please confirm the total amounts paid to ERTH by WCHEI for these services.
- b) Please fully describe the type of services that will be enhanced through the merger.
  - i. Please describe what constitutes “an enhancement of services” to customers.
  - ii. Please indicate how and why the merger is expected to deliver “an enhancement of services” to customers.
- c) If applicable, please confirm that the amalgamated entity will ensure that the confidential information related to its customers will be protected in a manner pursuant to the Affiliate Relationships Code Section 2.2.3.

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**Staff IR #3**

References: Exhibit B, Tab 2, Schedule 1, p. 3 – p. 4

*Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Sched. B Section 86 (2)(b)*

Preamble:

The Applicants State at page 3 of the above-referenced Schedule: ERTH and the Town of Goderich have executed a share purchase agreement pursuant to which ERTH will acquire all of the shares of WCHEI. In return, the Town of Goderich will receive shares in ERTH.

Section 86 (2)(b) of the OEB Act states:

“No person, without first obtaining an order from the Board granting leave, shall acquire control of any corporation that holds, directly or indirectly, more than 10 per cent of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of that corporation.”

However, the Applicants have not included approval of the acquisition of WCHEI’s shares among the OEB approvals sought in section 3 of the Schedule (at p.4).

Questions:

- a) Please advise as to whether the Applicants are also seeking the OEB’s approval of the acquisition by ERTH of all of the shares of WCHEI, and the statutory basis for the approval. If the Applicants are not seeking that approval, please explain why they are not doing so.
- b) Please indicate the status of the share purchase agreement. Please confirm the date by when the agreement is expected to close.
- c) Please confirm if a new name is anticipated for the utility following the amalgamation transaction, and advise as to the anticipated name if known.

**Staff IR #4**

Reference: Exhibit B, Tab 5, Schedule 1, p. 3

Preamble:

The Applicants State:

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The Applicants' intention is that ETPL will harmonize the engineering standards of its predecessor utilities following the merge, which will enable more efficient and effective inventory management and ensure sufficient spare equipment for higher reliability. ETPL will implement a comprehensive review and recommend best engineering standards and practices to be followed. The review will give due consideration to service reliability, costs, and risks.

**Questions:**

- a) Please indicate the timing for when the review of engineering standards and practices will commence.
  - i. Please indicate if a firm has been contracted to complete the study.
  - ii. If applicable, please provide the name of the firm contracted to perform the study.
- b) Please provide, in reasonable detail, an overview of the (proposed) study's scope.
  - i. Please identify the primary areas of WCHEI and ETPL's businesses that the study is anticipated to focus upon.
  - ii. Please discuss the reasons for why these areas were selected for in-depth investigation.
- c) What financial and operational efficiency opportunities do the Applicants anticipate being identified through this study and how and when will study findings likely be implemented?

**Staff IR #5**

Reference: Exhibit B, Tab 5, Schedule 1, p. 3

**Preamble:**

The Applicants State "The Parties' policies and practices for expansion of the distribution system will be standardized across the new geographic service territory. This is expected to facilitate economic growth in the service territory as developers will receive standard Offers to Connect and will be able to deal with only one distributor across these regions."

**Questions:**

- a) Please describe the economic growth expected to result from the merger and how this growth is anticipated to benefit customers.

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**Staff IR #6**

Reference: Exhibit B, Tab 5, Schedule 1, p. 3

Preamble:

The Applicants State:

The System Average Interruption Duration Index ("SAIDI"), the average outage duration for each customer served, is commonly used as a reliability indicator by electricity utilities. The System Average Interruption Frequency Index ("SAIFI"), the average number of interruptions a customer would experience, is also a key reliability indicator. ETPL is expected to maintain and improve upon the five-year average reliability indices and the OEB Customer Service Standard metrics for its customers.

Questions:

- a) A review of ETPL's 2016 Electricity Utility Scorecard indicates that ETPL's System Reliability metrics do not meet OEB targets. Further, ETPL's performance related to the "Average Number of Hours that Power to a Customer is Interrupted" metric has continuously declined since 2014.
  - i. For what reasons has ETPL's metric score continued to decline? How will ETPL correct this trend in future years?
  - ii. WCHEI's System Reliability metrics currently exceed OEB targets. What steps will or is ETPL taking to ensure that the issues affecting this metric within ETPL's current franchise area do not transition to the current customers of WCHEI or downgrade the reliability indices for WCHEI customers?

**Staff IR #7**

Reference: Exhibit B, Tab 5, Schedule 5, p. 1

Preamble:

The Applicants State:

Following the merger, ETPL will implement its business mission and vision by focusing on four operating strategies:

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- Enhancing service delivery to customers;
- Enhancing internal operational cost efficiencies and asset utilization;
- Increasing shareholder value through growth and productivity improvements; and
- Developing and maintaining highly skilled and motivated employees.

**Questions:**

- a) Please more fully describe the improvements to service delivery anticipated from the merger, how these enhancements will be identified and how they will be delivered.
- b) Please specify the cost-efficiencies and asset utilization actions that be will undertaken by the merged entity and describe how the savings associated with these actions are represented in the OM&A savings demonstrated in Figure 5 found at Exhibit B, Tab 5, Schedule 2.
  - i. Please explain how these cost-efficiencies/asset utilization improvements will be identified/realized.
  - ii. Please assign a forecast dollar value (or range of values) to each identified cost-efficiency.
  - iii. Please identify risks that could impede the realization of projected cost savings and/or efficiencies, as well as the likelihood of the occurrence of those risks.
    - i. For risks recognized as having a medium to high likelihood of occurrence, please identify the impact of these risks on projected cost savings/efficiency improvements.

**Staff IR #8**

Reference: Exhibit B, Tab 5, Schedule 5, p. 2

**Preamble:**

The Applicants State “There are significant employee opportunities as a result of the consolidation including: ...continuity of the workforce, the merger will facilitate a positive transition of attrition over the next few years.”

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Questions:

- a) Please describe what is meant by the statement "...the merger will facilitate a positive transition of attrition over the next few years."
  - i. Please indicate the extent to which layoffs are anticipated to result from the amalgamation.
  - ii. If applicable, please specify the type and number of positions that are anticipated to be lost through the amalgamation as well as if the positions lost currently belong to WCHEI or ETPL.

**Staff IR #9**

Reference: Exhibit B, Tab 5, Schedule 5, p. 4

Preamble:

The Applicants State "ETPL will set the following IT objectives for business applications: ...consolidate enterprise cyber security practices and technologies into a single common set of processes and systems that provides the protection of information and the entire information technology architecture to support all business and regulatory requirements of the new company."

Questions:

- a) Please describe the extent to which WCHEI and ETPL have considered the OEB's "Ontario Cyber Security Framework" (the Framework) in designing and implementing network and customer information protection applications.
- b) Please describe how the consolidation of WCHEI and ETPL cyber security practices and technologies will reflect the requirements of the Framework.
- c) Please describe in detail the extent to which WCHEI and ETPL have considered the OEB's Framework when developing approaches to IT systems integration.
- d) Please confirm that ETPL will adhere to the Framework when launching new IT products and abide by the related reporting requirements referred to in the Framework.

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**Staff IR #10**

Reference: Exhibit B, Tab 5, Schedule 5, p. 4

Preamble:

The Applicants State “ETPL will set the following IT objectives for business applications: ...consolidate the Customer Information Systems (“CIS”) environment as quickly as possible into one common Harris Northstar system to facilitate integration of Customer Service business functions and improve service to customers.”

Questions:

- a) Please describe what Customer Service business functions are expected to improve as a result of the consolidation as well as how the integration of these functions will improve service for all customers of the new ETPL.
- b) As it relates to the OEB’s Framework, please describe the steps taken by WCHEI and ETPL to ensure the Harris Northstar CIS is launched in a manner consistent with best practices.

**Staff IR #11**

Reference: Exhibit B, Tab 6, Schedule 3, p. 1

Preamble:

The Applicants State “BDO Canada LLP were jointly hired by the Parties to complete a valuation of the issued and outstanding shares of ERTN and WCHEI for purposes of merger negotiations to ensure both entities were valued on a fair and consistent basis.”

Questions:

- a) Please provide copies of the valuation reports prepared by BDO Canada LLP for both WCHEI and ETPL.
- b) Please describe the extent to which any findings of the BDO studies meaningfully impacted merger negotiations.

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**Staff IR #12**

Reference: Exhibit B, Tab 2, Schedule 1, p. 6

Preamble:

The Applicants State “The Applicants are requesting approval to continue to track costs to the regulatory asset accounts currently approved by the Board for each of ETPL and WCHEI and to seek disposition of their balances at a future date.”

Questions:

- a) Please provide a listing of these accounts by utility.
- b) With respect to Group 1 variance accounts, when do the Applicants expect that the IESO settlement processes for ETPL and WCHEI will be merged?

**Staff IR #13**

Reference: Exhibit B, Tab 2, Schedule 1

Preamble:

The Applicants State “Each of ETPL and WCHEI has transitioned to IFRS for financial accounting purposes, and ETPL, following amalgamation, will also be using IFRS.”

Questions:

- a) Please indicate whose accounting policies (ETPL or WCHEI) will be adopted by the amalgamated entity.
- b) Are the Applicants’ current capitalization and depreciation policies (pre-amalgamation) materially different? If so, please explain the key differences and quantify the impact of aligning these policies for the amalgamated entity.
- c) Are there other material differences in the Applicants’ accounting policies that have been identified and will be aligned in the amalgamated entity? If so, please explain each in detail.
- d) What is the dividend policy of the amalgamated entity? Please provide an analysis that shows what the expected annual dividend payout of the amalgamated entity will be over the deferred rebasing period up to 2028.

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**Staff IR #14**

Reference: Exhibit B, Tab 7, Schedule 2, p. 1

Preamble:

The Applicants State “For years six to nine of the rebasing deferral period, the applicants have proposed an ESM deferral account in which earnings in excess of 300 basis points above the OEB’s established regulatory return on equity for the consolidated entity would be divided on a 50/50 basis between merged ETPL and its ratepayers.”

Question:

- a) Please confirm whether the Applicants are seeking approval of this deferral account as part of this application. If so, please provide a draft accounting order for the proposed account.

**Staff IR #15**

Reference: Attachments 7-10

Preamble:

With regard to the debt of the Applicants:

Questions:

- a) Is any of the Applicants’ debt governed by debt covenants? If so, please provide a summary of the underlying covenants associated with each indebtedness.
- b) Please explain the impact of a default in these covenants?
- c) Have the applicants ever been in default of these covenants in the past?
- d) Prepare an analysis that supports that these debt covenants will not be breached as a result of the proposed amalgamation.

**Staff IR #16**

Reference: Attachment 11

Preamble:

The Applicants have provided the pro-forma financial statements of the amalgamated entity in Attachment 11.

Questions:

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- a) Please confirm that the pro-forma statements reflect the incremental transition costs and savings that are projected in this application.
- b) Please explain how the projections in the pro-forma statements are derived.

**Staff IR #17**

Reference: Attachment 12

There are instances in which Erie Thames Powerlines Corporation and West Coast Huron Energy Inc. differ in the specific service charges.

Questions:

- a) Please explain how the Applicants propose to handle a customer request (or company-initiated request) for which an approved charge is applicable in one of the legacy service territories but not in the other.
  - i. Please confirm whether the charge would be based on time and materials.
  - ii. Please explain how the Applicants propose that customers would be informed of any differences.