

MAAD Application

EB-2018-0124

Responses to Interrogatories



34 North Cumberland Street
Thunder Bay, ON P7A 4L4
tel (807) 343-1111
www.tbhydro.com

August 16, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Suite 2701
Toronto, ON M4P 1E4

Re: Thunder Bay Hydro Electricity Distribution Inc. and Kenora Hydro Electric Corporation Ltd. Corporation application under sections 18, 60, 77(5) and 86 (1) of the Ontario Energy Board Act, 1998 and application for other related relief (EB-2018-0124)

Dear Ms. Walli,

Pursuant to Procedural Order No. 1 dated July 23, 2018 in the above noted matter, please find enclosed the Thunder Bay Hydro Electricity Distribution Inc. ("Thunder Bay Hydro"), and Kenora Hydro Electric Corporation Ltd. ("Kenora Hydro") interrogatory responses to Board Staff.

An electronic copy of the interrogatory responses has been submitted to the Board through the RESS system, and two hard copies will be delivered to the OEB office.

Should the Board have any further questions, please do not hesitate to contact me at (807)-343-1054 or via email at bashby@tbhydro.on.ca.

Sincerely,

Brittany J. Ashby

Supervisor, Business & Regulatory Affairs
Thunder Bay Hydro Electricity Distribution Inc.
34 Cumberland Street North
Thunder
Bay, Ontario
P7A 4L4

Phone: (807) 343-1054
Fax: (807) 343-1009
Email: bashby@tbhydro.on.ca

Cc: Andrew Bishop, Ontario Energy Board
Ron Clark, Aird & Berlis LLP
Dan Gormley, Goodmans LLP

Committed to Customer Satisfaction

TABLE OF CONTENTS

Staff IR#1	1
Staff IR #2	2
Staff IR #3	3
Staff IR #4	6
Staff IR #5	7
Staff IR #6	9
Staff IR #7	12
Staff IR #8	13
Staff IR #9	14
Staff IR #10	18
Staff IR #11	23
Staff IR #12	28
Staff IR #13	30
Staff IR #14	32
Staff IR #15	33
Staff IR #16	34
Staff IR #17	35
Staff IR #18	36
Staff IR #19	38
Staff IR #20	39
Staff IR #21	41
Staff IR #22	43
Staff IR #23	47
Staff IR #24	48
Staff IR #25	49
Staff IR #26	50
Staff IR #27	52
Staff IR #28	55
Staff IR #29	56

1 **Staff IR#1**

2
3 Reference: p. 12

4
5 Preamble:

6
7 The Applicants state: LDC Mergeco's name is not yet settled at the time of filing the
8 Application. The Applicants expect to have a name subsequent to OEB's approval of the
9 Application.

10
11 Question:

12
13 a) Please advise if the new name for the utility following the proposed amalgamation is now
14 known. If known, please provide the name.

15
16 **LDC MERGECO RESPONSE:**

17 Thunder Bay Hydro and Kenora Hydro have chosen and proposed a name for the new
18 amalgamated utility to both of their Board of Directors. This new name has been approved,
19 but due to trademark considerations the name for the amalgamated utility will not be released
20 publically until after the OEB approval of this MAAD application (EB-2018-0124).

1 **Staff IR #2**

2
3 Reference: p. 14

4
5 Preamble:

6 The Applicants state: Although the consolidation will result in transaction and transition costs,
7 the Applicants forecast realizing sufficient cost synergies and operational efficiencies, which
8 will cover these one-time costs.

9
10 **- and -**

11
12 Reference: p. 38

13
14 The Applicants state: LDC Mergeco estimates transaction and transition costs of
15 approximately \$1.4 M.

16
17 Questions:

18
19 a) Please state how the Applicants will ensure that the transaction and transition costs will not
20 be included in its ratepayer funded revenue requirement.

21
22 b) Please identify any factors that may affect the recovery of costs associated with the
23 proposed transaction.

24
25 c) Please confirm how these costs will be financed if they are not fully recovered from the
26 anticipated productivity gains.

27
28 **LDC MERGECO RESPONSE:**

29 a) The Applicants will be tracking the incurred transaction and transition costs in a
30 separate account to monitor and remove costs from its ratepayer funded revenue
31 requirement.

32 b) As discussed in the Report of the Board 'Rate-Making Associated with Distributor
33 Consolidation' EB-2014-0138 factors which may affect the recovery of costs associated
34 with a proposed amalgamation transaction is determining a reasonable amount of time
35 which it may take for the savings to at least offset the costs of the MAAD transactions.
36 It is the opinion of the Applicants that executing the full merger in a timely and efficient
37 manner would be the most effective factor to recover the costs associated with the
38 proposed transaction.

39 c) Although this scenario is not expected, should the costs not be fully recovered from the
40 anticipated productivity gains, LDC Mergeco will recover the costs through retained
41 earnings.

1 **Staff IR #3**

2
3 Reference: p. 21

4
5 Preamble:

6
7 The corporate chart illustrating the proposed relationship between each of the distributor's
8 shareholders and respective subsidiaries/affiliates is provided in Figure 2.

9
10 Questions:

11
12 a) Please provide a diagram of TBHC's current (i.e., pre-amalgamation) corporate structure.
13 Please indicate in the diagram all TBHC subsidiaries/affiliates as well as the relationships that
14 exist between each.

15
16 b) Please fully describe how the pre-amalgamation corporate structure of TBHC as well as the
17 relationships between each subsidiary/affiliate are anticipated to change through the
18 amalgamation.

19
20 c) Please confirm if any of the affiliates/subsidiaries identified in response to part a) of this
21 question are currently providing and/or have previously provided services to Thunder Bay
22 Hydro.

23
24 i. If applicable, please describe the services provided by the affiliates/subsidiaries to
25 Thunder Bay Hydro.

26
27 ii. If applicable, please identify the years these services were provided.
28

29
30 d) Please confirm if any of the affiliates/subsidiaries identified in response to part a) of this
31 question are currently providing and/or have previously provided services to Kenora Hydro.

32
33 i. If applicable, please describe the services provided by these affiliates/subsidiaries
34 to Kenora Hydro.

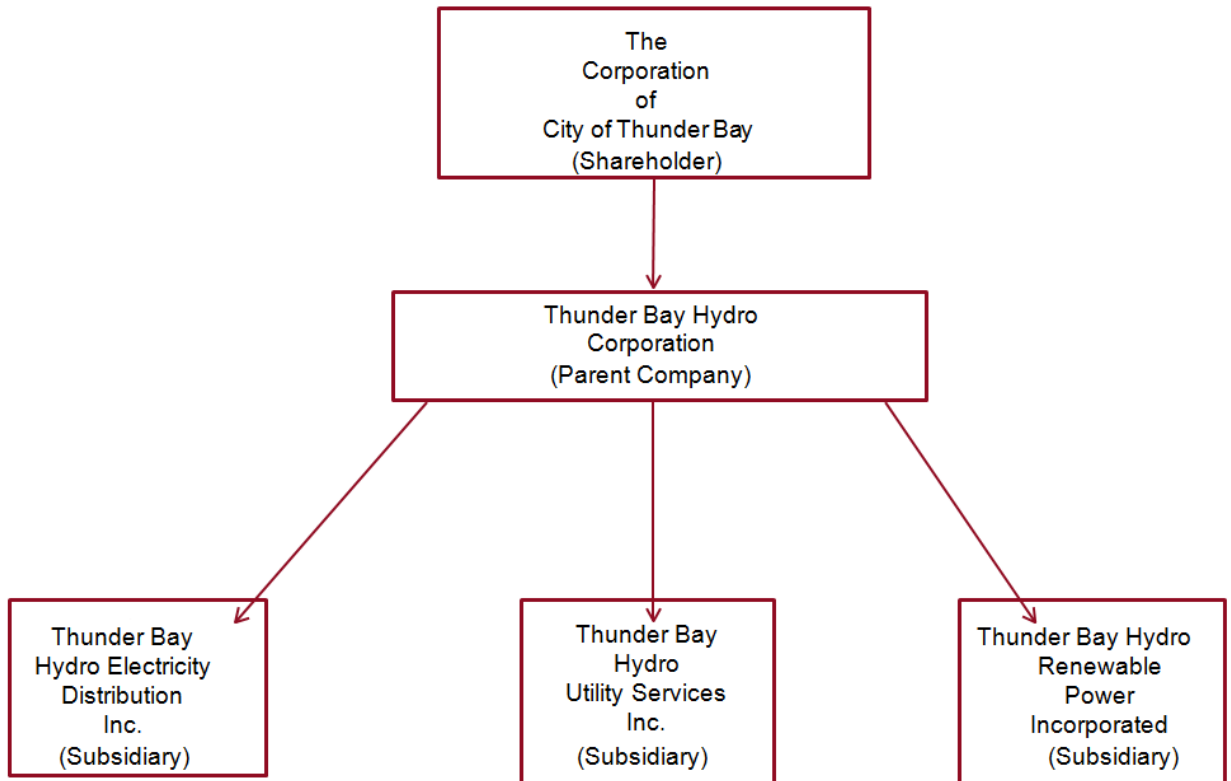
35
36 ii. If applicable, please identify the years these services were provided.
37

38
39 e) Please fully describe the extent to which the Applicants foresee LDC Mergeco utilizing the
40 services of the affiliates/subsidiaries identified in response to part a) of this question post-
41 amalgamation.

42
43 i. If applicable, please describe all actions the Applicants will take to ensure all
44 services provided by affiliates to LDC Mergeco will be procured and carried out in
45 manner consistent with the Affiliate Relationships Code.
46

1 **LDC MERGECO RESPONSE:**

2 a) Please see the diagram below of Thunder Bay Hydro Corporations current corporate
3 structure which indicate the subsidiaries and affiliates.



4
5
6 b) The only anticipated change to the pre-amalgamation corporate structure is Thunder
7 Bay Hydro Electricity Distribution Inc. will merge with Kenora Hydro to form LDC
8 Mergeco which will be owned 91% by Thunder Bay Hydro Corporation and 9% by The
9 Corporation of the City of Kenora. There are no changes to the other wholly owned
10 subsidiaries.

11 c) There are no services provided by any of the affiliates to Thunder Bay Hydro.

- 12
- 13 i. Not Applicable
- 14 ii. Not Applicable
- 15

16 d) Yes; prior to amalgamation, Kenora Hydro has used the services of Thunder Bay
17 Hydro Utility Services Inc. ("TBHUSI").

- 18
- 19 i. TBHUSI is a "back office" services company that provides utility services such
20 as (but not limited to) metering, billing and after hours system control. Kenora

1 Hydro has contracted with TBHUSI for the provision of “back office” services
2 related to billing, meter reading, smart metering, call centre, CDM metering
3 services.

4 ii. Kenora Hydro started contracting with TBHUSI in 2006 for various services and
5 has continued to do since then.

6

7 e) The Applicants do not foresee LDC Mergeco utilizing the services of the
8 affiliates/subsidiaries.

9

10

1 **Staff IR #4**

2
3 Reference: p. 20

4
5 Preamble:

6
7 The Applicants state: ...on the closing date the **initial** [emphasis added] board of directors
8 shall be comprised of seven directors appointed by Thunder Bay Hydro Corporation as
9 approved by the City of Thunder Bay, and one director appointed by City of Kenora.

10
11 Questions:

12
13 a) Please clarify the meaning of the descriptor, “initial”, with regards to the board of directors
14 that will be established on the closing date.

15 b) Do the Applicants view this initial board of directors to be temporary? If so, please clearly
16 describe how the role and composition of the board of directors will evolve over time.

17 **LDC MERGECO RESPONSE:**

18 a) “Initial” has been used to the extent of the meaning which has been stated by the
19 Applicants in the Merger Participant Agreement in section 2.4 Governance.

20
21 “The LDC Mergeco Shareholders Agreement shall provide that on the Closing Date,
22 the **initial** Board of Directors of LDC Mergeco shall be comprised of eight (8) directors.
23 The Board of Directors of LDC Mergeco shall be comprised of seven (7) directors to be
24 appointed by TB Holdco, and one (1) director by Kenora.”

25
26 For clarity this means that the Board of Directors will be comprised of eight (8)
27 Directors at the beginning of amalgamation.

28
29 b) The Applicants do not view this initial Board of Directors to be temporary.
30
31

1 **Staff IR #5**

2
3 Reference: p. 28

4
5 Preamble:

6
7 The Applicants state: The Applicants are committed to maintaining the adequacy of electricity
8 service for its customers. As these utilities are physically separated by a five and a half hour
9 drive (490 km apart), to best service customers, it is proposed that the existing service centers
10 will continue to operate in each of the respective communities.

11
12 Questions:

13
14 a) Given the geographic separation between Kenora and Thunder Bay, what challenges do
15 the Applicants foresee in terms of best servicing customers and operating as LDC Mergeco?

16
17 i. How will LDC Mergeco ensure successful coordination between locations?

18
19 b) Please identify the services currently provided at each service centre and if these services
20 are likely to change as a result of the proposed amalgamation (e.g., services provided,
21 number of on-site staff, hours of operation, etc.).

22
23 i. If applicable, please discuss how these changes may impact customer services levels and
24 any steps being taken by the Applicants to prevent service-level declines.
25

26 **LDC MERGECO RESPONSE:**

27 a) LDC Mergeco does not predict the manner of and level of service to customers in the
28 current Thunder Bay service territory to change. It is LDC Mergeco's plan that a service
29 center will remain in Kenora in order to effectively service that territory's distribution
30 system. LDC Mergeco recognizes that the utility staff at the Kenora Hydro service center
31 are experienced in serving their local customers and continuing to do so is not considered
32 to be a challenge. Post amalgamation, customers in Kenora will transition to new service
33 offerings and more convenient ways of doing business with their electric utility such as
34 enhanced on-line customer account tools, a web-based outage information map and
35 access to a call centre to address customer service issues. The primary challenge
36 associated with transitioning Kenora Hydro customers to new service options will be
37 customer education and communication. To address this challenge, multi-channel
38 customer communications will be required.
39

1 i. The challenge of achieving successful coordination across the Kenora and Thunder
2 Bay service territories is effectively the same challenge faced by all LDC's that have
3 merged or amalgamated. Communication is the key to effective coordination and it
4 is expected that consistent, effective communication occur between all employees
5 of LDC Mergeco, regardless of location. Normal communications, including
6 telephone, email, and video conferencing, will be improved by staff travel between
7 Thunder Bay and Kenora as required to coordinate LDC operations.

8
9 b) Currently a full range of distribution-system related services is provided by each service
10 centre to customers in their respective service territory. For example, each service center
11 currently builds and maintains the local distribution system, responds to emergencies and
12 outages on the distribution system, and connects new customers to the distribution
13 system. These distribution-system related services will not change as a result of the
14 proposed amalgamation. Hours of operation of the service centres is not anticipated to
15 change. It is anticipated that through attrition the number of staff that are assigned to
16 distribution-system related tasks in the Kenora service-centre will decline by up to two from
17 the previous eight employees. This reduction of two employees will be subject to providing
18 support for the Kenora service territory from existing Thunder Bay resources in functions
19 such as (but not limited to) emergency crew dispatch, remote distribution system
20 operation, capital expenditure planning/design/project management, forestry operations,
21 distribution maintenance management, materials procurement, metering installations,
22 underground locate coordination, fleet management and new customer connection
23 support. In addition to providing distribution-system services, the offices attached to the
24 Kenora Hydro service centre currently have three administrative employees who execute
25 administrative, financial, regulatory and billing duties. Post amalgamation, it is anticipated
26 that the total number of staff assigned to these roles across LDC Mergeco will be
27 rationalized through attrition and that some of the staff assigned to these roles will remain
28 in the Kenora service centre.

29 i. LDC Mergeco believes that adopting these new processes and providing more
30 resources will be advantageous to the staff and customers in Kenora Hydro region
31 and positively impact customer service levels, and reliability.

1 **Staff IR #6**

2

3 Reference: p. 22

4

5 Preamble:

6

7 The Applicants state: The current net metering thresholds for Thunder Bay Hydro and Kenora
8 Hydro in 2014, 2015 and 2016 are provided in Figures 4 and 5. Figure 6 provides a
9 summation for the consolidated LDC Mergeco.

10

11 Question:

12

13 a) Please explain, for each utility, why the System Peak (kW) has been declining since 2014.
14 If available, please update the following tables with 2017 data and respective four-year
15 averages.

16

Figure 4 – Thunder Bay Hydro Net Metering Threshold

Year	System Peak (kW)	1% Rule (kW)	Net Metering Threshold (kW)
2014	182,512	1,825	2,422
2015	180,037	1,800	1,520
2016	170,122	1,701	1,766
2017			
4-Year Average			

Figure 5 – Kenora Hydro Net Metering Threshold

Year	System Peak (kW)	1% Rule (kW)	Net Metering Threshold (kW)
2014	21,756	218	12
2015	20,693	207	112
2016	19,063	191	143
2017			
4-Year Average			

17

Figure 6 – LDC Mergeco Net Meter Threshold

Year	System Peak (kW)	1% Rule (kW)	Net Metering Threshold (kW)
2014	204,268	2,043	2,434
2015	200,730	2,007	1,632
2016	189,185	1,892	1,909
2017			
4-Year Average			

18

1 **LDC MERGECO RESPONSE:**

2 Please see table below updated for 2017 System Peak figures. It can be noted that all of the
 3 peaks below are winter peaks without generation.

Thunder Bay Hydro				
1	Distributor	System Peak (kW)	1% Rule (kW)	Net Metering Threshold (kW)
2	2014	182,512	1,825	2,422
3	2015	180,037	1,800	1,520
4	2016	170,122	1,701	1,766
5	2017	161,103	1,611	6,713
6	4 - Year Average	173,444	1,776	1,903

4

Kenora Hydro				
1	Distributor	System Peak (kW)	1% Rule (kW)	Net Metering Threshold (kW)
2	2014	21,756	218	12
3	2015	20,693	207	112
4	2016	19,063	191	143
5	2017	18,576	186	196
6	4 - Year Average	20,022	205	89

5

LDC Merge Co				
1	Distributor	System Peak (kW)	1% Rule (kW)	Net Metering Threshold (kW)
2	2014	204,268	2,043	2,434
3	2015	200,730	2,007	1,632
4	2016	189,185	1,892	1,909
5	2017	179,679	1,797	6,909
6	4 - Year Average	198,061	1,981	1,992

6

7 System Peaks have been observed to be declining over the years for a combination of
 8 reasons as follows:

- 9 • System Peak reduction factors at both utilities include; CDM impact, customer usages
 10 habits, and economic shifts in the businesses/industry in the service territories (loss of
 11 larger industry);

- 1 • The Conservation and Demand Management programs at the utilities have
2 encouraged customers in the territory to use more energy efficient technologies in their
3 daily operations; and
- 4 • Thunder Bay Hydro has signed two co-generation/combined heat and power (CHP)
5 contracts within its service territory, one as of December 17 2015, and another as of
6 April 21 2016.

7

8

9

10

11

12

1 **Staff IR #7**

2
3 Reference: p. 24

4
5 Preamble:

6
7 The Applicants state: An exchange of shares will take place resulting in the City of Kenora
8 owning 9,100 common shares of LDC Mergeco and Thunder Bay Hydro Corporation owning
9 90,900 common shares of LDC Mergeco (**subject to valuation adjustment** [emphasis
10 added]).

11
12 Questions:

- 13
14 a) What event(s) and/or actions could cause the valuation to be adjusted?
15 b) At this time, are adjustments to the valuation known or anticipated? If so, what are the
16 reasons for and magnitude of these adjustments?
17 c) Page 16 of the “Merger Participation Agreement” provided in the Application details that
18 Thunder Bay Hydro Corporation will be issued 1,000 non-voting Class S Shares. Class S
19 Shares are described as representing all of the solar photovoltaic project assets held by
20 Thunder Bay Hydro Electric Distribution Inc. Further, the parties indicate that “the Class S
21 Shares are meant to track the value of the Solar Assets, and as such, all revenues, fees,
22 costs, and expenses incurred by LDC Mergeco in connection with the Solar Assets shall be
23 attributed to the Class S Shares.”
24 i. How does Thunder Bay Hydro currently treat the solar assets being assigned Class S
25 shares? That is, are solar assets currently being accounted for in or outside of the rate-base?
26 ii. How will these solar assets be treated by the Applicants post-amalgamation? Please
27 indicate if the manner by which Thunder Bay Hydro currently treats solar assets is anticipated
28 to change.
29 i. If applicable, please describe how the treatment of solar assets is expected to change.

30 **LDC MERGECO RESPONSE:**

- 31 a) Please refer to 2.2.4.8.1, Page 40. “A valuation roll-forward mechanism was
32 incorporated within the Merger Participation Agreement to capture any changes in
33 relative FMV between the Valuation Date and the closing date of the merger.” The
34 valuation will change as the merger event will trigger an update based on the numbers
35 as at the date of the merger.
36
37 b) At this time there are no known valuation adjustments.
38
39 c)
40 i. The solar assets are not included in the rate base.
41 ii. The current treatment will continue. The solar assets are considered renewable
42 generation activity and are excluded from the rate base
43 iii. Not applicable.

1 **Staff IR #8**

2
3 Reference: p. 24

4
5 Preamble: Section 2.2.3 Description of Transaction

6
7 Questions:

8
9 a) Please clearly describe the form of merger/amalgamation being entered into by the
10 Applicants. Please clearly identify how the merger is most accurately characterized. E.g., is
11 the merger best described as an alliance, the absorption of Kenora Hydro into Thunder Bay
12 Hydro, or other?

13
14 i. Will the articles of amalgamation of the merged entity in substance contain the provisions of
15 the articles of incorporation of Thunder Bay Hydro?
16

17 **LDC MERGECO RESPONSE:**

18 a) Pursuant to section 174 of the Business Corporations Act (Ontario) and applicable case
19 law, once Board approval is received and the merger closes, LDC Mergeco will, by
20 operation of law, inherit all of the rights and liabilities of the two former utilities. They will
21 then operate as a single LDC. This will be achieved through the transition process which
22 is more particularly described in the MAADs application.

23
24 i. The articles of amalgamation of LDC Mergeco will not substantially differ from the
25 articles of incorporation of each of the predecessor entities. They are
26 administrative and standard form in nature.

27

1 **Staff IR #9**

2
3 Reference: p. 27

4
5 Preamble:
6

7 The Applicants state: Reducing administration and operating expenditures by realizing
8 synergies will be the focus. The Applicants have estimated that a major portion of the
9 efficiency gains are to be experienced through the consolidation of administrative
10 practices and economies of scale. This includes the consolidation of management,
11 billing, customer service, finance and regulatory functions.

12
13 **- and -**

14
15 Reference: p. 34
16

17 The Applicants state: It is important to note that not all job functions within the utility are
18 directly tied to the regions they serve. Several services can be performed centrally
19 without negatively impacting efficiency or service levels. Centralizing certain functions,
20 such as administrative, transactional and informational services will create economies
21 of scale and lower costs which is a fundamental objective of the consolidation. LDC
22 Mergeco will utilize the existing Thunder Bay Hydro and Kenora Hydro service centres
23 for de-centralized functions such as construction, maintenance, cable locates, fleet
24 services and trouble response.

25 Questions:

26 a) Please indicate the extent to which layoffs or other job losses are anticipated to result from
27 the amalgamation.

28 i. If applicable, please specify the number, position and type of jobs (i.e., full-time, part-time,
29 contract, etc.) that are anticipated to be lost through the amalgamation as well as if the
30 positions lost currently belong to Thunder Bay Hydro or Kenora Hydro.

31 ii. If applicable, please specify why job losses will not impact the current service levels
32 provided to customers in each existing service territory of the Applicants.

33 iii. If reductions in staff are anticipated, please explain how the Applicants will ensure
34 continuity of staff knowledge and expertise in both Kenora and Thunder Bay service areas.

35 b) Please clearly describe how the Applicants determined which functions could be
36 transitioned to a centralized service model without impacting efficiency or service levels.

1 **LDC MERGECO RESPONSE:**

2 a) The extent of which layoffs or other job losses are anticipated to result from the
3 amalgamation are further explained in the following:

4 i. It is the goal of LDC Mergeco that any staff reductions that occur as a result of the
5 amalgamation are realized through staff attrition. As indicated in the response to
6 Staff IR #5 the level of staff currently assigned to distribution-system related tasks
7 will be reduced by up to two. Also indicated in Staff IR #5, there will be a reduction
8 in overall LDC Mergeco employees assigned to administrative tasks. The current
9 Kenora Hydro President will be retiring upon the amalgamation. Over the course
10 of the years leading to LDC Mergeco`s first Cost of Service Rate Application, it is
11 anticipated that two additional administrative positions will be eliminated through
12 attrition. Insofar as reductions will be through attrition, the specific timing of these
13 reductions cannot be guaranteed. LDC Mergeco does not intend to require the
14 relocation of existing administrative staff from Kenora to Thunder Bay. As such,
15 depending on how attrition opportunities unfold, it is likely that there will be a
16 number of administrative staff continuing to undertake administrative
17 responsibilities in the Kenora region for a number of years.

18
19 ii. Currently, there are three employees at Kenora Hydro assigned to administrative
20 tasks related primarily to finance and customer billing functions. Generally,
21 customer service levels are not directly impacted by the employees involved in
22 financial functions such as accounting, audit, and regulatory reporting. It is
23 planned that Kenora Hydro administrative staff will also address customer calls
24 related to customer service matters. The migration of these customer calls to
25 dedicated customer service call center staff will not negatively impact customer
26 service levels. In fact, Kenora region customers will benefit from the introduction
27 of additional customer service tools post amalgamation as identified in the
28 response to Staff IR #5 a). As indicated in the response to Staff IR #5 b), any
29 reductions in staff associated with distribution-system related tasks will be subject
30 to successfully providing support for the Kenora service territory from existing
31 Thunder Bay staff. By providing support for distribution-system related tasks from
32 Thunder Bay, staff in Kenora will be better able to focus on building, maintaining
33 and responding to emergencies in the Kenora area distribution system. As such,

1 no negative impact on service levels is anticipated for existing Kenora customers.

2
3 iii. As previously mentioned, staff reductions will be realized primarily through
4 attrition. Attrition is generally driven through individual staff retirement which lends
5 itself to a planned transfer of knowledge from the retiring staff member to
6 remaining staff. The amalgamation of the two utilities will reduce the risk
7 associated with knowledge retention by allowing unique 'Kenora related'
8 information that may have been retained by a limited number of Kenora Hydro
9 staff to be spread across additional staff and functional areas. For example,
10 Kenora SCADA related knowledge will eventually be spread across the LDC
11 Mergeco Engineering Department, the System Control Department and
12 operations management staff rather than only residing in one or two existing
13 Kenora Hydro staff. As well, the increased resources of LDC Mergeco will allow
14 for enhanced and updated documentation of critical knowledge. Another example
15 of continuity of staff knowledge is that upon his retirement the existing Kenora
16 Hydro President will enter into a services agreement to provide transitional
17 services to LDC Mergeco.

18
19 b) The majority of LDC Mergeco functions that will be centralized are primarily
20 administrative in nature. These administrative functions, such as customer billing,
21 accounting, I.T., and procurement are currently undertaken by Thunder Bay Hydro as a
22 part of their normal business processes. To a high degree these functions are accessible
23 and the existing resources of Thunder Bay Hydro will be able to accommodate the
24 addition of the Kenora Hydro customers.

25 LDC Mergeco has considered these aforementioned functions in the context of whether
26 the centralization would result in a positive, negative, or nil change to the current service,
27 reliability and efficiency levels associated with the task.

28 For all tasks which are planned to transition to a centralized model, it is anticipated that
29 planned efficiencies will improve or remain the same, and planned service levels will
30 improve or remain the same. For example, Thunder Bay Hydro and Kenora Hydro
31 currently use the same CIS and customer billing software. The consolidation of the
32 Kenora Hydro and Thunder Bay Hydro's CIS and billing functions will be invisible to
33 individual customers and will not negatively impact service levels, but will effect cost

1 efficiencies. Overall resources required to undertake these functions will be reduced in
2 LDC Mergeco as compared to the two separate LDCs. The same can be said for other
3 administrative functions such as accounting, regulatory reporting, and materials
4 procurement.

5 Additionally, there are functions related to distribution-system tasks which will be
6 centralized that will create cost efficiencies, some of which will improve customer service
7 levels and some of which will be invisible to customers. As an example, aspects of
8 distribution system capital planning, design and project management will be centralized.
9 Taking into consideration the size of the Kenora Hydro system capital activity as relative
10 to Thunder Bay Hydro's system capital activity, aspects of this planning can be
11 centralized with an overall reduction to required resources, creating cost efficiencies
12 which would be virtually invisible to customers.

13

1 **Staff IR #10**

2
3 Reference: p. 28

4
5 Preamble:

6
7 The Applicants state: LDC Mergeco shall maintain or improve the service levels of its
8 predecessor LDCs through the merging of technologies, system control, adoption of best work
9 practices, etc. Front line operations staff that currently responds to outages and power quality
10 issues is expected to continue to serve the communities that they serve at present. The
11 Applicants anticipate that response times will not decline.

12
13 **- and -**

14
15 Reference: p. 32

16 The Applicants state: Throughout the consolidation process, the Applicants will be reviewing
17 both LDCs' operations with regard to control of the distribution system assets and they will
18 exercise a **best practice** [emphasis added] approach in the design of the merged utility.

19
20 Questions:

21
22 a) Do the customer service principles and objectives for LDC Mergeco differ from the current
23 customer service principles and objectives of each of the two amalgamating utilities? If yes,
24 how?

25
26 b) Please more fully describe the following:

27
28 i. How LDC Mergeco will maintain or improve service levels. Please provide examples as to
29 where/how the amalgamation will maintain or improve service levels.

30
31 c) What technologies (equipment, hardware, software, or other) will be merged as part of the
32 amalgamation between Thunder Bay Hydro and Kenora Hydro? Please describe how, once
33 merged, the use of these technologies will be optimized by LDC Mergeco.

34
35 d) With regard to the statement made on page 32 of the application, please describe the
36 following:

37
38 i. What do the Applicants define "best practices" as?

39 ii. How will best work practices between the two utilities be identified and implemented? Was a
40 review of best practices completed by a third party, internally by members of each utility or
41 some other means?

42 iii. Please describe specific areas that have been targeted for improvement through the
43 implementation of best practices. Why were these areas targeted?

1 iv. How will the Applicants ensure that best practices are implemented? Are there timelines
2 associated with implementation?
3

4 **LDC MERGECO RESPONSE:**

5 a) LDC Mergeco's customer service principles and objectives do not differ from the
6 current utilities. LDC Mergeco will be aligned with the OEB's Renewed Regulatory
7 Framework (RRFE) Objectives; one being Customer Focus and therefore does not
8 differ from the principles and objective of each of the two amalgamating utilities, or all
9 others in the industry. As per the RRFE, customer services are provided in a manner
10 that responds to identified needs and customer preferences. Customers are the
11 operational priority and will continue to receive excellent service. LDC Mergeco will
12 ensure a reliable, effective and efficient electricity distribution system and continuously
13 monitor the success of these measures using results from customer surveys, and the
14 results of the Local Advisory Committee.

15
16 b) Examples of how LDC Mergeco will maintain or improve service levels to customers
17 include:

- 18 • A service center will be maintained in the Kenora region to address distribution-
19 system tasks associated with building, maintaining and addressing emergency
20 distribution system events in order to maintain service levels.
- 21 • Providing 24/7 distribution system monitoring and crew dispatch through a
22 centralized System Control center has the potential to improve the speed of
23 emergency crew dispatch in the Kenora area, increasing service levels to
24 Kenora customers.
- 25 • Kenora area customers will be transitioned to customer service tools not
26 previously available to them such as an on-line account portal to undertake
27 certain transactions and an on-line Outage Information Map. Tools of this type
28 will provide enhanced service levels to Kenora customers.
- 29 • Kenora customers will be serviced by a larger customer service call center with
30 additional resources. One benefit of this is that, when reporting outages in
31 Kenora, a larger pool of customer service agents will be available to take outage
32 calls resulting in reduced telephone wait times.

1 c) Examples of technologies that will be merged as part of the amalgamation include:

- 2 • Kenora and Thunder Bay currently use the same CIS and customer billing
3 software. Customer information and billing data will be consolidated into the
4 existing Thunder Bay environment. LDC Mergeco Billing and Customer Service
5 staff will operate these systems.
- 6 • Existing websites will be merged into a new, LDC Mergeco site and will be
7 primarily managed by existing Thunder Bay staff, creating efficiencies versus
8 two separate websites.
- 9 • Kenora GIS mapping will be consolidated into the Thunder Bay system and will
10 be available to staff in both Thunder Bay and Kenora as required. The Kenora
11 dataset will be enriched over time by existing Thunder Bay GIS staff to include
12 the same level of comprehensive data currently available on the Thunder Bay
13 GIS system.
- 14 • Kenora SCADA equipment will be consolidated into the existing Thunder Bay
15 system. Centralized System Control functions will access this data.
16 Consolidating the data will allow for enhanced security and data protection as
17 compared to Kenora's stand-alone system. Some savings in licensing, support
18 and hardware costs may be realized.
- 19 • Accounting and related Finance systems will be consolidated into Thunder
20 Bay's existing Superior system, eliminating the use of a second, stand-alone
21 system.
- 22 • Staff email, calendaring and intranet services will be consolidated into Thunder
23 Bay's existing services, improving the security and reducing costs associated
24 with Kenora's existing services.
- 25 • Thunder Bay is in the process of selecting and implementing new fleet
26 management software. Kenora's fleet will be added this system in order to
27 realize efficiencies associated with fleet maintenance.

28
29 d) With regard to the statement made on page 32 of the application, LDC Mergeco would
30 like to clarify that:

- 31 i. In general terms the Applicants view 'best practices' as undertaking a
32 task in the most efficient manner available to produce the best result
33 possible. Although some might view 'best practices' as producing the

1 best desired result regardless of cost, operating in the Ontario LDC
2 environment requires the achievement of balancing the two.

3 ii. No third party was retained to undertake a review of best practices. The
4 Applicants continue to work on refining a merger implementation plan.
5 As a component of this plan, functional areas of the utilities are being
6 studied and plans are being developed for how those functional areas
7 will operate under LDC Mergeco. The goal of these studies and plans
8 are to identify and prepare for implementation of the best practices within
9 these areas to undertake specific tasks. This process is far from
10 complete and will likely continue on well after the amalgamation date.

11 iii. Given the relative size of Thunder Bay Hydro compared to Kenora
12 Hydro, Thunder Bay Hydro has historically had more resources to
13 allocate to designing, implementing and maintaining practices,
14 procedures and processes. As such, many of Thunder Bay's processes
15 are more robust and less prone to breakdown due to resource
16 constraints. Examples of specific areas which are targeted for
17 improvement through the implementation of best practices include:

- 18 • The inclusion of Kenora's distribution assets in an expanded,
19 comprehensive Distribution System Plan.
- 20 • I.T. systems will be reviewed with the goal of consolidating
21 systems and ensuring the appropriate level of functionality and
22 security.
- 23 • Customer service will be improved through the ongoing
24 development and offering of on-line customer service tools and
25 access to account information.
- 26 • Additional resources will be available to enhance the Health and
27 Safety practices, procedures and systems available to current
28 Kenora staff.
- 29 • As identified previously, efficiencies (a key component of best
30 practices), will be generated through the centralization of
31 administrative functions while still producing desired results.

32

1 iv. Components of a detailed merger integration plan continue to be
2 developed and many of these components will involve timelines for
3 implementing new practices and procedures. Once fully established, like
4 any other business imperative, the LDC Mergeco management team will
5 be responsible to the Board of Directors for effectively delivering on this
6 plan and achieving both the efficiencies and the results identified in the
7 plan.

8

1 **Staff IR #11**

2

3 Reference: Figure 7, p. 29

4

5 Preamble:

6

7 The Applicants state: Historically both utilities have maintained strong reliability measures in
8 both System Average Interruption Duration Index (“SAIDI”) and System Average Interruption
9 Frequency Index (“SAIFI”) metrics. SAIFI and SAIDI results for the year ending 2016 indicate
10 that both Thunder Bay Hydro and Kenora Hydro have provided their customers with superior
11 reliability and fewer outages with shorter durations when compared to many other Ontario
12 utilities.

13

14 Questions:

15

16 a) With respect to Figure 7, if available, please provide 2017 SAIDI and SAIFI values as well
17 as an updated six-year average in the table below.

18

Figure 7 – Reliability Metrics SAIDI/SAIFI

Description	2012	2013	2014	2015	2016	2017	Average
SAIDI							
Thunder Bay Hydro	1.28	1.03	1.92	2.02	1.69		
Kenora Hydro	0.43	0.36	0.53	0.61	0.59		
Combined	1.71	1.39	2.45	2.63	2.28		
SAIFI							
Thunder Bay Hydro	3.12	2.02	2.69	2.39	2.7		
Kenora Hydro	0.46	0.11	0.29	0.35	0.43		
Combined	3.58	2.13	2.98	2.74	3.13		

19

20

21 b) With respect to Figure 7, please provide the contribution to the 2012-2016 (and 2017 if
22 available) reliability metrics, in tabular format, for Thunder Bay Hydro and Kenora
23 Hydro for the following cause codes:

24

- 25 i. Scheduled Outage
- 26 ii. Tree Contacts
- 27 iii. Defective Equipment
- 28 iv. Adverse Weather
- 29 v. Adverse Environment.

30

1 c) When examining the SAIFI values presented in Figure 7, it can be observed that since
2 2013, both Thunder Bay Hydro and Kenora Hydro have had a trend of increasing SAIFI
3 values.

4
5 i. What are the reasons for this trend?

6
7 ii. How will LDC Mergeco address this trend in future years?
8

9 **LDC MERGECO RESPONSE:**

10 a) Please see the table below for the updated 2017 SAIDI SAIFI statistics, with an
11 updated 6 year average. This table is excluding cause code 2 (loss of supply), and
12 cause code 10 (major outages) statistics.

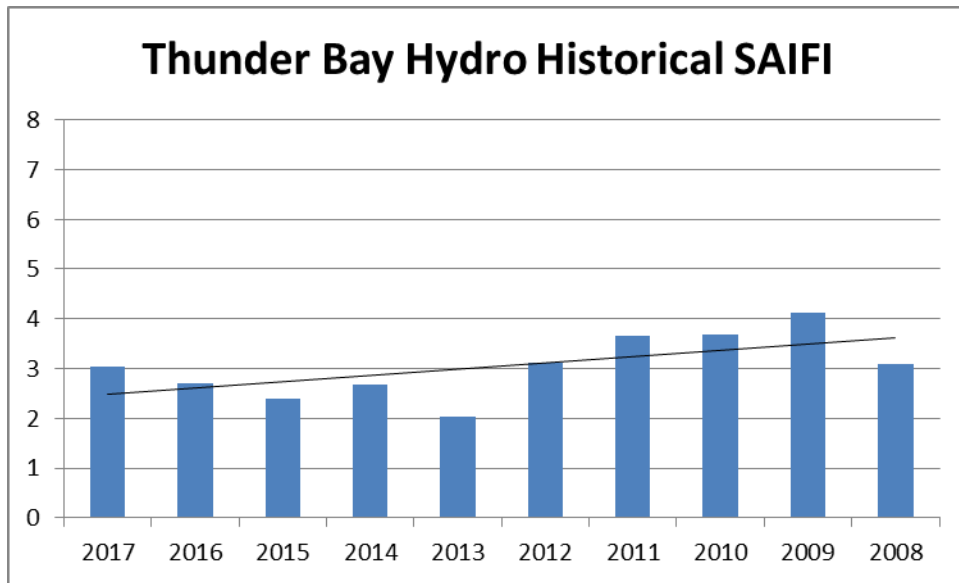
	Description	2012	2013	2014	2015	2016	2017	Average
1	SAIDI							
2	Thunder Bay Hydro	1.28	1.03	1.92	2.02	1.69	1.63	1.60
3	Kenora Hydro	0.43	0.36	0.53	0.61	0.59	3.84	1.06
4	SAIFI							
5	Thunder Bay Hydro	3.12	2.02	2.69	2.39	2.7	3.05	2.66
6	Kenora Hydro	0.46	0.11	0.29	0.35	0.43	1.88	0.59

13
14
15 b) With respect to Figure 7 the Applicants have provided contribution reliability metrics in
16 tabular format for Thunder Bay Hydro and Kenora Hydro for the years 2014 – 2017.
17 Information for 2012 and 2013 is not consistent with post 2013 required reporting and
18 as such is not deemed comparable and therefore excluded from the analysis.
19

SAIDI						
Cause Code	Description	2014	2015	2016	2017	Average
	Thunder Bay Hydro SAIDI	1.92	2.02	1.69	1.63	1.82
1	Scheduled Outage	0.11	0.15	0.13	0.12	0.13
3	Tree Contacts	1.03	1.06	0.62	0.59	0.82
5	Defective Equipment	0.26	0.62	0.42	0.33	0.41
6	Adverse Weather	0.00	0.00	0.02	0.03	0.01
7	Adverse Environment	0.00	0.00	0.00	0.01	0.00
	Total	1.39	1.82	1.20	1.08	1.37
	Percentage Contribution	72.6%	90.2%	70.9%	66.0%	86.1%
SAIDI						
Cause Code	Description	2014	2015	2016	2017	Average
	Kenora Hydro	0.53	0.61	0.59	3.84	1.39
1	Scheduled Outage	0.11	0.05	0.07	0.78	0.25
3	Tree Contacts	0.03	0.17	0.19	0.46	0.21
5	Defective Equipment	0.04	0.10	0.06	0.10	0.08
6	Adverse Weather	0.00	0.00	0.00	0.00	0.00
7	Adverse Environment	0.00	0.00	0.00	2.48	0.62
	Total	0.18	0.32	0.32	3.82	1.16
	Percentage Contribution	34.0%	52.5%	54.2%	99.5%	109.4%
SAIFI						
Cause Code	Description	2014	2015	2016	2017	Average
	Thunder Bay Hydro	2.69	2.39	2.7	3.05	2.71
1	Scheduled Outage	0.10	0.19	0.13	0.08	0.13
3	Tree Contacts	0.37	0.29	0.30	0.58	0.39
5	Defective Equipment	0.78	1.24	0.60	0.80	0.85
6	Adverse Weather	0.00	0.00	0.03	0.01	0.01
7	Adverse Environment	0.00	0.00	0.01	0.08	0.02
	Total	1.26	1.72	1.07	1.56	1.40
	Percentage Contribution	46.7%	71.9%	39.8%	51.0%	52.7%
SAIFI						
Cause Code	Description	2014	2015	2016	2017	Average
	Kenora Hydro	0.29	0.35	0.43	1.88	0.74
1	Scheduled Outage	0.07	0.02	0.05	1.06	0.30
3	Tree Contacts	0.02	0.02	0.07	0.28	0.10
5	Defective Equipment	0.07	0.04	0.05	0.07	0.06
6	Adverse Weather	0.00	0.00	0.00	0.00	0.00
7	Adverse Environment	0.00	0.00	0.00	0.45	0.11
	Total	0.16	0.08	0.17	1.86	0.57
	Percentage Contribution	55.2%	22.9%	39.5%	98.9%	96.7%

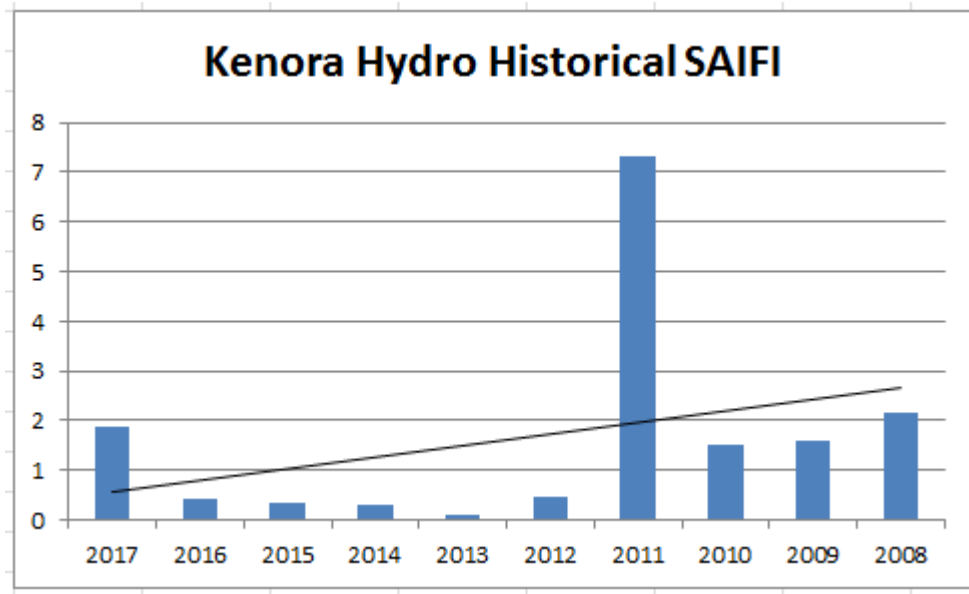
1 c)

2 i. To review a limited data set, namely 2012 – 2017 SAIFI values, and conclude that
3 SAIFI has a trend of increasing values is problematic. In the case of Thunder Bay
4 Hydro the 2013 SAIFI figure of 2.02 represents a 1 year low, and was the result of,
5 among other factors, favorable weather. If a lengthier time scale is used, the opposite
6 conclusion can be reached. The following chart using a trend line over Thunder Bay
7 Hydro’s SAIFI results for 10 years shows that the frequency of outages has been
8 decreasing overall.



9
10 Using this equal logic for Kenora Hydro it can also be observed that the 2013 SAIFI
11 figure of 0.11 also represents a 10 year low, and was the result of, among other factors,
12 favorable weather in Northwestern Ontario. If a lengthier time scale is used, the opposite
13 conclusion can also be reached. The following chart using a trend line over Kenora
14 Hydro’s SAIFI results for 10 years showing that the frequency of outages has been
15 decreasing overall.

16



1
2
3
4
5
6
7
8
9
10
11
12
13

ii. As mentioned above the trend line over a ten year period is actually decreasing. Nonetheless LDC Mergeco will continue to strive for improved electricity reliability to its customers for both SAIDI and SAIFI measures. The Applicants wish to refer board staff to the Distribution System Plan filed as a part of Thunder Bay’s most recent 2017 Cost of Service Rate Application (EB-2016-0105) as it provides an excellent illustration of Thunder Bay’s current reliability initiatives and should give board staff an indication of the nature of reliability initiatives that can be expected from LDC Mergeco. Pending OEB Board approval of this application, it is the strategy of LDC Mergeco that Thunder Bay Hydro’s current DSP will be expanded to include the Kenora Hydro’s distribution assets.

1 **Staff IR #12**

2
3 Reference: Figure 8, p. 30

4
5 Preamble:

6
7 The Applicants state: Recognized savings per customer may vary based on the rate design
8 methodology used in the utility's next cost of service.

9
10 **- and -**

11
12 Reference: p. 38

13
14 The Applicants state: In total LDC Mergeco anticipates delivering approximately \$3.8 M in
15 synergies over the proposed five years following the amalgamation.

16
17 Questions:

18
19 a) Please further explain what is meant by the statement on page 30 that customer savings
20 may vary based on rate design.

21 i. To what degree can the customer savings demonstrated in the Application be affected by
22 the selected rate design?

23 ii. Are the Applicants suggesting that that the choice of rate design may eliminate or not
24 incorporate all customer savings? Please explain.

25 b) For how many years post-amalgamation do the Applicants expect the synergistic cost
26 savings illustrated in Figure 10 of the Application to endure beyond the deferral period?

27 i. If applicable, as a direct result of the amalgamation, what level of cost savings do the
28 Applicants expect customers of LDC Mergeco to experience following the deferral rebasing
29 period (i.e., after the first cost of service filing following amalgamation)?

30 c) What information do the Applicants expect to provide in order to quantify merger-related
31 cost savings during future cost of service filings?

32
33 **LDC MERGECO RESPONSE:**

34 a) LDC Mergeco is acknowledging in the statement referenced above that to perform
35 an appropriate customer savings impact analysis LDC Mergeco would be required
36 to first recognize the savings as well as any incurred costs in their entirety, then
37 perform a full cost allocation, and rate design analysis to properly distribute the
38 savings per customer or rate class and then compare such to the current rates of
39 each predecessor utility.

40 i. LDC Mergeco has estimated in figure 9 of the MAAD Application a cost
41 savings per customer using a basic calculation methodology. This was done
42 by combining the OM&A for both utilities, applying cost savings then dividing

1 this net OM&A over a combined utility customer count which resulted in
2 OM&A cost savings of \$15/ customer. LDC Mergeco would like to
3 acknowledge that contingent on the future cost allocation model and the rate
4 design variation the cost savings by customer may differ on a customer rate
5 class specific basis. Depending on rate design each rate class could
6 recognize more or less than stated from figure 9.
7

8 ii. Applicants are not suggesting that customer savings will be eliminated or not
9 be incorporated into rate design. The Applicants are recognizing that the
10 distribution of customer rate class savings might vary from the simplistic
11 calculation provided in figure 9. However this is the best estimate given the
12 forecast calculations.
13

14 b) Anticipated synergistic cost savings are recognized permanently following
15 amalgamation.

16 i. Not applicable. Cost savings will continue in perpetuity.
17

18 c) LDC Mergeco will document actual realized cost savings as the efficiencies
19 forecasted come to fruition.

1 **Staff IR #13**

2
3 Reference: p. 35 – Information Technology (“IT”)

4
5 Preamble:

6
7 Among the IT objectives identified by the Applicants is the following:

- 8 • Consolidate cyber security practices and technologies into a single common set
9 of processes and systems that provides the protection of information and the entire
10 information technology architecture to support all business and regulatory
11 requirements of the new company.
12

13 Questions:

- 14
15 a) Please describe the extent to which Thunder Bay Hydro and Kenora Hydro have
16 considered the “Ontario Cyber Security Framework¹” (the Framework) in designing and
17 implementing controls and privacy mechanisms to ensure the continued protection of
18 operational and customer data.
19 b) Please confirm the current status of the OEB interim certification for cyber security progress
20 report for both LDCs.
21 c) Please confirm that LDC Mergeco will adhere to the Distribution System Code (DSC)
22 requirements related to the Framework when launching new IT products and abide by the
23 related OEB reporting requirements.
24

25 **LDC MERGECO RESPONSE:**

- 26 a) Currently Thunder Bay Hydro is a member of the OEB’s Cyber Security Working
27 Group. Thunder Bay Hydro has fully committed to the Framework, and has gone
28 beyond the Framework by adopting NIST as its approach to any and all IT related
29 planning, evaluating and implementation thus providing continued operational and
30 customer data protection.
31
32 b) Both Thunder Bay Hydro and Kenora Hydro have submitted their self-certification on
33 cyber security readiness as required by the OEB on June 14 2018. This completes the
34 requirement for the purposes of cyber security progress reporting.
35
36 c) The Applicants confirm that LDC Mergeco will adhere to the Distribution System Code
37 section 6.8 requirements and report to the Board the status of cyber security readiness
38 in such form as may be required by the Board, provide CEO Certification, and maintain
39 the reliability and integrity of its distribution system to protect personal information. LDC

1 Mergeco also confirms it will use the Framework, in particular NIST, as it carries out
2 any and all IT related activities.
3

1 **Staff IR #14**

2
3 Reference: p. 35 – Information Technology (“IT”)

4
5 Preamble:

6
7 Among the IT objectives identified by the Applicants is the following:

8
9 Consolidate the Customer Information Systems environment into one common Customer
10 Service Billing system to facilitate integration of Customer Service business functions and
11 improve service to customers.

12
13 Questions:

14
15 a) Please describe what Customer Service business functions are expected to improve as a
16 result of the amalgamation as well as how the integration of these functions will improve
17 service for all customers of LDC Mergeco.

18
19 b) As it relates to the Framework, please describe the steps taken by Thunder Bay Hydro and
20 Kenora Hydro to ensure the consolidated Customer Information System is launched in a
21 manner consistent with best practices.

22 **LDC MERGECO RESPONSE:**

23 a) LDC Mergeco will be focusing on eliminating duplication of efforts within the
24 Customer Service and Billing areas. For example by moving to a unified platform, a
25 single billing update will run, billing clerks will review billing exceptions from one
26 source of reports and customer clerks will have one system of record as compared
27 to two when processing calls. The desired outcome is to have dedicated staff with
28 specific functions as compared to one or two persons in both utilities completing the
29 same customer and billing functions. The single biggest improvement will be the
30 extended hours of operation from a call centre perspective due to the new service
31 territory covering two time zones. Eliminating duplicate efforts will free staff hours
32 and allow for the extended hours coverage in the call centre for customers in both
33 regions.

34
35 b) See response in Staff IR #13 c). This approach includes the protection of customer
36 data and adherence to NIST controls and privacy principles.

1 **Staff IR #15**

2

3 Reference: p. 35

4

5 Preamble:

6

7 The Applicants state: The Conservation and Demand Management (“CDM”) department will
8 be located in Thunder Bay at the Cumberland St. North facility. The CDM group will continue
9 to focus on innovation in areas such as customer energy efficiency, solar, smart grid and new
10 energy services.

11

12 Questions:

13

14 a) How will CDM activities be undertaken in LDC Mergeco given the geographic separation of
15 the two service areas?

16

17 b) What steps will the LDC Mergeco undertake to ensure customers in both Kenora and
18 Thunder Bay are offered consistent CDM opportunities?

19

20 **LDC MERGECO RESPONSE:**

21

a) CDM activities will continue to be operated as per current practices within the confines
22 of the contractual obligations with the IESO. No activity changes are expected for
23 customers participating in CDM programming. CDM programming is currently provided
24 out of Thunder Bay for Northwestern Ontario Districts and will continue in this manner.
25 Customers will not see any difference since nothing different is being proposed.

26

27 b) See response in Part a) of Staff IR #15. Additionally, LDC Mergeco will ensure that
28 CDM program delivery agents that operate in Thunder Bay Hydro territory guarantee
29 coverage in the Kenora area as is currently practiced.

1 **Staff IR #16**

2

3 Reference: p. 37

4

5 Preamble:

6 The Applicants state: LDC Mergeco does not anticipate large savings by the way of capital
7 investments.

8 Questions:

9

10 a) Please more fully explain why, as a result of the amalgamation, the Applicants do not
11 anticipate capital-related savings.

12 b) Please describe any capital savings that are anticipated from the amalgamation following
13 the rebasing deferral period.

14

15 **LDC MERGECO RESPONSE:**

16 a) Kenora is a separate and distinct geographic area from Thunder Bay Hydro and preliminary
17 reviews did not indicate any significant distribution system capital investment changes. In
18 other words, capital savings was not a driver in the merger decision.

19

20 b) The Applicants are not in a position to respond to this question at this time. LDC Mergeco
21 will work on incorporating the Kenora Hydro distribution system assets into the existing
22 Thunder Bay Hydro Distribution System Plan and until a thorough review has been
23 undertaken, capital expenditures or savings cannot be predicted.

24

25

1 **Staff IR #17**

2
3 Reference: p. 36

4
5 Preamble:

6
7 The Applicants state: LDC Mergeco will prioritize customer-centric values, and it will
8 undertake a principled approach in the design of an effective organization plan such that
9 customer service responsiveness levels are expected to improve.

10
11 Questions:

12
13 a) Please indicate when the Applicants intend to begin the design of the organization plan
14 referred to in the above statement, and the anticipated duration of that project.

15
16 i. Please indicate if a firm has been contracted to complete the design.

17
18 ii. If applicable, please provide the name of the firm contracted to complete the design.

19
20 b) Please provide, in detail, an overview of the scope of the project and the plan.

21
22 **LDC MERGECO RESPONSE:**

23 a) LDC Mergeco intends to begin the design of the project upon approval of the merger.

24 The project is expected to be completed in the first 6 months.

25 i. No firm is being used for this project.

26 ii. Not Applicable.

27
28 b) The plan is in the development phase and no details are available at this time. Some
29 examples of expected customer improvements will include extended hours of
30 operations for the customer call center which will benefit customers in both regions.
31 Services such as power outage maps and web self-service options that will benefit
32 Kenora Hydro region customers and a website redesign which will allow for a better
33 customer experience for all customers and 24/7 live monitoring of the Kenora Hydro
34 distribution system will allow for faster response to outages.

1 **Staff IR #18**

2
3 Reference: Figure 10, p. 37

4
5 Preamble:

6
7 The Applicants state: The synergies forecasted will arise largely as a result of administrative
8 cost reductions as well as through consolidated billing, corporate IT, regulatory, and financial
9 functions.
10

11 Questions:

12
13 a) Figure 10 identifies the annual synergies forecast to result from the merger. Please provide
14 a detailed list of the drivers of these cost savings for years 2019-2023. As an example, in
15 2020, the Applicants forecast a total savings from synergies of \$864,551 – of these savings,
16 please indicate which are attributable to the following categories: administrative, consolidated
17 billing, corporate IT, regulatory, financial functions, or other (please specify).
18

19 b) Please explain all material assumptions that the Applicants have made with respect to the
20 forecasted synergy related cost savings.
21

22 c) Please identify risks that could impede the realization of projected cost savings, as well as
23 the likelihood of the occurrence of those risks.
24

25 i. For risks recognized as having a medium to high likelihood of occurrence, please identify the
26 impact of these risks on projected cost savings/efficiency improvements.
27

28 d) How will the Applicants respond if forecast cost savings do not materialize?
29

30 **LDC MERGECO RESPONSE:**

31 a) Please see the table below which categorizes the approximated cost savings for 2019
32 – 2023.
33

		2019	2020	2021	2022	2023
	Groupings	Cost Savings	Cost Savings	Cost Savings	Cost Savings	Cost Savings
1	Administrative	127,003	191,544	194,034	196,557	199,112
2	Operations	25,430	210,194	212,927	215,695	218,499
3	Billing & Collections	4,000	209,277	211,997	214,753	217,545
4	Corporate IT	61,813	121,612	123,193	124,794	126,417
5	Regulatory	10,000	17,859	18,091	18,326	18,565
6	Financial Functions	68,782	83,743	84,832	85,934	87,052
7	Other	36,196	32,322	32,742	33,167	33,599
8	Total	333,224	866,551	877,816	889,227	900,787

1 b) LDC Mergeco's material assumptions with respect to the forecasted cost savings
2 include the following:

- 3 i. All merger related savings tasks will be executed in a timely manner;
- 4 ii. Staff reduction through attrition will occur as planned;
- 5 iii. The efficiencies will remain for the foreseeable future; and
- 6 iv. An annual inflation of 1.3%.

7
8 c) Due care and attention was used in the preparation of the forecast information;
9 however, actual results may vary from forecasts. Forecasts by their very nature are
10 subject to uncertainty and contingencies, many of which are outside the control of
11 Mergeco. This is true of any forecast or projection. The major risks are that the
12 timeliness of implementation exceeds projection and that attrition does not occur as
13 planned.

- 14 i. The Applicants have not identified any risks related to achieving predicted cost
15 savings that are considered to be 'medium' or 'high'.

16
17 d) The Applicants expect that LDC Mergeco's Board of Directors will hold LDC Mergeco
18 management accountable for the accuracy of the cost savings projections and the
19 realization of the same. If efficiencies are not achieved, and predictions were found to
20 be reasonable, it could be likely that the LDC Mergeco's Board will require additional
21 efforts by management to achieve the savings. If predictions were found to be
22 unreasonable, it could also be likely that the LDC Mergeco's Board will require a reset
23 of savings predictions.

24

1 **Staff IR #19**

2
3 Reference: p.38

4
5 Preamble:

6
7 The Applicants state: There are no expected increases or reductions to the capital
8 expenditures in either service territory.

9
10 **- and -**

11
12 Reference: p. 27

13
14 The Applicants state: The Applicants also recognize that Thunder Bay Hydro has the
15 resources and industry experience to assist completing Kenora Hydro's service territory
16 distribution system plan ("DSP") which will promote synergies operationally.

17
18 Question:

19
20 a) Please describe how the Applicants can be confident at this time that Kenora Hydro's future
21 DSP will not identify the need for increased/decreased capital expenditures.

22
23 **LDC MERGECO RESPONSE:**

24 The Applicants do not expect significant increases or decreases to the capital expenditures in
25 either service territory, as compared to Thunder Bay Hydro's board approved rate application
26 (EB-2016-0105), and Kenora Hydro's board approved rate application (EB- 2010-0135). LDC
27 Mergeco expects its first Cost of Service proceeding will thoroughly test the capital
28 requirement of its newly merged utility as identified at that time. The Applicants cannot
29 comment in any meaningful way on the nature of approved capital expenditures that may
30 result from a future rate decision.

31
32 Additionally, the Applicants have identified that although Kenora Hydro's approved level of
33 Capital Expenditures in 2011 (EB-2010-0135) was set at \$1,060,000 Kenora Hydro has been
34 cumulatively underspending in terms of Capital Expenditures from 2011 to 2017, and is also
35 forecasted to be underspent in 2018 as well. Given that Kenora Hydro's rates were set in
36 2011 (EB-2010-0135) to support \$1,060,000 of annual capital expenditure, it is the Applicants
37 intention to spend at the board approved level and maintain the annual capital expenditures
38 until LDC Mergeco's first Cost of Service Rate Application.

1 **Staff IR #20**

2
3 Reference: pg. 47

4
5 The Applicants state: Thunder Bay Hydro and Kenora Hydro each has a rate order that
6 contains a number of rate riders established in order to dispose of balances specific to
7 deferral and variance accounts accumulated in the respective service territories. These
8 respective rate riders will expire on dates determined in the Order(s) of the Board by which the
9 riders were established. Others will be in place until LDC Mergeco's next rebasing after the
10 five year deferral period. The Applicants recognize that in some cases, allowing a rate rider to
11 remain in place for over five years will create a situation in which a distributor has recovered
12 or refunded an amount greater than that in respect of which the rate rider was established and
13 that the OEB may have to limit the duration of certain riders.

14
15 Questions:

- 16
17 a) Please clarify the following statement "the OEB may have to limit the duration of certain
18 riders." Specifically, please confirm if the Applicants are requesting that term limits be placed
19 on certain rate riders as part of this MAADs proceeding. If not during this proceeding, through
20 what process do the Applicants foresee the OEB limiting the terms of certain rate riders?
21 b) Please identify any rate riders that, absent the MAADs proceeding, would have been
22 anticipated to expire or be removed during the five-year rebasing deferral period.
23 i. If applicable, please specify the rate riders that belong to Thunder Bay Hydro and those that
24 belong to Kenora Hydro.
25 ii. If applicable, please describe how LDC Mergeco anticipates correcting for rate riders that
26 are maintained through the five-year period and have resulted in an over collection of the
27 expected amount.
28 iii. If applicable, please explain how LDC Mergeco, post-amalgamation, intends to
29 communicate with customers regarding rate riders that are maintained through the five-year
30 period and have resulted in an over collection of the expected amount.
31

32 **LDC MERGECO RESPONSE:**

- 33 a) LDC Mergeco would like to clarify that this statement referenced in this question was a
34 statement to acknowledge the risk of any rate rider which would continue beyond the 5
35 year horizon. In the subsequent line of the above reference section on page 47 line
36 14 LDC Mergeco continued to state "Upon reviewing the Tariff of Rates and Charges
37 for Thunder Bay Hydro and Kenora Hydro it has been determined that no amendments
38 to current rate orders are required. All scheduled rate riders have a sunset date and
39 are tracked through variance accounting." LDC Mergeco confirms that it is not
40 requesting that term limits be placed on certain rate riders as part of the MAAD
41 proceeding.

- 1 b) As discussed above it was determined that no amendments to the current rate orders
2 are required. All scheduled rate riders have had a sunset date which will occur before
3 amalgamation. LDC Mergeco plans to track its group one variance accounts separately
4 for each of its specific service areas up until the date which it applies for its Cost of
5 Service.
- 6 i. Not applicable, as of the May 1st 2018 Tariff of Rates and Charges, both
7 utilities specific rates riders have expired on their specific sunset dates.
 - 8 ii. Not applicable.
 - 9 iii. Not applicable.

10
11
12

1 **Staff IR #21**

2
3 Reference: Utility Conditions of Service

4
5 Questions:

6
7 a) Please provide a copy of current Conditions of Service for Kenora Hydro and Thunder Bay
8 Hydro.

9 b) Please identify any material differences in the current Conditions of Service of Kenora
10 Hydro and Thunder Bay Hydro.

11 c) Please confirm that these current Conditions of Service are available on each of the
12 Applicants' websites and available at their business offices for viewing by customers.

13 d) If there are any material differences, please identify how the amalgamated entity intends to
14 communicate and resolve these in dealing with customers if the application is approved.

15 **LDC MERGECO RESPONSE:**

16 a) Each of the LDC's Conditions of Service are located on Kenora Hydro and Thunder
17 Bay Hydro websites can be found at the following locations:

18
19 <http://kenora.ca/living/kenora-hydro/conditions-of-service/>

20
21 <https://www.tbhydro.on.ca/corporate/legal-regulatory-notice/conditions-service/>

22
23 b) Thunder Bay Hydro last amended its Conditions of service in January 2016 whereas
24 Kenora Hydro has not amended its conditions of service since March 2008. Following a
25 high level review there are no material differences, however it can be noted that
26 Kenora Hydro's Conditions of Service does require an update and the inclusion of
27 many subsections which Thunder Bay Hydro has included through varying reviews
28 over the years.

29
30 c) Yes, as per the Distribution System Code section (2.4) 'Conditions of Service', both
31 utilities have made available the current conditions of service on each of the
32 Applicants' websites, and at their business offices for viewing by customers. Both
33 utilities are in compliance.

34
35 d) Material differences do not exist between the two LDC's conditions of service. However
36 any minor differences which are identified will be addressed by management following
37 the amalgamation and customer updates will be subject to Thunder Bay Hydro's

1 Condition of Service document in section 1.4 '*Amendments and Changes*' as well as
2 Kenora Hydro's Condition of Service document in section number KHECLCOS-140-00
3 '*Amendments and Changes*' which are effectively the same.

4

1 **Staff IR #22**

2

3 Reference: Specific Service Charges

4

5 Questions:

6

7 a) Please complete the table below with respect to Specific Service Charges for the
8 Applicants and add/remove/modify any rows if necessary:

9

Specific Service Charge	Current Approved Charge	
	Thunder Bay Hydro	Kenora Hydro
Customer Administration		
Arrears Certificate		
Statement of Account		
Easement letter		
Account history		
Credit reference/credit check (plus credit agency costs if applicable)		
Returned cheque (plus bank charges)		
Legal letter charge		

10

Account set up charge/change of occupancy charge (plus credit agency costs if applicable)		
Account set up charge/change of occupancy charge		
Special meter reads		
Meter dispute charge plus Measurement Canada fees (if meter found correct)		
Non-Payment of Account		
Late payment – per month		
Late payment – per annum		
Disconnect/reconnect at meter – during regular hours		
Disconnect/reconnect at meter – after regular hours		
Disconnect/reconnect at pole – during regular hours		
Disconnect/reconnect at pole – after regular hours		
Install/remove load control device – during regular hours		
Install/remove load control device – after regular hours		
Other		
Service call – customer owned equipment		
Service call – after regular hours		
Specific charge for access to the power poles - \$/pole/year (with the exception of wireless attachments)		

1
2
3
4
5
6
7
8
9
10
11
12

- b) Please identify any differences in specific service charges, as well as the ones that may be currently charged by one, but not both of the Applicants.
- c) Since the Applicants propose that the amalgamated entity would only rebase rates after five years, please explain how LDC Mergeco, post-amalgamation, proposes to handle any differences in specific service charges identified in the table above.

1 **LDC MERGECO RESPONSE:**

2 a) Please see the table below using the most recent May 1st 2018 Tariff of Rates and
 3 Charges as a comparison for both utilities.
 4

	Specific Service Charges	Current Approved Charges	
		Thunder Bay Hydro	Kenora Hydro
1	Customer Administration		
2	Arrears Certificate	\$ 15.00	\$ 15.00
3	Statement of Account	\$ 15.00	\$ 15.00
4	Duplicate invoices for previous billing		\$ 15.00
5	Request for other billing information		\$ 15.00
6	Easement Letter	\$ 15.00	\$ 15.00
7	Income Tax Letter		\$ 15.00
8	Account History	\$ 15.00	\$ 15.00
9	Credit Reference / Credit check (plus credit agency costs if applicable)		\$ 25.00
10	Returned Cheque (plus bank charges)	\$ 25.00	\$ 25.00
11	Legal letter charge	\$ 15.00	\$ 15.00
12	Account set up charge / change of occupancy charge (plus credit agency costs if applicable)	\$ 30.00	\$ 30.00
13	Special Meter Reads	\$ 30.00	\$ 30.00
14	Meter Dispute charge plus Measurement Canada fees (if meter found correct)	\$ 30.00	\$ 30.00
15	Non Payment of Account		
16	Late payment - per month	1.50%	1.50%
17	Late payment - per annum	19.56%	19.56%
18	Disconnect / reconnect at meter during regular hours	\$ 65.00	\$ 65.00
19	Disconnect / reconnect at meter after hours	\$ 185.00	\$ 185.00
20	Disconnect / reconnect at pole during regular hours	\$ 185.00	\$ 185.00
21	Disconnect / reconnect at pole after hours	\$ 415.00	\$ 415.00
22	Install / remove load control device - during regular hours	\$ 65.00	\$ 65.00
23	Install / remove load control device - after regular hours	\$ 185.00	\$ 185.00
24	Other		
25	Service call - customer owned equipment	\$ 30.00	\$ 65.00
26	Service call - after regular hours	\$ 165.00	\$ 165.00
27	Specific charge for access to power poles - \$ / pole/ year (with exception of wireless attachments)	\$ 22.35	\$ 22.35

5
 6
 7 b) Reviewing the May 1st 2018 Tariff of Rates and Charges Specific Service Charge
 8 section for each of the Applicants identifies in the table above that Kenora Hydro has
 9 four additional service charge categories which Thunder Bay Hydro does not. These

1 four categories are 'Duplicate invoice for previous billing' (\$15), 'Request for other
2 billing information' (\$15), 'Income Tax Letter' (\$15), and 'Credit Reference Check'
3 (\$25).

4
5 c) LDC Mergeco proposes that the amalgamated entity post-amalgamation will continue
6 to process the four identified Specific Service Charges in the table above for the region
7 of Kenora only. LDC Mergeco has the intention of maintaining two separate rate
8 districts until its next Cost of Service Application. At the time of rebasing LDC Mergeco
9 will evaluate its Specific Service Charges to unite the Tariff of Rates and Charges –
10 including the section mentioned above.

1 **Staff IR #23**

2

3 Reference: Total Bill Amount for Typical Customers

4

5 Question:

6

Typical Monthly Consumption (kWh) – Rate Class	Total Monthly Bill Amount for Thunder Bay Hydro Rate Zone (\$)	Total Monthly Bill Amount for Kenora Hydro Rate Zone (\$)	Monthly Difference (\$)
Using 750 kWh for Residential Class			
Using 2,000 kWh for GS<50 kW Class			

7

8 a) Please provide the estimated total bill amount (\$ per month) before taxes using the
 9 Applicants' current approved Tariffs of Rates and Charges and compare a typical Thunder
 10 Bay Hydro Residential and GS<50 kW customers with those of Kenora Hydro, using the table
 11 above. For typical monthly consumption for Residential rate class, please use 750 kWh per
 12 month and for GS<50 kW rate class, please use 2,000 kWh per month.

13 **LDC MERGECO RESPONSE:**

14 a) Please see the estimated total bill amount using the Applicants' May 1st 2018 approved
 15 Tariffs of Rates and Charges from board approved applications EB-2017-0075, and
 16 EB-2017-0054.

	Typical Monthly Consumption (kWh)	Total Monthly Bill Amount before taxes and 8% provincial rebate for		
1	Rate Class	Thunder Bay Hydro Rate Zone	Kenora Hydro Rate Zone	Monthly Difference
2	Using 750 kWh for Residential Class	101.27	102.12	-0.85
3	Using 2,000 kWh for GS<50 kW Class	277.41	238.64	38.77

17

1 **Staff IR #24**

2
3 Reference: p.51

4
5 Preamble:

6
7 The Applicants state: Thunder Bay Hydro and Kenora Hydro have transitioned to
8 “international financial reporting standards” or “IFRS”, which include

9
10 Questions:

- 11
12 a) Thunder Bay had previously rebased under Accounting Standards for Private Enterprises.
13 Effective January 1, 2015, Thunder Bay transitioned to IFRS.
14 b) Was Thunder Bay’s capitalization and depreciation policy materially impacted as a result of
15 the transition to IFRS?
16 c) Please confirm if Thunder Bay Hydro’s current rates reflect the transition to IFRS.
17 i. If yes, please identify the proceedings that considered IFRS.
18 d) How has the change to IFRS been reflected in Thunder Bay’s proposed rates for the
19 deferred rebasing period?
20

21 **LDC MERGECO RESPONSE:**

- 22 a) We do not see that there is a question here.
23
24 b) Yes, Thunder Bay Hydro estimated an impact of approximately \$1.3M to OM&A in its’
25 2013 Cost of Service application.
26
27 c) Thunder Bay Hydro confirms that current rates reflect the transition to IFRS.
28
29 i. 2013 COS Application (EB-2012-0167)
30
31
32 d) Modified IFRS was incorporated in rates in 2013 and the 2017 COS application was
33 done using IFRS as the basis of accounting.
34
35

1 **Staff IR #25**

2
3 Reference: p.51

4
5 Preamble:

6
7 The Applicants state: LDC Mergeco is not proposing any changes to the accounting 15
8 standards.

9
10 Questions:

11
12 Upon Amalgamation, the accounting policies of the individual utilities will be aligned.

13
14 a) Whose accounting policies will the amalgamated entity adopt?

15 b) Are the Applicants' current capitalization and depreciation policies (pre-amalgamation)
16 materially different? If so, please explain the key differences and quantify the impact of
17 aligning these policies for the amalgamated entity.

18 c) Are there other material differences in the Applicants' accounting policies that have been
19 identified and will be aligned in the amalgamated entity? If so, please explain and quantify
20 each in detail.

21 d) In the event that a change in accounting policy as a result of the amalgamation has a
22 material impact on the approved rates during the deferred rebasing period, how will the
23 Applicants propose to address this?
24

25 **LDC MERGECO RESPONSE:**

26 a) A complete and thorough review of the accounting policies has not been undertaken;
27 however, it is anticipated that Thunder Bay Hydro's accounting policies will be adopted.

28
29 b) The judgemental aspects of the policies may differ (i.e. level of componentization and
30 the useful life assessments); however, nothing material has been noted to date.

31
32 c) See response to a).
33

34
35 d) A change in accounting policy as a result of the amalgamation will not have an impact
36 on the approved rates during the deferred rebasing period. Any material impacts will
37 be assessed and considered as part of the next Cost of Service application.
38

1 **Staff IR #26**

2

3 Reference: p. 51

4

5 Preamble:

6

7 The Applicants state: The Applicants are requesting approval to continue to track costs to the
8 regulatory asset accounts currently approved by the Board for each Thunder Bay Hydro and
9 Kenora Hydro and to seek disposition of their balances at a future date.

10

11 Questions:

12

13 a) Please provide a listing of these accounts by utility.

14 b) With respect to Group 1 variance accounts, when do the Applicants expect that the IESO
15 settlement processes for Thunder Bay and Kenora will be merged (harmonized IESO
16 invoice)?

17 c) How do the Applicants expect to settle with the IESO after amalgamation and during the
18 deferred rebasing period?

19 d) In the event that the IESO invoice is harmonized, but the regulatory accounts continue to
20 be tracked separately, how are the Applicants proposing that the IESO invoice will be
21 allocated to the respective regulatory accounts of each utility?

22 **LDC MERGECO RESPONSE:**

23 a) Please see the table below containing a listing of regulatory assets and liabilities by
24 each utility as at December 31st 2017.

Account Number	Regulatory Assets & Liabilities	Thunder Bay Hydro	Kenora Hydro
1508	Other Regulatory Assets	X	X
1525	Misc Deferred Debits		X
1518	RCVA Retail	X	
1532	Renewable Connection OM&A		X
1535	Smart Grid OM&A		X
1548	RCVA STR	X	
1551	SME Charge Variance	X	X
1555	Smart Meter Capital and Recovery Offset		X
1556	Smart Meter OM&A Variance		X
1568	LRAM Variance		X
1576	CGAAP Accounting Changes		X
1580	RSVA Wholesale Market Charge	X	X
1584	RSVA - Retail Transmission Network Charge	X	X
1586	RSVA - Retail Transmission Network Charge	X	X
1588	RSVA - Power (Excluding GA)	X	X
1589	RSVA- Global Adjustment	X	X
1595	Disposition and Recovery / Refund of Regulatory Balances Control Account	X	X

1
2
3
4
5
6
7
8
9
10
11
12
13
14

- b) With respect to Group 1 variance accounts, LDC Mergeco has been in discussion with the IESO and is planning to maintain split invoicing by each of LDC Mergeco's regions until the Cost of Service rebasing year.
- c) As discussed LDC Mergeco is planning to settle with the IESO separately by utility region after amalgamation and during the deferred rebasing period until the next Cost of Service rebasing.
- d) This is not applicable based on the decision explained above, and the discussions between LDC Mergeco and the IESO.

1 **Staff IR #27**

2
3 Preamble: Applicant Debt Covenants

4
5 Questions:

6
7 In regards to the debt of the Applicants:

- 8
9 a) Is any of the Applicants debt governed by debt covenants?
10 b) If so, please provide a summary of the underlying covenants associated with each
11 indebtedness.
12 c) Please explain the impact of a default in these covenants?
13 d) Have the Applicants ever been in default of these covenants in the past?
14 e) Prepare an analysis that supports that these debt covenants will not be breached as a
15 result of the proposed amalgamation.
16
17

18 **LDC MERGECO RESPONSE:**

19 a) Yes, both Kenora and Thunder Bay Hydro have debt covenants.

20
21 b) Excerpt from Kenora Hydro's audited Financial Statements

22
The Company has the following externally imposed requirements on its capital as a result of its borrowings:

- 23 a) current ratio shall not fall below 1.3:1;
24 b) debt service coverage ratio shall not be less than 1 to 1;
25 c) the funded debt to capital ratio shall not be greater than 75%.

26 Thunder Bay Hydro's revolving credit facilities' financial covenants include a debt to
27 capitalization ratio of 0.6:1.0 and a debt service coverage ratio of 1.2:1 for one financial
28 institution and 1.3:1 for another. The facilities also include other positive and negative
29 covenants such as limitations on funded indebtedness, making distributions, capital
30 expenditures, and restrictions on mergers, amalgamations or consolidations and limitations on
31 providing security or guarantees to any third party.

32 c) Worst case scenario would be a calling of the loans putting LDC Mergeco in the position
33 of having to refinance.

34
35 d) No, neither Kenora nor Thunder Bay Hydro has been in default of the debt covenants.

1
 2 e) The following tables represent the covenant calculations for the 2019 Pro Forma
 3 statements.

4
Covenant Minimum Current Ratio 1.3:1

000s omitted	2019 Pro forma
Current Assets (a)	44,602
Current Liabilities (b)	25,056
Current Ratio (a)/(b)	1.78

5

Covenant Debt Service Coverage Ratio: Not Less than 1.2:1

000s omitted	2019 Pro forma
EBT and Other Comprehensive Income	2,114
Plus:	
Payments in Lieu of Corporate Tax	920
Amortization, including in other revenue	5,326
Interest	1,392
Subtotal (EBITDA)	9,752
Less:	
Cash Taxes Paid (Received)	45
40% CAPEX (net of capital contributions)	-
Total cashflow (a)	9,707
Cash Interest Expense (net of shareholder debt interest)	1,392
Mandatory principle payments	1,472
Debt Service (b)	2,864
Debt Service Coverage (a)/(b)	3.39

6

7

1

Covenant Maximum Debt: Capitalization of 0.6:1

000s omitted	2019 Pro forma
Total debt [excluding L/C to IMO and related shareholder debt]	38,784
Total Debt (a)	38,784
Capitalization	
Third Party debt	38,784
Plus:	
Shareholder Equity	80,654
Shareholder debt	26,491
Contributed Capital	-
Preference Share Capital	-
Goodwill	4,823
Intangibles [i.e. deferred charges, transition costs]	-
Total capitalization (b)	150,752
Debt/Capitalization (a/b)	0.26

2

3 As evidenced in the preceding tables, the proposed amalgamation is not projected to result in
4 a breach of debt covenants. Further to the above, the Applicants have not been in breach
5 previously and project that the merger will result in net efficiencies. Given such, covenant
6 ratios are projected to improve.

7

8

9

10

1 **Staff IR #28**

2
3 Preamble: Applicant Dividend Policy

4
5 Questions:

- 6
- 7 a) What is the dividend policy of the amalgamated entity?
- 8 b) Please provide an analysis that shows what the expected annual dividend payout of the
- 9 amalgamated entity will be over the deferred rebasing period.

10 **LDC MERGECO RESPONSE:**

11 a) The following is an excerpt from the Draft Unanimous Shareholder Agreement for LDC
12 Mergeco.

13
5.4 Dividend Policy

- (a) No dividends shall be declared or paid by the Corporation on its issued and outstanding Common Shares to the Shareholders, and instead, the Shareholders agree to pursue a rate minimization policy similar to the policy previously in place with respect to Thunder Bay Hydro Electricity Distribution Inc. This dividend policy shall have no effect on any dividends declared or paid by the Corporation on its issued and outstanding Class S Shares to TB Holdco.
- (b) Upon the request of any of the Parties, the Parties shall, acting reasonably, mutually determine a dollar amount equal to the cost savings resulting from efficiencies and synergies arising from the amalgamation between the former Thunder Bay Hydro Electricity Distribution Inc. and the former Kenora Hydro Electric Corporation Ltd. (the "**Merger Efficiencies Amount**"). In making such

**For Discussion Purposes Only
DRAFT: November 6, 2017**

- 17 -

determination, the Parties may refer the calculation of the Merger Efficiencies Amount to the auditor of the Corporation or to any other financial or consulting firm. Notwithstanding Section 5.4(a), the Board may, at any time and from time to time before the next cost-of-service application before the OEB is completed, declare one or more special dividends in an aggregate amount equal to the Merger Efficiencies Amount.

- (c) This dividend policy shall be in effect until the next cost-of-service application before the OEB is completed, after which a new dividend policy may be adopted by the Shareholders.

14
15
16 b) Currently there is no expected annual dividend payout of the amalgamated entity over
17 the deferred rebasing period. However, should a party request under 5.4(b) above, the
18 dividends should not exceed the Merger Efficiencies Amount.

1 **Staff IR #29**

2
3 Preamble: Applicant Pro-forma Financial Statements

4
5 Questions:

- 6
7 a) The Applicants have provided the pro-forma financial statement of the amalgamated entity.
8 i. Please confirm that the pro-forma statements reflect the incremental transition costs and
9 savings that are projected in this application.
10 ii. Please explain how the projections in the pro-forma statements are derived.
11

12 **LDC MERGECO RESPONSE:**

13 a)

- 14 i. The pro-forma statements reflect only the incremental transition costs and
15 savings that are projected for 2019.
16
17 ii. The projections were derived taking into consideration the following:
18 • Historical years results/trends incorporating a 1.2% per year inflation
19 increment;
20 • Adjusting historical for one-time/anomaly costs;
21 • Distribution revenues were adjusted to reflect Thunder Bay Hydro's
22 2017 COS Decision and subsequently by the most recent price
23 escalator net of the respective stretch factors;
24 • Distribution system plan for capital spending for Thunder Bay Hydro;
25 • Long-term financing plan for Thunder Bay Hydro; and
26 • Adjusting for identified merger costs and efficiencies.
27