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BY E-MAIL

October 26, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Walli:

**Re: OEB Staff Interrogatories
Veridian Connections Inc. and Whitby Hydro Electric Corporation
Application to Amalgamate
OEB File No. EB-2018-0236**

Accompanying this letter are OEB staff's interrogatories to the applicant in this proceeding.

Yours truly,

Original signed by

Ritchie Murray
Project Advisor

Cc (by email):
George Armstrong, garmstrong@veridian.on.ca
Susan Reffle, sreffle@whitbyhydro.on.ca
Dennis O'Leary, doleary@airdberlis.com

**VERIDIAN CONNECTIONS INC.
WHITBY HYDRO ELECTRIC CORPORATION**

**Application for approval to amalgamate
and continue operations as a
single electricity distribution company**

EB-2018-0236

OEB STAFF INTERROGATORIES

Interrogatory #1

Ref:

4.2 Leave Being Sought (p. 17)

7.2 Licence Amendment and Cancellation (p. 44)

7.8 Application for Electricity Distribution Licence (p.46)

Attachment S to the Application

Preamble:

Among other items of requested relief, Veridian Connections Inc. (Veridian LDC) and Whitby Hydro Electric Corporation (Whitby LDC) (collectively the Applicants) seek the issuance of a distribution licence to LDC Mergeco pursuant to Section 60 of the OEB Act (paragraph 4.2.1(3) of the application), and the Cancellation of the Distribution Licences of Veridian LDC (ED-2002-0503) and Whitby LDC (ED-2002-0571) upon the issuance of the Distribution Licence to LDC Mergeco (paragraph 4.2.1(6) of the application).

The Applicants have not filed a Distributor Licence application with the OEB. Rather, the Applicants have provided, at Attachment S to the application, a draft form of licence application and advised at page 46 of the current application that “If the Proposed Transaction is approved, an updated, final version of this Application will be filed with the OEB.”

During the oral hearing of a recent electricity distributor consolidation application, the applicants in that proceeding were advised by the OEB panel that it could not render a decision on the MAADs application with the matter of the licence application not being dealt with by the Board.¹ The panel went on to suggest that the applicants file the

¹ EB-2016-0025, Tr. Vol.4, at p.65

licence application, and the applicants did so following the conclusion of that day's session of the hearing.

Question:

- a) Please file a completed Distributor Licence application with the OEB. In the event that certain information is not known at this time, please indicate that in the application and advise as to when the Applicants expect to have that information.

Interrogatory #2

Ref:

2.5 Description of Transaction (p. 5)

4.2.1 The Requested Regulatory Approvals (p. 17)

The Proposed Transaction involves the amalgamation of Veridian Holdco and Whitby Holdco to form Merged Holdco. This will be immediately followed by the amalgamation of Veridian LDC and Whitby LDC to form LDC Mergeco.

- a) Please explain why the Applicants believe it is necessary to apply under section 86(2)(b) for leave of Merged Holdco to acquire control of Veridian Holdco and Whitby Holdco?

Interrogatory #3

Ref:

2.5 Description of Transaction (p. 5)

4.1 Proposed Transaction (p. 16)

The application states that, subject to the OEB's approval, the Applicants are planning for a February 28, 2019 closing of the proposed amalgamation.

- a) Please explain what, if any, implications there are if the OEB decision in this application is not rendered in time to enable the transaction to close effective February 28, 2019.
- b) Please confirm if a new name is anticipated for the utility following the amalgamation transaction. If so, please provide the name.

Interrogatory #4

Ref:

3.1 Description of Business (p. 11)

5.1.5 System Operations (p. 30)

- b) Following amalgamation, how will employees from Whitby Hydro Energy Services (WHESC) be transferred to LDC Mergeco to ensure that compliance with the Affiliate Relationships Code is maintained?
- c) Will the employees transferred from WHESC to LDC Mergeco continue to provide services to WHESC?
- d) Please comment on how the proposed re-organization is expected to impact the roles and functions of the existing Whitby LDC and Veridian LDC staff, and in particular, all of the positions directly responsible for the maintenance of service quality and reliability of the distribution system.

Interrogatory #5

Ref:

5.1.1 Consumer Impacts (p. 20)

The application states that incremental one-time transition and transaction costs are estimated to be approximately \$6.7 million. LDC Mergeco expects to finance these costs during the ten year rebasing deferral period through anticipated efficiency gains and synergies arising from the transaction. According to the evidence, the incremental transition and transaction costs will not be included in LDC Mergeco's revenue requirement and will not be funded by ratepayers.

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

Interrogatory #6

Ref:

5.1.1 Consumer Impacts (p. 20)

The Applicants state that there is a potential investment in a service centre for the Belleville service area. This service centre is expected to be in service in 2021.

- a) Please quantify the total investment for this service centre.
- b) Please more fully describe the need for the investment in the Belleville service centre.

Interrogatory #7

Ref:

5.1.1 Consumer Impacts (p. 20)

The Applicants state that Veridian LDC rates are expected to be 0.8% lower on average over the 10 year deferral period as a result of the amalgamation. Further, the Applicants state that Whitby LDC rates are expected to be 6.7% lower on average over the 10 year deferral period.

- a) Please explain how sensitive the expected 0.8% rate reduction is for Veridian LDC to its the underlying assumptions?
- b) Is there a chance that Veridian LDC will not see this reduction?

Interrogatory #8

Ref:

Table 3 – Distribution Revenue Requirement – Under Proposed Transaction vs Status Quo (p. 21)

Table 4 – Consolidated Distribution Revenue per Customer – Under Proposed Transaction vs Status Quo (p. 22)

Table 5 – Distribution Revenue per Customer by LDC – Proposed Transaction vs Status Quo (p. 23)

- a) The values reported in Tables 3, 4 and 5 are in a graphical format, please provide these values in a tabular format.

Interrogatory #9

Ref:

Table 3 – Distribution Revenue Requirement – Under Proposed Transaction vs Status Quo (p. 21)

Table 3 illustrates the total distribution revenue requirement under the proposed transaction and under the *status quo* for the 10 year rebasing deferral period and the subsequent year.

- a) Please provide a table which outlines, for the years 2019 to 2029, the *status quo* revenue requirements of Veridian LDC and Whitby LDC, respectively (i.e. provide a breakdown of the two values that comprise the blue bars in Table 3).

Interrogatory #10

Ref:

Table 6 – Historical Reliability Metrics (p. 25)

Table 6 illustrates existing reliability metrics for Veridian LDC and Whitby LDC. OEB staff observes that from 2012 to 2017, the SAIDI statistics for Whitby LDC are lower,

indicating better performance than those shown for Veridian LDC As well, Whitby LDC has lower SAIFI statistics, except in 2014 and 2017, when compared to Veridian LDC

- a) Please explain how the “no harm” test is satisfied with respect to reliability for customers in light of the statistics provided in Table 6.

Interrogatory #11

Ref:

5.1.1 Consumer Impacts (p. 19)

- a) Please more fully explain why, as a result of the amalgamation, the Applicants do not anticipate capital-related savings to be material. Please include, but do not limit the response to, capital costs associated with volumetric discounts on labour, materials, equipment, and borrowing costs.
- b) Please describe any capital savings that are anticipated from the amalgamation following the rebasing deferral period.

Interrogatory #12

Ref:

Table 7 – OM&A Comparison (p. 26)

Table 7 provides a comparison of OM&A costs of LDC Mergeco with that of Veridian LDC and Whitby LDC under the *status quo*. Further, the Applicants noted that as the amalgamation evaluation progressed and took longer than expected to complete, some of the OM&A savings forecast to occur within the post-amalgamation period were realized.

- a) Please provide a detailed list of the drivers of these cost savings for years 2019 to 2029. As an example, in 2021, the Applicants forecast a total cost savings of \$4.735 million – of these savings, please indicate which are attributable to the following categories: administrative, consolidated, billing, corporate IT, regulatory, financial functions, or other (please specify).
- b) Please explain all material assumptions that the Applicants have made with respect to the forecasted OM&A cost savings.
- c) Please identify risks that could impede the realization of projected cost savings, 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.

- d) Please provide the following for the cost savings materialized in 2017 as a result of the amalgamation evaluation process taking longer than expected:
 - i. Quantify the cost savings that materialized. Please provide a breakdown of the cost savings materialized for each utility.
 - ii. Please identify the category – as outlined in part a) – in which the cost savings were experienced.
- e) Have any cost savings materialized in 2018? If so, please provide a breakdown as in parts e) i and ii.

Interrogatory #13

Ref:

5.1.5 System Operations (p. 29)

The Applicants state that by maintaining all operations centres, LDC Mergeco is expected to enhance response times for outages and emergencies in some areas. Further, LDC Mergeco plans to maintain the administration centres of both Veridian LDC and Whitby LDC.

- a) In which portions of the Veridian LDC and Whitby LDC service areas is the enhancement of response times for outages and emergencies expected to occur?
- b) How will LDC Mergeco ensure successful coordination between the two administration centres?

Interrogatory #14

Ref:

5.1.5 System Operations (p. 30)

The Applicants plan to have LDC Mergeco transition to the use and operation of a single centralized 7/24 control room.

- a) When do the Applicants anticipate the transition to a single control room will be complete and the room operational?

Interrogatory #15

Ref:

5.1.5 System Operations (p. 31)

- a) Please describe the extent to which Veridian LDC and Whitby LDC have considered the “Ontario Cyber Security Framework²” (the Framework) in designing and implementing controls and privacy mechanisms to ensure the continued protection of operational and customer data.
- b) Please confirm the current status of the OEB interim certification for cyber security progress report for both LDCs.
- c) Please confirm that LDC Mergeco will adhere to the Distribution System Code (DSC) requirement related to the Framework when launching new IT products and abide by the related OEB reporting requirements.

Interrogatory #16

Ref:

5.1.5 System Operations (p. 30)

5.2.1 Efficiencies (p. 33)

- a) Please indicate the extent to which layoffs or other job losses are anticipated to result from the amalgamation.
 - i. If applicable, please specify the number, position and type of jobs (i.e., full-time, part-time, contract, etc.) that are anticipated to be lost through the amalgamation as well as if the positions lost currently belong to Veridian Connections Inc. Veridian LDC or Whitby LDC.
 - ii. Please specify why job losses will not impact the current service levels provided to customers in each existing service territory of the Applicants.
 - iii. Please explain how the Applicants will ensure continuity of staff knowledge and expertise in both existing service territories of the Applicants.

Interrogatory #17

Ref:

5.1.5 System Operations (p. 30)

- a) Do the customer service principles and objectives for LDC Mergeco differ from the current customer service principles and objectives of each of the two amalgamating utilities? If yes, how?
- b) Please more fully describe how LDC Mergeco will, at a minimum, maintain current service levels. Please provide examples as to where/how the amalgamation will maintain or improve service levels.

² <https://www.oeb.ca/sites/default/files/Ontario-Cyber-Security-Framework-20171206.pdf>

- c) What technologies (equipment, hardware, software, or other) will be merged as part of the amalgamation of the Applicants?
- d) With regard to the statement made on pages 24 and 30 of the Application, please describe the following:
 - i. What do the Applicants define as “best practices”?
 - ii. How will best work practices between the two utilities be identified and implemented?
 - iii. Please describe specific areas that have been targeted for improvement through the implementation of best practices. Why were these areas targeted?
 - iv. How will the Applicants ensure that best practices are implemented? Are there timelines associated with implementation?

Interrogatory #18

Ref:

Attachment F – Veridian Holdco Corporation Organization Chart

Attachment G – Whitby Holdco Corporation Organization Chart

Attachment H – Merged Holdco Post Merger Corporate Organization Chart

3.1 Description of Business (p. 11)

- a) Please fully describe how the pre-amalgamation corporate structure of Veridian LDC as well as the relationships between each subsidiary/affiliate are anticipated to change through the amalgamation.
- b) Please confirm if any of the affiliates/subsidiaries are currently providing and/or have previously provided service to Veridian LDC
 - i. If applicable, please describe the services provided by the affiliates/subsidiaries to Veridian LDC
 - ii. If applicable, please identify the years these services were provided and the amounts paid for the services.
- c) Please confirm if any of the affiliates/subsidiaries are currently providing and/or have previously provided service to Whitby LDC.
 - i. If applicable, please describe the services provided by the affiliates/subsidiaries to Whitby LDC.
 - ii. If applicable, please identify the years these services were provided and the amounts paid for the services.

Interrogatory # 19

Ref:

Attachment H – Merged Holdco Post Merger Corporate Organization Chart

- a) Fully describe the extent to which the Applicants foresee LDC Mergeco utilizing the services of the affiliates/subsidiaries identified.
- b) Please explain how LDC Mergeco will be compliant with section 2.1.1 of the Affiliate Relationships Code, which requires that a utility ensure accounting and financial separation from all affiliates and the maintenance of separate financial records and books of account.
- c) With regards to section 2.2.3 of the Affiliate Relationships Code:
 - i. Please confirm whether LDC Mergeco plans to involve the sharing of employees who are directly involved in collecting, or have access to, confidential information with an energy service provider.
 - ii. If so, please explain how LDC Mergeco plans to meet the requirements of the OEB as set out in section 2.2.3 of the Affiliate Relationships Code.
- d) Please explain how LDC Mergeco will be compliant with section 2.3.2.1 of the Affiliate Relationships Code, which requires that a utility first undertake a business case analysis before entering into an affiliate contract for the receipt of a service, product, resource, or use of asset that it currently provides to itself.
- e) Please explain how LDC Mergeco will be compliant with sections 2.3.3.1, 2.3.3.6, 2.3.4.1 and 2.3.4.2 of the Affiliate Relationships Code.

Interrogatory #20

Ref:

Attachment M – Navigant Report, page 3

Navigant is confident that the management determined synergies can be achieved with reasonable and diligent leadership supported by a comprehensive post-merger implementation plan and team.

- a) Please provide a status update on the development of a post-merger implementation plan.
- b) Please provide, in table form, a list of any issues that have been identified since completion of the Navigant Report that may affect the successful outcome of the amalgamation along with a quantitative or qualitative description (as appropriate) of the potential impact arising from the issue.

Interrogatory #21

Ref:

Specific Service Charges

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

Specific Service Charge	Current Approved Charge	
	Veridian LDC	Whitby LDC
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		
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)		

- b) Please identify and explain 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 ten years, please explain how LDC Mergeco, post-amalgamation, proposes to handle any differences in specific service charges identified in the table above.

Interrogatory #22

Ref:

Total Bill Amount for Typical Customers

- a) Please provide the estimated total bill amount (\$ per month) before taxes using the Applicants' current approved Tariffs of Rates and Charges and compare typical Veridian LDC Residential and GS<50 kW customers with those of Whitby LDC, using the table below. For typical monthly consumption for Residential rate class, please use 750 kWh per month and for GS<50 kW rate class, please use 2,000 kWh per month.

Typical Monthly Consumption (kWh) – Rate Class	Total Monthly Bill Amount for Veridian LDC Rate Zone (\$)	Total Monthly Bill Amount for Whitby LDC Rate Zone (\$)	Monthly Difference (\$)
Using 750 kWh for Residential Class			
Using 2,000 kWh for GS<50 kW Class			

Interrogatory #23

Ref:

Conditions of Service

- a) Please provide a copy of the Conditions of Service for Veridian LDC and Whitby LDC.

- b) Please identify any material differences in the current Conditions of Service of Veridian LDC and Whitby LDC.
- c) Please confirm that these current Conditions of Service are available on each of the Applicants' websites and are available at their business offices for viewing by customers.
- d) If there are any material differences, please identify how LDC Mergeco will communicate and resolve these in dealing with customers if the application is approved.

Interrogatory #24

Ref:

Standards

- a) Please identify any current major differences between Veridian LDC's and Whitby LDC's engineering standards, project management standards and inventory and asset management practices.
- b) Please identify any current major differences between Veridian LDC's and Whitby LDC's policies and practices, including but not limited to service area expansion and the Offer to Connect process.
- c) Please identify any current major differences between Veridian LDC's and Whitby LDC's human resources policies, including but not limited to employee benefits and compensation levels.

Interrogatory #25

Ref:

6.2 Deferred Rebasings Greater than Five Years

The Applicants have proposed an Earnings Sharing Mechanism (ESM) for earnings in excess of 300 basis points above the deemed Return on Equity (ROE).

- a) Please explain how the deemed ROE and the achieved ROE of LDC Mergeco is proposed to be calculated. Specifically, since the deemed regulatory net income and ROE have been established in past Cost of Service applications for each individual entity, how do the Applicants intend to compare those deemed returns to the adjusted regulatory net income of the consolidated entity?

Interrogatory #26

Ref:

4.2.1 The Requested Regulatory Approvals

7.4 Approval to Continue to Track Costs to Approved Deferral and Variance Accounts

The applicants are requesting leave to continue to track costs to Group 1 and Group 2 deferral and variance accounts (DVAs) approved by the board.

- a) Do the applicants have an anticipated timeline in mind for when the IESO settlement processes will be merged and LDC Mergeco will be receiving single, consolidated IESO invoices?
- b) Please confirm that the Applicants intend to maintain a separate set of DVAs, for each respective rate zone, between the proposed amalgamation date and the month prior to the IESO Invoice harmonization date.
- c) How do the Applicants intend to settle with the IESO during:
 - i. The period prior to IESO invoice harmonization?
 - ii. The period subsequent to IESO invoice harmonization?
- d) For the year in which IESO invoice harmonization takes place, please confirm that the Applicants' intent is to submit disposition requests for the individual rate zone DVA balances that accumulated prior to IESO invoice harmonization, as well as a request for the disposition of consolidated DVA balances that accumulated subsequent to IESO invoice harmonization? If this is not the case, please explain how the Applicants intend to dispose of DVA balances for the year in which IESO invoice harmonization occurs.
- e) In the event that the IESO invoice is harmonized, but the DVAs continue to be maintained separately, how are the Applicants proposing to allocate the IESO charges to the respective regulatory accounts of each of the former LDCs' rate zones?
- f) Do the applicants have intentions on aligning the effective rate year dates for each of the two former rate zones prior to rebasing? If not, why not?

Interrogatory #27

Ref:

4.2.1 The Requested Regulatory Approvals

7.6 Deferral Account – Changes to Accounting Policy

The Applicants are requesting an Accounting Order establishing a deferral account to track any material differences between the revenue requirement calculated using pre-merger accounting policies and the revenue requirement calculated using post-merger accounting policies.

- a) Have the Applicants undertaken any studies or reviews of the types of transactions to be impacted by a potential change in accounting policy?
- b) If so, are the differences assessed to be material?
- c) If there are material differences, please quantify the estimated impact annually on revenue requirement as a result of these accounting policy changes.
- d) Are the Applicants proposing to have the Accounting Order established as part of this proceeding or as a stand-alone application in a future date? If it is being requested as part of this proceeding, please prepare a Draft Accounting Order as an appendix for approval.

Interrogatory #28

Ref:

5.2.1 Efficiencies

Attachment Q 2019 Pro-Forma Financial Statements

- a) Please confirm that the pro-forma financial statements reflect the transition costs and OM&A synergies projected for 2019. If not, please include these amounts in these projected financials.
- b) Please explain how the projections in the pro-forma financial statements are derived.
- c) Please provide a pro-forma statement of cash flows to accompany the pro-forma statement of financial position and statement of profit and loss.
- d) The targeted closing date of the Proposed Transaction is February 28, 2019. Do the 2019 pro-forma financial statements reflect:
 - i. 12 months of operations of the amalgamated entity,
 - ii. 10 months of operations of the amalgamated entity, or
 - iii. 10 months of operations of the amalgamated entity and two months of operations of the existing LDCs?

Interrogatory #29

Ref:

Attachment I Merger Participation Agreement Dated July 10, 2018 Schedule "C"

Dividend Policy Principles

Attachment O Veridian LDC 2016 and 2017 Financial Statements

Attachment P Whitby LDC 2016 and 2017 Financial Statements

From 2015 to 2017, the Board of Directors of Veridian LDC declared and paid dividends ranging from \$4.6M to \$5.3M and the Board of Directors of Whitby LDC declared and paid dividends ranging from \$2.5M to \$2.7M.

- a) Please prepare an analysis of the expected dividend payouts over the deferred rebasing period.
- b) Please comment on how liquidity and financial viability of the amalgamated entity will not be adversely affected by the dividends expected to be declared and paid over the deferred rebasing period.

Interrogatory #30

Ref:

Attachment I Merger Participation Agreement Dated July 10, 2018

Attachment O Veridian LDC 2016 and 2017 Financial Statements

Attachment P Whitby LDC 2016 and 2017 Financial Statements

Under Note 9 of the Financial Statements for Veridian LDC, the following statement is made with respect to various credit facilities held by the LDC:

“The financial covenants to the above facilities require a funded debt to capitalization ratio of no greater than 0.60:1, and maintain a debt service coverage ratio of not less than 1.20:1. The financial covenants are tested on a consolidated basis. The corporation and the Company have been in compliance with all the covenants.”

- a) Please explain the ramifications of the LDC being in violation of the covenants described above.
- b) Have the Applicants tested compliance with the above covenants on a consolidated basis subsequent to amalgamation?
- c) Are there any other debt covenants, aside from the one described above, imposed on either of the existing LDCs' various borrowings? If so, please describe them, including the ramifications of violating these covenants.
- d) Do the Applicants intend to maintain the same loans and credit facilities currently held by the existing LDCs under the operating structure of the amalgamated entity? If so, please comment on how the financial covenants associated with these lending arrangements will be impacted by the proposed amalgamation.
- e) Do the Applicants intend on restructuring the debt arrangements of the existing LDCs under the amalgamated entity? If so, please describe what the debt arrangements will be.
- f) If LDC Mergeco is going to restructure its debts following amalgamation, please describe the debt covenants, if any, that are expected to be part of the new lending arrangements, including the Applicants' assessments of being maintaining compliance with these covenants and the ramifications of violating them.

Interrogatory #31

Ref:

Attachment P Whitby LDC 2016 and 2017 Financial Statements

Under Note 13 of the 2017 Financial Statements for Whitby LDC, the following statement is made with respect to Long-term debt:

“The notes payable bear interest at an average rate of 7.06% and are due on demand to the Town of Whitby. The Town of Whitby has waived its right to demand payment until January 1, 2019”

- a) Have the Applicant's addressed the Town of Whitby's right to collect the note payable on January 1, 2019 in this application?
- b) Please comment on how this demand loan will affect the financial viability of the amalgamated entity, and whether viability is contingent on the Town of Whitby continuing to waive its right to demand payment in future years?