EB-2018-0242

ONTARIO ENERGY BOARD

IN THE MATTER OF an application by Peterborough Distribution Inc. for leave to amalgamate with Peterborough Utilities Services Inc., (the amalgamated Corporation being referred to herein as "AmalCo"), made pursuant to section 86(1)(c) of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application by Peterborough Distribution Inc. and AmalCo, made pursuant to section 18 of the Ontario Energy Board Act, 1998, for leave to transfer: (a) PDI's distribution licence to AmalCo; and (b) PDI's rate order to AmalCo.

AND IN THE MATTER OF an application by AmalCo for leave to sell its distribution system to 1937680 Ontario Inc., made pursuant to section 86(1)(a) of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application by Peterborough Distribution Inc. seeking to include a rate rider in the current OEB-approved rate schedules of Peterborough Distribution Inc. to give effect to a 1% reduction relative to their Base Distribution Delivery Rates (exclusive of rate riders), made pursuant to section 78 of the Ontario Energy Board Act, 1998.

AND IN THE MATTER OF an application by AmalCo and 1937680 Ontario Inc., made pursuant to section 18 of the Ontario Energy Board Act, 1998, for leave to transfer: (a) AmalCo's distribution licence to 1937680 Ontario Inc.; and (b) AmalCo's rate order to 1937680 Ontario Inc.

AND IN THE MATTER OF an application by 1937680 Ontario Inc. for leave to dispose of its distribution system to Hydro One Networks Inc., made pursuant to section 86(1)(a) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application by 1937680 Ontario Inc. seeking cancellation of its distribution licence, made pursuant to section 77(5) of the *Ontario* 7 *Energy Board Act, 1998*.

AND IN THE MATTER OF an application by Hydro One Networks Inc. seeking an order to amend its distribution licence, made pursuant to section 74 of the *Ontario Energy Board Act, 1998*, to serve the customers of 1937680 Ontario Inc.

AND IN THE MATTER OF an application by 1937680 Ontario Inc. for leave to transfer its rate order to Hydro One Networks Inc., made pursuant to section 18 of the *Ontario Energy Board Act, 1998.*

AND IN THE MATTER OF an application by Hydro One Networks Inc. seeking an order to amend the Specific Service Charges in 1937680 Ontario Inc.'s transferred rate order, made pursuant to section 78 of the *Ontario Energy Board Act, 1998.*

INTERROGATORIES

FROM THE

SCHOOL ENERGY COALITION

1. [General] Please file the following documents:

   a. Letter dated October 26, 2016 from David Bigwell to John Kennedy entitled "Proposed Sale of Peterborough Distribution Inc. to Hydro One, together with all attachments (the "Bigwell Letter").

   b. City of Peterborough Report CAO 16-018 and City of Peterborough Report CAO 18-003 (the "CAO Reports"), together with any other reports from the CAO of Peterborough dealing with the Peterborough/Hydro One Transaction.

   c. Powerpoint Presentation from Navigant to the City of Peterborough dated September 16, 2016 (the "Navigant Presentation"), together with any updates to the Navigant Presentation.

   d. Report from Navigant to the City of Peterborough dated November 24, 2016 (the "Navigant Report"), together with any updates to the Navigant Report.

2. [General] With respect to the Bigwell Letter,

   a. Please provide details of all input on the contents of the letter provided by Hydro One or its advisors to a) the author of the letter, b) City of Peterborough Holdings Inc., c) any of its affiliates including the Applicants herein, or d) any advisors (including counsel) to any of the foregoing.

   b. Please provide lists of the directors of Peterborough Distribution Inc. on each of April 26, 2016, October 26, 2016, and April 26, 2017.

   c. P. 3. Please provide details of the "planned renewable power generation projects" that are expected to provide $3 million per year annual return.

   d. P. 5, 10. Please provide details of the "short term tax measures" relied on by the City of Peterborough as additional $11.5 million of benefits to the transaction, and describe any changes to those tax measures between the date of the Bigwell Letter and today.

e. P. 7 (letter of Hydro One CFO). Please advise whether, in light of recent events affecting Hydro One, the City of Peterborough Holdings Inc. continues to believe that the Hydro One Board of Directors is "fully independent".

f. P. 8. Please confirm that Michael Vels is no longer CFO of Hydro One, and Mayo Schmidt is no longer CEO of Hydro One, and that at the present time Hydro One does not have a permanent CEO or CFO.

3. [General] With respect to the CAO Reports, please provide the report from the PDI executives referred to on page 3 of the 2018 report.

4. [General] With respect to the Navigant Report:

a. P. 5. Please confirm that the structure of this transaction, except for the use of the intermediate numbered company, is with respect to rates charged and to be charged to customers of PDI, and the approach to estimation and allocation of future savings, the same in all material respects as the current version of the Orillia acquisition referred to.

b. P. 11. Please update the figures on this table, and provide all calculations supporting the revised figures.

c. P. 15. Please reconcile the figure of $1.65 million per year with the figure of $3 million per year in the Bigwell Letter.

d. Please provide details of the M&A expertise of the authors of the report, or file their CVs.

5. [General] With respect to the Navigant Presentation:

a. P. 14. Please confirm that at the time the presentation was made, Hydro One was no longer tax exempt. Please confirm that the advice on this page assumed that Hydro One was subject to tax under the federal Income Tax Act.

b. P. 29. What advice, if any, did Navigant give to the City of Peterborough in answer to the consideration "How will the rates change after any rate freeze period ends?"

6. [Ex. A/1/1, p. 3; A/2/1, p. 19] SEC is seeking to understand more clearly the tax and PILs impacts of the transactions in light of Hydro One's change in status from exempt under the Income Tax Act, Canada (the "Federal Tax Act"), to taxable in 2015.

a. Please confirm that, pursuant to section 149(1.1) of the Federal Tax Act, DPI nad PUSI ceased to be exempt under that Act as of the date of the Share Purchase Agreement. If that is not the case, please provide the date PDI and PUSI ceased or will cease to be exempt, and the statutory references supporting your conclusion.

b. Please confirm that, pursuant to section 149(10) of the Federal Tax Act, as of the date it ceased to be exempt PDI and PUSI became liable to pay both federal and provincial income tax, with its first tax year starting at that time.

c. Please confirm that, pursuant to the same section, PDI and PUSI were on that same date deemed to have disposed of all of their assets, and reacquired them, at fair market value for both federal and provincial income tax purposes. Please provide full details of the calculation of that deemed disposition and reacquisition.

d. Please confirm that, as a result of the deemed disposition and acquisition, PDI and PUSI are required for accounting purposes to establish a deferred tax asset equal to the future tax benefit of the bump in tax values of its assets. Please provide the full calculation of the deferred tax asset (including any interaction with any existing deferred tax asset or liability), any forecasts the Applicants have as to when and how it will be drawn down (i.e. the impact on tax payable by PDI and PUSI and later by Hydro One annually until it is used up), and the Applicants' proposals for how that should be reflected in rates in the future.

e. Please provide a summary of the PILs consequences of the transactions, including the consequences of the deemed disposition and acquisition, any departure tax or transfer tax payable, and the amounts the timing of those payments, if any. Please provide full calculations of any incremental tax costs arising out of the transactions.

7. [A/1/1, p. 6] Please confirm that the term "customers" in the phrase "customers will benefit in the longer term (Year 11 forward) from the lower ongoing cost structures" refers to "Peterborough service area ratepayers".

8. [A/1/1, p. 7] Please provide details of the role that 1937680 Ontario Inc. plays in the series of transactions, and the reasons why it is included rather than a direct transaction between PDI/PUSI (or Amalco) and Hydro One.

9. [A/1/1, p. 8] Please provide a side by side table showing all of PDI's approved service charges, and all of Hydro One's proposed service charges. If the proposal to update PDI's service charges does not simply match each of the Hydro One service charges exactly, please provide an explanation of any exceptions.

10. [A/1/1, p. 8] Please specify what order is being requested from the Board in this Application with respect to potential future use of the ICM.

11. [A/2/1, p. 3] SEC is seeking to better understand Hydro One's potential cost to serve PDI ratepayers. Hydro One notes that "it is reasonable to believe that if this transaction proceeds, Hydro One will be able to serve PDI's service area, which has approximately 37,000 customers and a density of 65 customers per km. of line, at a cost that is comparable to Hydro One's UR rate class. In this regard:

a. Please confirm that all parts of the service territory in Peterborough have at least 3000 customers and line density of at least 60 customers per circuit kilometer, and so would qualify for UR (and UGe and UGd) rate classes currently if those customers were treated the same as legacy customers.

b. Please advise whether the other parts of the PDI service territory (e.g. Lakefield and Norwood) would also currently qualify for those rate classes and, if not, what Hydro One rate classes would currently apply to those customers if those customers were treated the same as legacy customers.

c. Please confirm that the following table accurately compares 2018 distribution bills for customers in the service classes indicated and for the load or demand indicated, assuming the proposed rates in EB-2017-0049 are approved. If any of these figures are not accurate, or are not considered a fair current comparison, please explain why and offer alternate calculations:

Comparison of 2018 Monthly Distribution Bills

Customer	H1 Urban			PDI			Difference	
	Fixed	Variable	Total	Fixed	Variable	Total	Amount	%
Residential 700 kwhr.	$27.85	$5.67	$33.52	$18.98	$3.29	$22.27	$11.25	50.52%
UGe/GS<50 2000 kwhr.	$24.16	$56.40	$80.56	$31.36	$17.80	$49.16	$31.40	63.87%
UGd/GS>50 150 kW	$101.92	$1,460.46	$1,562.38	$160.31	$409.85	$570.16	$992.23	174.03%

d. Please reconcile the differences in the above table with the claim by Hydro One that it will be able to service PDI customers at a lower cost that is currently the case. If the reason why that is possible is that the capital assets allocated to the H1 Urban classes are higher than the capital assets allocated to PDI customers, please provide details on what H1 Urban asset allocations would not be applicable to PDI, and why.

e. Please explain how Hydro One expects to be able to serve PDI customers at an overall cost – using proper cost allocations principles – that is lower than the cost to serve customers in Ancaster, Brockville, Bolton, Orleans, or Smiths Falls.

12. [A/2/1, p. 7] Please explain why Hydro One's efficiency cohort wouldn't be more applicable once PDI is owned by Hydro One.

13. [A/2/1, p. 10] Please advise whether the proposed Advisory Committee would continue after the transfer from 1937680 to Hydro One.

14. [A/2/1, p. 21] Please provide a table with the current (December 31, 2018 is sufficient) balances in each of the PDI regulatory asset accounts.

15. [A/2/1, p. 22] Please provide a forecast of all impacts of PDI's rate base of the change from IFRS to USGAAP, with all explanations and calculations. Please confirm that Hydro One's depreciation rates are, on average, lower than PDI's depreciation rates. Please provide a full calculation of the impact of the change in depreciation rates on the rate base in the Status Quo Forecast and the Residual Cost to Serve Forecast.

16. [A/3/1, p. 1, 4, 6] Please advise how Hydro One will assure the customers and the Board that the result of the guaranteed earnings sharing will be 50/50 for earnings 300 basis points above the allowed ROE of the PDI service territory. If the reason is that the earnings are forecast only, please reconcile this with the proposal to artificially increase forecast OM&A by 20% in the ESM forecast. Please confirm that the OM&A increase reduces the calculated earnings

sharing by $2,042,000, i.e. that the offer of guaranteed earnings sharing is in fact less than half of the expected earnings sharing amount.

17. [A/3/1, p. 5] Please provide the full "Hydro One ESM Model" in Excel format, with all formulae and assumptions intact.

18. [A/3/1, p. 8] Please expand Table 2 to show years 1 to 5 as well, with all lines populated.

19. [A/3/1, p. 8] Please confirm that, over the entire ten year deferred rebasing period, Hydro One expects to earn a total of $59 million from the PDI service territory, which would be about $23 million more than the allowed rate of return, and proposes earnings sharing that would give a maximum of $1.8 million to customers, i.e. less than 8% of the overearnings, and about 3% of the total earnings. If Hydro One disputes those estimates, please provide corrected numbers with all supporting calculations.

20. [A/3/1, p. 10] Please provide any information currently in the possession of the Applicants or any of them that there is currently any "disparity between cost structures and rates".

21. [A/4/1, p. 1] Please explain why Hydro One is comparing residual cost to serve, i.e. excluding certain costs to serve, with the full cost to serve in the Status Quo scenario. Please specify what conclusions, if any, Hydro One believes the Board can draw from that comparison in terms of the actual costs to serve PDI customers in the future.

22. [A/4/1, p. 2] Please provide the full calculations underlying Table 1, on a year by year basis from Year 1 to Year 11, with explanations for any figures that are not fully explained by Attachment 20. Please confirm that the status quo assumption is that rates will increase at a compound annual growth rate of 3% per year from 2013 to 2030.

23. [A/4/1, p. 2] Please confirm that, taking into account depreciation each year, PDI currently expects to spend more than $115 million on capital (plus customer contributions) over the 17 year period 2013 to 2030, a compound annual growth rate of 3.5% per year. Please provide the Distribution System Plan or similar document of PDI supporting that level of capital spending. If there is no DSP or multi-year plan, please provide "PDI's 2019 Rate Base forecast" referred to in Attachment 20, with all supporting documents and all assumptions explained.

24. [A/4/1, p. 7, 8] Please explain why Hydro One assumes that the OEB cost allocation model will not "reflect the cost to serve the acquired PDI customers", and will have to be "adjusted" to do so. Please explain how those adjustments would remain in place forever, i.e. whether as dollar amounts, percentages or in some other manner. Please explain what steps would be taken to ensure that the adjustments result in just and reasonable rates, not just for PDI customers, but for all other Hydro One customers.

25. [A/4/1, p. 9] With respect to the proposed retroactive changes to the Status Quo Forecast:

    a. Please provide examples of "unknown or unforeseen costs at that time" that would qualify for adjustment. For example, would higher than expected union wage raises require an adjustment? Or, would interest rate movements that are inconsistent with the forecast require an adjustment? Please provide sufficient examples so that the Board and parties can better understand the nature of the adjustments to be proposed.

b. Please confirm that "unanticipated costs' and "unanticipated events" are intended to be comparable to Z factors, as the Board currently defines them. If that is not the case, please provide a fuller explanation of that proposal.

c. Please confirm that cost decreases, whether "unknown or unforeseen", or "unanticipated", would also require adjustment to the Status Quo Forecast. Please advise whether that would include better than expected savings as a result of the consolidation of PDI into Hydro One.

26. [A/4/1, p. 11] Please explain what will happen to PDI customers in Year 11 if the cost allocation model, after all adjustments, still shows costs to serve Hydro One customers in the PDI service territory that are higher than the Status Quo Forecast.

27. [A/4/1, p. 11] Please advise where "an illustration of how Shared Costs could be collected from customers of the former PDI" is found in the Applicant.

28. [Attach 18] Please reconcile the 2017 rate base with the actual rate base as shown in the December 31, 2017 financial statements of PDI, Note 5.

Respectfully submitted on behalf of the School Energy Coalition this December 18, 2018.

Jay Shepherd
Counsel for the School Energy Coalition