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BY EMAIL

February 12, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: OEB Staff Interrogatories
Application under sections 86(1)(c), 86(1)(a), 78, 18, 77(5), and 74 of the *Ontario Energy Board Act, 1998* for the relief necessary to effect Hydro One Networks Inc. and 1937680 Ontario Inc.'s purchase and consolidation of Peterborough Distribution Inc.'s distribution assets and other related approvals.

OEB File Number: EB-2018-0242

In accordance with Procedural Order No. 1, please find attached the OEB staff interrogatories for the above proceeding. The attached document has been forwarded to the applicants and to all other registered parties to this proceeding.

The applicants are to file with the OEB complete written responses to the interrogatories and serve them on all parties by February 27, 2019.

Yours truly,

Original Signed By

Andrew Pietrewicz
Project Advisor, Supply & Infrastructure

Encl.

Ontario

OEB Staff Interrogatories

Application under sections 86(1)(c), 86(1)(a), 78, 18, 77(5), and 74 of the *Ontario Energy Board Act, 1998* for the relief necessary to effect Hydro One Networks Inc. and 1937680 Ontario Inc.'s purchase and consolidation of Peterborough Distribution Inc.'s distribution assets and other related approvals.

Hydro One Networks Inc. and Peterborough Distribution Inc.

EB-2018-0242

February 12, 2019

OEB Staff-1

Ref: Exhibit A-4-1

Questions:

a) Please provide a table which compares indicative Hydro One Networks Inc. ("Hydro One") and Peterborough Distribution Inc. ("PDI") monthly electricity bills:
   i. Today (e.g. 2019)
   ii. In year 10 with the proposed consolidation
   iii. In year 10 without the proposed consolidation
   iv. In year 11 with the proposed consolidation, and
   v. In year 11 without the proposed consolidation.

Please develop the comparison for each of the following customer types: Residential, General Service less than 50kW, and General Service greater than 50 kW.

b) Please confirm that the values provided in response to question a) iv above include PDI rebasing following the end of the deferred rebasing period. If they do not, please ensure that they do.

c) Please also explain how costs have been allocated to PDI customers in the response to question a) iv above.

OEB Staff-2

a) What rate classes does Hydro One expect to place PDI customers in in year 11? Will PDI customers be grouped into the existing residential, general service, etc. rate classes? Will PDI customers be placed in the Acquired Utility classes? Will PDI have stand-alone classes? If PDI customers are not expected to be placed into existing rate classes, please describe how Hydro One's existing corporate costs/overheads will be allocated to them.

OEB Staff-3

Ref: Exhibit A-4-1

Questions:

a) Please provide a table which estimates Hydro One and PDI revenue requirements and revenue requirements per customer:
   i. Today (e.g. 2019)
   ii. In year 10 with the proposed consolidation

iii. In year 10 without the proposed consolidation
iv. In year 11 with the proposed consolidation, including all costs that are expected to be allocated to PDI, and
v. In year 11 without the proposed consolidation.

Please develop the comparison for each of the following customer types: Residential, General Service less than 50kW, General Service greater than 50 kW and total of all customer types (i.e. total revenue requirement).

b) Please confirm that the values provided in response to question a) iv above include PDI rebasing following the end of the deferred rebasing period. If they do not, please ensure that they do.

OEB Staff-4

Ref: Exhibit A-4-1

Preamble:

Table 1 below was developed by OEB Staff based on information published in the 2011 – 2017 OEB Distributor Yearbooks. The table shows Hydro One and PDI OM&A per customer and Net Fixed Assets per customer between 2011 and 2017. Hydro One's OM&A per customer and Net Fixed Assets per customer have been higher than PDI's between 2011 and 2017 (by an average of 96% and 212%, respectively)

Table 1. OM&A and Net Fixed Assets per customer, 2011 – 2017: Hydro One, PDI.

	2011	2012	2013	2014	2015	2016	2017
Hydro One OM&A per Customer	$454	$440	$496	$549	$452	$431	$423
Hydro One Net Fixed Assets per Customer	$4,545	$4,812	$5,097	$5,361	$5,593	$5,761	$5,894

	2011	2012	2013	2014	2015	2016	2017
PDI OM&A per Customer	$199	$224	$277	$242	$231	$252	$241
PDI Net Fixed Assets per Customer	$1,400	$1,543	$1,557	$1,606	$1,667	$2,108	$2,125

Questions:

a) Given that Hydro One's OM&A per customer and Net Fixed Assets per Customer are higher than PDI's, how does Hydro One propose that PDI customers will not be worse off as a result of consolidating with Hydro One?

b) Please provide a table which compares PDI's OM&A per customer and Net Fixed Assets per customer in year 10 and 11 with the proposed consolidation (including all costs to be allocated to PDI), and in year 10 and 11 without the proposed consolidation. Please also explain how costs have been allocated to PDI customers in the values provided.

<u>OEB Staff-5</u>

Ref: Exhibit A-4-1

Questions:

a) Please provide for PDI the most recent revenue to cost ratios table from the cost allocation model filed with the OEB in its last cost of service application.

b) Please comment on whether or not those ratios would still be considered reflective of where the ratios are today, and if not, please explain.

c) Please comment on whether or not as a result of the consolidation with Hydro One any significant changes to PDI’s revenue to cost ratios could be anticipated in Year 11 and beyond.

<u>OEB Staff-6</u>

Ref: Exhibit A-4-1, Page 4
Ref: Exhibit A-2-1, Page2, Table 1

Preamble:

Exhibit A-4-1, Page 4 states “Table 3 below reflects the scenario for Hydro One’s forecast revenue requirement for the Residual Cost to Serve scenario, after accounting for the synergies and efficiency gains anticipated during the deferral period, assuming the proposed transaction is approved and the distribution system is owned and operated by Hydro One.”

Exhibit A-2-1, page 2, Table 1 compares costs and savings between years 1 and 10 of PDI’s operations as a stand-alone distribution company relative to the costs of operating PDI’s service territory once it is integrated within Hydro One.

Questions:

a) Please clarify what is meant by “residual cost to serve”.

b) Please clarify whether/how PDI and Hydro One rate rebasing after the deferred rebasing period is factored into the estimated “residual cost to serve”.

OEB Staff-7

Ref: Exhibit A-4-1, Pages 4-6
Ref: Exhibit A-2-1, Page 2, Table 1

Preamble:

Exhibit A-4-1, page 4 states "Table 3 below reflects the scenario for Hydro One's forecast revenue requirement for the Residual Cost to Serve scenario, after accounting for the synergies and efficiency gains anticipated during the deferral period, assuming the proposed transaction is approved and the distribution system is owned and operated by Hydro One."

Exhibit A-4-1, page 6 states "In Year 11, upon harmonizing rates for customers in the PDI service territory with Hydro One's rates for its existing customer base, the underlying cost structures would continue, as illustrated in Table 1 of **Exhibit A, Tab 2, Schedule 1.** The synergies and efficiencies realized during the 10-year deferral period would continue to have a mitigating effect on rates for customers in the former PDI service territory. However, through rate harmonization (post 10-year deferral period), Hydro One would have an opportunity to begin collecting a portion of its Shared Costs from customers in the former PDI service territory." [bold text in original]

Exhibit A-4-1, Page 4 states "The manner in which Shared Costs will be allocated, and the amount that will ultimately be borne by former PDI customers following the deferral period, will be matters for a future OEB panel to consider and determine […]"

Exhibit A-4-1, Page 7 states "After the deferral period, Hydro One will allocate costs to serve the former PDI customers using the OEB's cost allocation model, adjusted to reflect the cost to serve the acquired PDI customers."

Exhibit A-4-1, Page 8 states "At this time, Hydro One is not in a position to determine the specific amount of costs that would be collected from PDI's customers, as that will depend on the cost allocation and rate design proposed for the harmonized rate classes in Year 11."

Questions:

a) Please confirm whether the estimated "Residual Cost to Serve" shown at Exhibit A-4-1, page 4, Table 3 includes the Hydro One shared costs discussed at A-4-1, pages 5 and 6. If not, please explain.

b) Please clarify what is meant by the statement that “Hydro One would have an opportunity to begin collecting a portion of its Shared Costs from customers in the former PDI service territory”. In particular, is the statement meant to convey that Hydro One might propose to defer the collection of applicable shared costs and/or that it might propose to collect only a portion of the shared costs associated with serving Peterborough Distribution Inc. customers?

c) Please provide an estimate of the shared costs that will be collected from customers in the former PDI service territory following the deferred rebasing period.

d) Relying on Hydro One’s experience in allocating shared costs to other distributors that it has acquired, please show how Shared Costs might be allocated, and the amount that might ultimately be borne by former PDI customers following the deferred rebasing period.

<u>OEB Staff-8</u>

Ref: Exhibit A-4-1, Pages 6-7

Preamble:

Exhibit A-4-1, pages 6 - 7 states “The manner in which Shared Costs will be allocated, and the amount that will ultimately be borne by former PDI customers following the deferral period, will be matters for a future OEB panel to consider and determine when Hydro One proposes a rate structure and rate harmonization plan as part of its rebasing application following the 10-year deferral period.

At that time, Hydro One would determine the quantum of its Shared Costs and the appropriate methodology for allocating those Shared Costs among all of its customer groups, including its distribution customers in the former PDI service territory, resulting in what it then believes to be an appropriate amount of Shared Costs to be collected from the former PDI customers.

[…] Hydro One proposes within the harmonization and rebasing application following the deferral period, that it would ensure that the total cost, including a portion of Hydro One’s Shared Costs, to be collected from the former PDI customers would be between, (a) the Residual Cost to Serve scenario plus LV charges (totaling $16.6M); and (b) the Year 11 revenue requirement under the PDI Status Quo scenario plus Year 11 LV charges (totaling $26.3M).”

Question:

a) Although Hydro One proposes to limit the costs borne by PDI customers following harmonization to a maximum of the “Year 11 revenue requirement under the PDI

Status Quo scenario plus Year 11 LV charges”, what if this does not recover the actual costs (including all corporate overheads and other costs properly allocated to PDI) to serve PDI customers? Will PDI costs be allocated to other customers?

OEB Staff-9

Ref: Exhibit A-3-1, Pages 9-10

Preamble:

Exhibit A-3-1, pages 9-10 states “If this application is approved, the next rebasing of distribution rates which includes costs for PDI would be 2030, a period of seventeen (17) years. Though there will be significant savings as a result of this consolidation, the 17-year gap between rebasing may result in a disparity between cost structures and rates. Regardless of the rate class to which these customers will be transitioned, rate mitigation may be required.”

Questions:

a) If Hydro One believes that rate mitigation may be required at the end of the rebasing period, this suggests that the revenues collected from Peterborough customers are expected to be significantly less that the costs of serving these customers by 2030. Up to the point of re-basing, who will be covering the costs of this shortfall?

b) In light of the above, does Hydro One also estimate that savings will not be sufficient to offset cost increases over this period?

c) Where rate mitigation is required, it generally raises the costs ultimately paid by consumers (through carrying costs related to delaying the full warranted increases to rates) and can raise intergenerational equity issues. If rate mitigation is expected to be required by 2030, is it sensible wait 17 years for PDI’s service territory to rebase?

OEB Staff-10

Ref: Exhibit A-2-1, Pages 3-8
Ref: Exhibit A-4-1, Page 8

Preamble:

Exhibit A-2-1, page 3 states “[…] Hydro One is foregoing any IRM rate increases in years one through five as permitted under the OEB’s consolidation policy […]”.

Exhibit A-2-1, page 4 states “PDI’s current Base Distribution Delivery Rates will be reduced by 1%, for residential, general service and large use customers of PDI, and frozen for a period of five years from closing of this transaction.”

Exhibit A-2-1, page 8 states "[…] Hydro One is requesting a 10-year deferred rebasing period […]".

Exhibit A-4-1, Page 8, Table 4 includes the estimated residual cost to serve plus estimated LV charges for year 11

Questions:

a) How much would the PDI revenue requirement increase between years 10 and 11 if the consolidation were approved and implemented as proposed? Please show both the year 10 and 11 PDI revenue requirements and express the increase in absolute terms and as a percent change.

b) How much would the PDI revenue requirement increase between years 10 and 11 if the consolidation were approved and implemented, but if PDI's base distribution rates were neither reduced by 1% nor frozen for a period of five years from closing of this transaction? Please express the increase in absolute terms and as a percent change.

c) How much would the PDI revenue requirement increase between years 10 and 11 if the consolidation were approved and implemented, but if PDI's base distribution rates were neither reduced by 1% nor frozen for a period of five years from closing of this transaction, and if Hydro One did not forego any IRM rate increases in years one through five? Please express the increase in absolute terms and as a percent change.

d) Please show the PDI revenue requirement in year 10 and 11 without consolidation.

<u>OEB Staff-11</u>

Ref: Exhibit A-2-1, Page 24
Ref: Exhibit A-4-1, Page 1

Preamble:

Exhibit A-2-1, Page 24 states "For the reasons addressed in the preceding sections, both qualitative and quantitative savings and efficiencies are expected to result from this transaction. Overall, the analysis shows the ongoing synergies will accrue as a result of this transaction, benefiting ratepayers of both utilities. These attributes allow PDI, 1937680 and Hydro One to conclude that the transaction will not cause harm to ratepayers, and indeed will provide benefits to all ratepayers in the long term. Moreover, this Application embodies the current regulatory policies and principles of the Board in pursuing the objectives established by section 1 of the Act."

Exhibit A-4-1, Page 1 states “Based on the OEB’s decision in EB-2016-0276, Hydro One is providing evidence on “Future Cost Structures” for PDI in relation to revenue requirement and a general explanation as to how costs would be allocated beyond the deferred rebasing period.”

In its Decision and Order on EB-2016-0276 (Hydro One/Orillia Consolidation), the OEB described the experience of distribution utilities in Haldimand, Woodstock and Norfolk following their consolidation with Hydro One:

> “The experience of the three acquired utilities in Hydro One’s current distribution rates case is informative. In the MAADs proceedings in which Hydro One acquired these utilities, Hydro One pointed to savings that would be realized through the acquisition. Although these savings may well have occurred, they do not appear to have resulted in overall cost structures (and therefore rates) for customers of the acquired utilities that are no higher than they would have been, once the deferral period ended and their rates were adjusted to account for Hydro One’s overall costs to serve them. Material filed in the Hydro One current distribution rates case shows that some rate classes are expected to experience significant and material increases. While the OEB has not approved these requested rates, this panel takes notice of the proposed rate increases which Hydro One states are reflective of the costs to service the acquired customers, and are inclusive of the “savings” that Hydro One states were realized.”

Question:

a) How do the Applicants reconcile their conclusion in this application that “[…] the transaction will not cause harm to ratepayers, and indeed will provide benefits to all ratepayers in the long term […]” with the experience of ratepayers in Haldimand, Woodstock and Norfolk following their consolidation with Hydro One?

OEB Staff-12

Ref: Exhibit A-2-1, Page 8

Preamble:

Exhibit A-2-1, page 2, Table 1 compares costs and savings between years 1 and 10 of PDI's operations as a stand-alone distribution company relative to the costs of operating PDI's service territory once it is integrated within Hydro One.

Exhibit A-2-1, page 2, Table 1 suggests that "[…] the transaction will result in expected ongoing operations, maintenance and administrative ("OM&A") savings of approximately $7.8 million per year and reductions in capital expenditures of approximately $1.3 million per year (based on the level of savings achieved by Year 10)."

Exhibit A-2-1, page 8 states "[…] Hydro One is requesting a 10-year deferred rebasing period […]".

Questions:

a) Please estimate the value, both annual and cumulative, of the 10-year deferred rebasing for PDI and for Hydro One: how much rate base and revenue requirement is being deferred for each?

b) Are any of the savings referenced in Table 1 at A-2-1 and in the quote above from A-2-1 page 2 the result of the deferred rebasing of PDI and/or Hydro One? If so, please illustrate in detail for each year, showing amounts of savings and distinguishing between savings from deferred rebasing and other OM&A and capital savings.

c) Does Table 1 at A-2-1 include a PDI rate rebasing in the Status Quo Forecast or Hydro One Forecast? If so, please explain how and provide assumptions around expected increases with rebasing.

d) Please indicate the years between 2019 and 2030 in which PDI and Hydro one would next rebase if PDI and Hydro One did not consolidate

OEB Staff-13

Ref: Exhibit A-1-1, Section 4.0 Other Approvals and Considerations
Ref: Exhibit A-2-1, Section 3.0 Other Related Matters

Preamble:

1937680 and Hydro One are applying for approval to continue to track costs to the regulatory asset accounts currently approved by the OEB for PDI and seek disposition of their balances at a future date.

Questions:

a) Does Hydro One have an anticipated timeline in mind for when the IESO settlement processes will be merged and Hydro One will receive single, consolidated monthly IESO invoices that include PDI's costs?

b) Please confirm that Hydro One intends to maintain a separate set of Group 1 regulatory deferral and variance accounts (DVAs) for the PDI rate zone until the next rebasing application and that the balances accumulated in those accounts will be disposed to the PDI customers only.

c) How does Hydro One (or 1937680) 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 Hydro One's (or 1937680's) intent is to submit disposition requests for the PDI rate zone Group 1 DVA balances that accumulated prior to IESO invoice harmonization, as well as a request for the disposition of Group 1 DVA balances that accumulated subsequent to IESO invoice harmonization? If this is not the case, please explain how Hydro One intends to dispose of Group 1 DVA balances for the year in which IESO invoice harmonization occurs.

e) In the event that the IESO invoice is harmonized, but the Group 1 DVAs continue to be maintained separately, how does Hydro One propose to allocate the IESO charges to the respective regulatory accounts of the PDI rate zone?

f) Does Hydro One have intentions to request the alignment of the effective rate year of the PDI rate zone with that of Hydro One's prior to rebasing? If so, when does it expect to do so? If not, why not?

<u>OEB Staff-14</u>

Ref: Handbook to Electricity Distributor and Transmitter Consolidations

Preamble:

The OEB's *Handbook to Electricity Distributor and Transmitter Consolidations* includes a list of filing requirements. Under the filing requirements, Section 2.2.4, (page 6 of the filing requirements), applicants are asked to "provide pro forma financial statements for each of the parties (or if an amalgamation, the consolidated entity) for the first full year following the completion of the proposed transaction.

Question:

a) Please provide pro forma financial statements for Hydro One, including those of 1937680, for the first full year following the completion of the proposed transaction.

<u>OEB Staff-15</u>

Ref: Exhibit A-2-1, page 2 Table 1, pages 22-23
Ref: Exhibit A-3-1, page 8 Table 2

Preamble:

Hydro One is requesting approval to utilize US GAAP for accounting purposes in relation to the ongoing business of the former PDI. PDI currently uses IFRS for financial accounting purposes. The current distribution rates for the PDI service territory are underpinned by Modified IFRS (MIFRS) for regulatory accounting purposes and will continue to be during the deferred rebasing period.

Questions:

a) Has Hydro One or 1937680 undertaken any studies or reviews of the types of transactions that will be impacted by the accounting standard transition from IFRS to US GAAP in the former PDI?

b) Please quantify the estimated impact on PDI's revenue requirement during the deferred rebasing period as a result of PDI changing its accounting standards. Specifically, please separate the components of revenue requirement that are expected to be impacted and show how these calculations are derived.

c) Please explain Hydro One's intentions with respect to how it plans to account for these differences with respect to distribution rates.

d) If Hydro One's intention in part d) above is to request to have an Accounting Order established to track the revenue requirement differences between MIFRS and US GAAP in the former PDI service territory as part of this proceeding, please prepare a Draft Accounting Order as an appendix for approval.

e) Please explain and quantify what impact, if any, the change from IFRS to US GAAP has on the amounts forecasted in Table 1: Projected Cost Savings - $M of Exhibit A-2-1.

f) Please prepare the amounts in Table 1: Projected Cost Savings - $M of Exhibit A-2-1 on the basis that PDI remains on IFRS (and continues with its existing accounting policies with respect to capitalization, depreciation, etc.) for financial reporting and MIFRS for ratemaking purposes.

g) Please explain and quantify what impact, if any, the change from IFRS to US GAAP has on the amounts forecasted in the proposed ESM calculation under Table 2: Earnings Sharing Mechanism of Exhibit A-3-1 (particularly, on OM&A, depreciation, financing costs, and taxes).

h) Please prepare the amounts in Table 2: Earnings Sharing Mechanism of Exhibit A-3-1 on the basis that PDI remains on IFRS (and continues with its existing accounting policies with respect to capitalization, depreciation, etc.) for financial reporting and MIFRS for ratemaking purposes.

OEB Staff-16

Ref: Attachment 5 (Asset Purchase Agreement), Section 2.4 Excluded Liabilities; Section 2.5 – Purchase Price Allocation Illustration and Principles
Ref: Exhibit A-3-1, Table 2

Preamble

The Asset Purchase Agreement, under Section 2.4 specifies that the Purchaser shall not assume a list of certain excluded liabilities. Included in this is:

"Obligations for corporate income and property taxes payable, and taxes payable under the EA [Electricity Act], collectible or remittable by the Vendor (and for greater certainty, taxes payable under the EA includes business transfer tax together with all interest, fines and penalties with respect thereto)"

Questions:

a) Please provide the expected incremental PILs costs that will be incurred as a result of the transfer of assets, including but not limited to, any business transfer taxes, recapture, capital gains, or departure taxes, payable upon completion of the proposed sale.

b) Please confirm that, subsequent to the proposed sale of the PDI business assets, any PILs consequences incurred on the sale will remain the responsibility and liability of the shareholder of PDI.

c) Please confirm that the incremental PILs costs described above will not be recovered from ratepayers and how Hydro One will ensure that these costs are not included in rates.

d) Please explain if, and how, the PILs consequences related to the sale of assets are included in Hydro One's purchase price premium and the associated goodwill arising on the purchase, as calculated in Schedule 2.5 of the Asset Purchase Agreement.

e) Please confirm whether or not the purchase of assets will generate a deferred tax asset for 1937680 (and later Hydro One), in the form of additional future tax deductions as a result of an increase in the assets' tax values from their current tax carrying values to allocated fair market value. If so, what are 1937680's and Hydro One's expectations with respect to how those future tax deductions should be applied in rates?

f) Please confirm whether or not the PILs costs associated with the transfer of assets are reflected in Table 2 of Exhibit A-3-1 (Earnings Sharing Mechanism) and provide justification for this treatment.

g) Please confirm whether or not the utilization of deferred tax assets generated from the purchase of assets are reflected in Table 2 of Exhibit A-3-1 (Earnings Sharing Mechanism) and justification for this treatment.

<u>OEB Staff-17</u>

Ref: Exhibit A-2-1 Table 1 Projected Costs Savings; Page 19 Incremental Transaction and Integration Costs

Questions:

a) Please provide a more detailed breakdown for how the Status Quo Forecast and Hydro One Forecast was quantified in Table 1 of Exhibit A-2-1, showing the supporting calculations for the differences in OM&A and capital under both scenarios, as well as any key assumptions or figures used in those calculations.

b) Please ensure that the more detailed Exhibit A-2-1 Table 1 requested in part a) above also separately presents the timeline and any underlying calculations supporting the incremental transaction costs ($0.2M) and integration costs ($9.0M).

OEB Staff-18

Ref: Exhibit A-3-1 Table 1; Table 2
Ref: Exhibit A-2-1 Table 1

Preamble:

Hydro One has proposed to adjust the forecast OM&A expenses by a risk factor of 20% to account for the fact that it is assuming all operational risks during the 10-year deferred rebasing period, including:

- The risk that the OM&A forecast is not achieved
- The risk that assets are not in the condition anticipated
- The risk that the anticipated load and customer load profiles do not materialize

Questions:

a) Please confirm that the OM&A and capital expenditure forecast in Table 1 of Exhibit A-2-1 represents the best estimate of Hydro One's costs and savings during the deferred rebasing period.

b) Please confirm that, under the currently proposed ESM mechanism, Hydro One's shareholders will accrue the potential benefits of:

  - The OM&A forecast used being overstated
  - The assets being in better condition than anticipated
  - The anticipated load and customer load profiles used results in a revenue forecast that is understated.

c) Please comment on the appropriateness of an asymmetrical risk-based adjustment to earnings sharing if, presuming the forecast represents the best estimate of future OM&A and capital expenditures, Hydro One's shareholders also accrue the potential benefits of any favourable variances in the assumptions used in the ESM calculation.

d) Please present the amounts in Table 2 of Exhibit A-3-1 on the basis that no risk factor adjustment is applied to the ESM calculation.

OEB Staff-19

Ref: Exhibit A-3-1 Table 1 (ESM Components); Table 2 (ESM)

Questions:

a) Please provide summary continuity schedules, beginning with the most recently available actual fiscal year (PDI's 2017 audited financial statements), for each of the components presented in lines 1 to 7 of Table 2 of Exhibit A-3-1. Please ensure all key underlying assumptions are disclosed and supporting calculations are provided that were used in deriving these projections. Please include, at a minimum, the following information for each ESM component to support its associated summary schedule(s):

i. Rate Base: segregate the PP&E, capital contributions, and working capital components in the continuity schedule and explain the methodology behind the growth rates applied to each component

ii. Revenue: indicate the inflation rate used, the growth rate used for customer load, and any key assumptions made in changes to the forecasted customer load profiles.

iii. Depreciation: provide the weighted average depreciation rates (or by asset class if practicable) applied to PP&E each year, the average remaining useful lives (or by asset class if practicable) of PP&E each year, and any key assumptions made or processes undertaken by Hydro One to determine the remaining useful lives of the acquired assets.

iv. Financing Costs: disclose the current cost of short-term and long-term debt for Hydro One.

v. Taxes: provide a reconciliation between the combined provincial and federal statutory tax rates (26.5%) and the actual effective tax rates used.

OEB Staff-20

Ref: Exhibit A-2-1, Pages 4-7

Preamble:
Exhibit A-2-1, page 4 states "PDI's current Base Distribution Delivery Rates will be reduced by 1%, for residential, general service and large use customers of PDI, and frozen for a period of five years from closing of this transaction."

Exhibit A-2-1, page 7 states "At the commencement of year six, Hydro One will apply the OEB's Price Cap Index formula utilizing the former PDI's efficiency cohort factor (0.45%). This will be anchored to then current PDI Base Distribution Delivery Rates, and applied annually."

Question:

a) Please clarify whether, at the commencement of year 6, Hydro One proposes to apply the OEB's Price Cap Index to PDI rates that are net of the 1% reduction made previously in years 1 through 5?

OEB Staff-21

Ref: Exhibit A-1-1, Page 7

Preamble:

Exhibit A-1-1, page7 states "PDI requests that the Board, pursuant to section 78 of the Act, include a rate rider applied to PDI's current OEB-approved rate schedules to give effect to a 1% reduction relative to Base Distribution Delivery Rates applicable at the time of closing."

Question:

a) Is the proposed consolidation of PDI and Hydro One conditional on OEB approval of the proposed 1% reduction to PDI's current Base Distribution Delivery Rates? Please elaborate

<u>OEB Staff-22</u>

Ref: Exhibit A-2-1, Page 2, Table 1
Ref: Exhibit A-2-1, Page 5

Preamble:

Exhibit A-2-1, page 5 states "The proposed rate schedules, which include the requested rate rider for the area currently served by PDI, effective after closing, are filed as Attachment 9. The cost of providing this rate rider (approximately $135,500 per year) will be recovered from synergies that are generated from consolidating PDI's operations into Hydro One. This negative rate rider will be discontinued at the end of Year 5 of the deferral period."

Exhibit A-2-1, page 2, Table 1 compare costs and savings between Years 1 and 10 of PDI's operations as a stand-alone distribution company relative to the costs of operating PDI's service territory once it is integrated within Hydro One.

Questions:

a) Please confirm the cumulative estimated cost of the proposed rate rider (e.g. the quote above indicates it is "approximately 135,500 per year"). What is the five year total?

b) Are any of the savings referenced in Table 1 at A-2-the result of the proposed negative rate rider? If so, please illustrate in detail for each year, showing amounts of savings and distinguishing between savings from the proposed negative rate rider and other OM&A and capital savings.

c) Please confirm that Hydro One will not seek to recover the value of the proposed negative rate rider in years one through five at the time of its next rebasing.

<u>OEB Staff-23</u>

Ref: Exhibit A-2-1, Page 5
Ref: Attachment 9, Page 1

Preamble:

Exhibit A-2-1, page 5 states "For the purpose of this application, Hydro One proposes the residential variable rider, to effect the 1% reduction between years one to five of the deferral period, be rounded to five decimal places. This is an exception to the OEB's general rule, of four decimal places. The five decimal places will facilitate Hydro One providing a rider to benefit PDI customers."

Attachment 9, page 1 contains the Applicants' proposed rate schedule for Hydro One Peterborough residential customers.

Question:

a) Please clarify why rounding the residential variable (and any others, if applicable) rider to five decimal places would be helpful for purposes of effecting the 1% reduction described in the Application. Please illustrate what the consequence would be of not rounding this rider to five decimal places.

<u>OEB Staff-24</u>

Ref: Exhibit A-2-1, Page 3
Ref: Exhibit A-2-1, Page 2, Table 1

Preamble:

Exhibit A-2-1, page 3 states "Hydro One is foregoing any IRM rate increases in years one through five as permitted under the OEB's consolidation policy, resulting in the benefit of lower rates throughout the deferred rebasing period."

Exhibit A-2-1, page 2, Table 1 compares costs and savings between Years 1 and 10 of PDI's operations as a stand-alone distribution company relative to the costs of operating PDI's service territory once it is integrated within Hydro One.

Questions:

a) Please clarify whether Hydro One is foregoing IRM rate increases for only PDI customers in years one through five.

b) What is Hydro One's estimate of the value, both annual and cumulative, of the IRM rate increases it proposes to forego in Years 1 through 5?

c) Are any of the savings referenced in Table 1 at A-2-the result of foregone Incentive Rate Making rate increases? If so, please illustrate in detail for each year, showing amounts of savings and distinguishing between savings from foregone IRM rate increases and other OM&A and capital savings.

d) Please confirm that Hydro One will not seek to recover the value of IRM increases foregone in years one through five at the time of its next rebasing. In other words, please clarify whether the value of the IRM increases foregone in years one through five will be permanent savings for customers, or whether Hydro One expects to make up this amount at the time of its next rebasing.

OEB Staff-25

Ref: Exhibit A-3-1, Page 9

Preamble:

Exhibit A-3-1, page 9 states "Hydro One will record the guaranteed refund due to ratepayers in a deferral account. […] Hydro One will accrue the balance in this account until the end of the extended deferred rebasing period. […] In Year Ten of the deferral period, Hydro One will apply to the Board to dispose of the balance in this account […]".

Exhibit A-3-1, page 9 further states "Hydro One is not opposed to refunding the ESM earnings on an annual basis in years 6 through 10, if the OEB should order such disposition, as was decided in EB-2017-0269 […]".

Question:

a) Please elaborate on any substantive, administrative or other advantages and disadvantages of refunding Earnings Sharing Mechanism earnings in the manner outlined in the first quote above compared to refunding Earnings Sharing Mechanism earnings on an annual basis in years 6 through 10.

OEB Staff-26

Ref: Exhibit A-3-1, Page 10

Preamble:

Exhibit A-3-1, page 10 states "Hydro One is guaranteeing a total $1.8 million refund to the former customers of PDI. This equates to approximately 13% of PDI's current Board-approved revenue requirement".

Question:

a) Please confirm that the $1.8 million figure referenced in the quote above is the cumulative sum of all earnings sharing refunds between years 6 and 10 of the deferred rebasing period.

b) Please provide an indicative estimate of how the $1.8 million will be allocated by customer type, annually and cumulatively.

c) What percentage of PDI's year 10 revenue requirement would the $1.8 million represent with consolidation and without consolidation?

OEB Staff-27

Ref: Exhibit A-4-1, Page 2
Ref: Exhibit A-3-1, Page 8, Table 2

Preamble:

Exhibit A-4-1, page 2 states "The PDI rate base is forecast to increase […] to $97.0 M by 2030 […]."

Exhibit A-3-1, page 8, Table 2 shows the calculation of the proposed Earnings Sharing Mechanism and includes a row which shows Peterborough Distribution Inc.'s Rate Base in the years 2025 through 2029. The Rate Base shown for 2029 is $107.192 Million.

Questions:

a) Please reconcile the Peterborough Distribution Inc. Rate Base estimates expressed at A-4-1, page 2 ($97 Million by 2030) and at A-3-1, page 8, Table 2 ($107.192 Million by 2029).

b) Will Hydro One provide Peterborough Distribution Inc. customers approximately $1.8 million in earning sharing benefits even if PDI's Rate Base does not reach $107.192 by 2030?

c) Will Hydro One provide Peterborough Distribution Inc. customers more than $1.8 million in earning sharing benefits if Peterborough Distribution Inc.'s achieved Return on Equity is greater than estimated in Table 2 at Exhibit A-3-1?

OEB Staff-28

Ref: Exhibit A-2-1, Pages 9-10

Preamble:

Exhibit A-2-1, page 9 Table 4 contains Peterborough Distribution Inc. and Hydro One (local) reliability metrics: system average interruption duration index ("SAIDI") and system average interruption frequency index ("SAIFI").

OEB staff have prepared a table below which compares the SAIDI and SAIFI information provided by the Applicants at Exhibit A-2-1 page 9 Table 4.

Exhibit A-2-1 page 10 states "Hydro One anticipates that PDI's service territory reliability may in fact improve with the combination of pre-existing Hydro One and former PDI resources optimized for the broader Peterborough area."

As summarized in the table prepared by OEB staff below, Hydro One's local SAIFI has been on average 51% better (i.e. lower) than PDI's between 2014 and 2017, while Hydro One's SAIDI has been on average about 40% worse (i.e. higher).

	DURATION (SAIDI)	**2014**	**2015**	**2016**	**2017**	
a	Hydro One	2.14	4.56	1.81	2.37	*(a & b) Source: A-2-1 Page 9 Table 4*
b	Peterborough Distribution Inc. ("PDI")	0.9	3.59	2.01	2.22	
c	Hydro One Absolute Difference from PDI	1.2	1.0	-0.2	0.2	*(c through e) Source: OEB Staff*
d	Hydro One Percent Difference from PDI	138%	27%	-10%	7%	
e	**Average of Hydro One Percent Difference from PDI, 2014 - 2017**	**40%**				

	FREQUENCY (SAIFI)	**2014**	**2015**	**2016**	**2017**	
a	Hydro One	0.67	1.49	0.7	0.79	*(a & b) Source: A-2-1 Page 9 Table 4*
b	PDI	0.83	2.81	2.34	2.53	
c	Hydro One Absolute Difference from PDI	-0.2	-1.3	-1.6	-1.7	*(c through e) Source: OEB Staff*
d	Hydro One Percent Difference from PDI	-19%	-0.45%	-0.70%	-0.69%	
e	**Average of Hydro One Percent Difference from PDI, 2014 - 2017**	**-51%**				

Questions:

a) How do the Applicants explain the differences in Peterborough Distribution Inc. and Hydro One's local SAIFI and SAIDI statistics between 2014 and 2017?

b) Are these differences in SAIFI and SAIDI statistics significant in the Applicants' view? If not, why?

c) In what regards does Hydro One anticipate that "[…] Peterborough Distribution Inc.'s service territory reliability may in fact improve […]" as a result of the proposed transaction? Please provide specific examples of how reliability may improve.

OEB Staff-29

Ref: Exhibit A-2-1, Pages 9-10

Question:

a) To assist in the interpretation of PDI and Hydro One local reliability performance between 2014 and 2017, please provide additional information on outage duration and frequency in a way that permits comparison of Peterborough Distribution Inc. and Hydro One local performance on an integrated basis. For example, if available, please provide statistics summarizing the Applicants' Average Service Availability Index, Average Energy Not Supplied and/or Average Energy Not Supplied as a percentage of total applicable load. Please feel free to provide any other metric(s) the Applicants feel might assist the OEB.

OEB Staff-30

Ref: Exhibit A-2-1, Pages 11-12

Preamble:

Exhibit A-2-1, pages 11-12 states "Direct staff, such as line and forestry employees, work directly on the distribution assets. […] Hydro One will expand its local complement of direct positions by only 13 staff to serve the expanded Central region, compared to the 17 direct positions currently required by PDI to operate only the existing PDI service territory. The remaining 4 PDI direct staff will be absorbed into vacancies within Hydro One. Therefore, the result is a net reduction of 4 local trades and technical positions to serve the same territory."

Question:

a) Please explain how reliability in the Peterborough Distribution Inc. service territory will not be made worse or put at greater risk following the proposed net reduction of four local direct staff out of 17 direct positions "currently required by Peterborough Distribution Inc.to operate only the existing service territory" – a nearly 24% reduction.

b) The statement highlighted above indicates that "The remaining 4 PDI direct staff will be absorbed into vacancies within Hydro One." What will happen to the four direct staff if there are no vacancies, or are the vacancies guaranteed for these staff members? Please explain more fully how these four staff members will be absorbed into Hydro One.

c) Does the reduction of 4 PDI local trades and their absorption into vacancies within Hydro One represent a cost saving, or is it a transfer from one cost center to another?

OEB Staff-31

Ref: Exhibit A-2-1, Page 8

Preamble:

Exhibit A-2-1, page 8 states "If the relief requested in this Application is granted by the OEB, PDI's regulated distribution assets will be transferred to, and owned by 1937680. The subsequent transfer of the distribution system from 1937680 to Hydro One Networks Inc. is expected to occur up to 18 months thereafter."

Question:

a) Please clarify how service quality and reliability will be maintained for Peterborough Distribution Inc. customers during the operation of the PDI system by 1937680 Ontario Inc. ("1937680").

b) Does 1937680 require any other approvals (from the IESO, for instance) to operate the PDI system for a period of up to 18 months? Please explain. If yes, please provide a status and outlook on those approvals.

OEB Staff-32

Ref: Exhibit A-2-1, Page 5

Preamble:

Exhibit A-2-1, page 5 states “All other PDI tariffs will remain as approved in PDI’s last rate order; with the exception of Specific Service Charges (“SSCs”) which Hydro One is seeking approval to amend to align with the SSCs as approved, or will be approved, by the OEB for Hydro One Distribution, upon integration of 1937680’s assets into Hydro One.”

Questions:

a) Please prepare a table which compares current Peterborough Distribution Inc. Specific Service Charges with those that “[..] Hydro One is seeking approval to amend to align with the SSCs as approved, or will be approved, by the OEB for Hydro One Distribution, upon integration of 1937680’s assets into Hydro One”; please explain any differences.

b) Please identify any material differences in the current Conditions of Service of Peterborough Distribution Inc. and Hydro One (as proposed at EB-2017-0049).

OEB Staff-33

Ref: Exhibit A-1-1 Page 4
Ref: Exhibit A-2-1, Page 6

Preamble:

Exhibit A-1-1, page 4 states “Subsequent to closing, 1937680 will own and operate the distribution system for a period of up to 18 months while the current PDI systems are integrated into Hydro One’s operations. Upon completion of the integration process, all of the distribution assets will be transferred from 1937680 to Hydro One.”

Exhibit A-2-1, page 6 states “[…] Hydro One SSCs would apply after transfer of the distribution assets to Hydro One”.

Question:

a) For clarity, please confirm that PDI’s Specific Service Charges would continue to apply throughout the up-to-18-month period during which the distribution system would be owned and operated by 1937680. Otherwise, please explain.

OEB Staff-34

Ref: Exhibit A-1-1, Pages 3 and 6
Ref: Exhibit A-2-1, Page 12
Ref: Attachment-5
Ref: Attachment-12

Preamble:

Exhibit A-1-1, page 3 states “PUSI provides human resources, office facilities, equipment and related services to PDI.”

Exhibit A-2-1, page 12 states “In addition to its own support staff, PDI receives support services from affiliate PUSI and its complement of personnel.”

Exhibit A-1-1, page 6 states “PDI is applying to the Board, pursuant to section 86(1)(c) of the Act, for leave to amalgamate with PUSI.”

Questions:

a) Please confirm the specific services, facilities, equipment, etc. that Peterborough Utilities Services Inc. (“PUSI”) currently provides to PDI.

b) Does PUSI provide any services, facilities, equipment, etc. to any other party? If so, please explain.

c) Will PUSI provide any services, facilities, equipment, etc. to any other party following amalgamation with PDI? If so, please explain.

d) Will any PUSI assets/services not be included in the proposed amalgamation with PDI? If so, please summarize and explain.

e) What is the net book value of PUSI?

f) Please clarify whether/how the services, etc. provided by PUSI to PDI are reflected in PDI’s financial statements at Attachments 5 and 12 of the application.

OEB Staff-35

Ref: Exhibit A-2-1, Page 11

Exhibit A-2-1, page 11 states "AmalCo will retain the current PDI Operating and Administration centre on Ashburnham Drive. 1937680 has agreed to enter into a five-year lease agreement with PUSI to lease this centre."

Question:

a) Does the quote above mean that 1937680 would lease the Operating and Administration centre from PUSI *after* PUSI and PDI have amalgamated and *after* the amalgamated company has been sold to 1937680? In other words, would 1937680 lease the Operating and Administration centre from a corporation it owns? If so, please explain, otherwise, please clarify the statement made on Exhibit A-2-1, page 11.

OEB Staff-36

Ref: Exhibit A-2-1, Page 19

Preamble:

Exhibit A-2-1, page 19 states "Both parties to the transaction will have incurred some incremental costs associated with the transaction."

The evidence further states that "Hydro One's incremental transaction costs are estimated to be approximately $0.2 million", and that integration costs "[…] are estimated to be approximately $9 million", and that "Hydro One is not expecting to incur any ongoing integration costs."

Question:

a) Please provide PDI's estimated transaction costs, integration costs and ongoing integration costs as applicable. If PDI is not incurring any of these costs, please explain why Hydro One is the only party incurring transaction and integration costs.

OEB Staff-37

Ref: Exhibit A-2-1, Page 19

Preamble:

Exhibit A-2-1, page 19 states "All of the above incremental costs will be financed through productivity gains associated with the transaction, will not be included in Hydro One's revenue requirement, and thus will not be funded by ratepayers."

Questions:

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

b) Please confirm how these costs will be financed if anticipated productivity gains are not fully realized.

OEB Staff-38

Ref: Exhibit A-2-1, Page 9

Preamble:

Exhibit A-2-1, page 9 states "The Agreement, in addition to the approvals identified in this Application, requires receipt of a Competition Act (Canada) clearance from the Commissioner of Competition."

Question:

a) Please provide a brief status update and outlook on the Applicants' progress on the Competition Act process referenced above.

OEB Staff-39

Ref: Exhibit A-1-1, Pages 3-4

Preamble:

Exhibit A-1-1, page 3 states "1937680 is a corporation incorporated under the laws of Ontario, and was established to own and operate the distribution assets of PDI until such assets can be integrated with Hydro One's distribution business."

Exhibit A-1-1, page 4 states "Subsequent to closing, 1937680 will own and operate the distribution system for a period of up to 18 months while the current PDI systems are integrated into Hydro One's operations. Upon completion of the integration process, all of the distribution assets will be transferred from 1937680 to Hydro One."

Questions:

a) With respect to the statements above, please explain what would be involved in integrating the current PDI assets and systems into Hydro One's operations.

b) Please describe the steps and corresponding timelines for achieving the integration.

c) What are the key risks to the successful integration of the current PDI assets and systems into Hydro One's operations and how does Hydro One propose to address those risks?

d) Is Hydro One confident that it can successfully complete the integration? Why?

e) Why is a transitional entity such as 1937680 required in this Application? Why is the transitional entity needed for a period of up to 18 months?

OEB Staff-40

Ref: Exhibit A-2-1, Pages 19-20

Preamble:

Exhibit A-2-1, pages 19-20 states "As contemplated in the Agreement, 1937680 has agreed to purchase the business and distribution assets of PDI. The purchase price of $105.0 million for the net assets of the business represents the commercial value established through negotiations with an arms-length third party. The premium paid over the asset's book value will not have a material impact on Hydro One Inc.'s financial viability."

Questions:

a) Please confirm the net book value of PDI

b) Please clarify whether the response to question (a) above includes the net book value of PUSI If not, why not?

c) Please quantify the premium included in the $105 million purchase price.

d) Please confirm and explain whether the financial viability of Hydro One will be materially impacted by the combined/cumulative cost of this plus any other premiums recently paid by Hydro One or proposed to be paid in the near future in connection with consolidation activities.

OEB Staff-41

Ref: Exhibit A-4-1, Pages 2-12
Ref: Attachment 20, Pages 1-2

Preamble:

Exhibit A-4-1, page 2 states "At the time of the next proposed rebasing, in 2030, PDI will not have rebased their rates for 17 years […]"

Question:

a) Please confirm whether year 11 described in Exhibit A-4-1 corresponds to "the time of the next proposed rebasing, in 2030" referenced in the quote above at Exhibit A-4-1, page 2. If not, please clarify.

OEB Staff-42

Ref: Exhibit A-4-1, Page 2, Table 1
Ref: Exhibit A-4-1, Page 4, Table 3

Preamble:

Exhibit A-4-1, page 2, Table 1 summarizes the estimated PDI revenue requirement for year 11 under the Status Quo scenario. The associated rate base is: $97,046,000.

Exhibit A-4-1, page 4, Table 3 summarizes the estimated Hydro One revenue requirement for year 11 under the Residual Cost to Serve scenario. The associated rate base is: $103,244,000.

Questions:

a) To facilitate comparison with Tables 1 through 3, please provide the equivalent information for PDI, but for Year 1.

b) Why is the rate base different between Table 1 and Table 3 at Exhibit A-4-1?

c) Why is the rate base in Table 3 higher than in Table 1 at Exhibit A-4-1 (by $6.2 million)?

d) Does the rate base in Table 3 include the $31.6 million increase in the PDI rate base between 2013 and 2030?

OEB Staff-43

Ref: Exhibit A-1-1, Page 7

Preamble:

Exhibit A-1-1, Page 7 states "PDI and the amalgamated corporation (i.e. AmalCo) request that the Board, pursuant to section I8 of the Act, grant PDI leave to transfer its distribution licence to AmalCo.

Questions:

a) Please specify for how long AmalCo is expected to operate as a licensed distributor for the former PDI customers.

b) What measures would be taken by PDI/AmalCo to notify customers of the change to avoid customers' confusion.

c) Would AmalCo use any trade names (e.g. Peterborough Utilities, Peterborough Distribution, etc.) to appear on customer bills? If so, please specify.

OEB Staff-44

Ref: Exhibit A-1-1, Pages 4 and 7

Preamble:

Exhibit A-1-1, Page 7 states "AmalCo and 1937680 request that the Board, pursuant to section 18 of the Act, grant AmalCo leave to transfer its distribution licence to 1937680.

Page 4 states that "subsequent to closing, 1937680 will own and operated the distribution system for a period of up to 18 months.

Questions:

a) Over that period (noted in the quote above from Page 4), would 1937680 operate under its legal name or would it use any trade names? If any trade name(s) would be used, please specify.

b) Would 1937680 notify customers of the change in the local distribution company for this transition period? If so, please describe what would be done.