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February 13, 2019 **VIA E-MAIL**

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Toronto, ON

Dear Ms. Walli:

Re: EB-2018-0242 – Application for approval to amalgamate Peterborough Distribution Inc. and Peterborough Utilities Services Inc. and to sell the amalgamated electricity distribution system to Hydro One Networks Inc.

Interrogatories of the Vulnerable Energy Consumers Coalition (VECC)

Please find attached the interrogatories of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicants.

Yours truly,

Bill Harper
Consultant for VECC/PIAC

Ms. Linda Gibbons, Senior Regulatory Coordinator – Regulatory Affairs Hydro One Networks Inc.
regulatory@HydroOne.com
John Stephenson, President & CEO, Peterborough Distribution Inc.
jstephenson@peterboroughutilities.ca

REQUESTOR NAME	**VECC**
TO:	**Hydro One Inc. (HOI) / Hydro One Networks Inc. (HONI) & Peterborough Distribution Inc. (PDI)**
DATE:	**February 13, 2019**
CASE NO:	**EB-2018-0242**
APPLICATION NAME	**MADD Application – HOI/HONI Purchase of PDI**

VECC-1

Reference: Exhibit A/T1/S1, page 4 (12-15) and page 5 (lines 4-5)

a) During the period of up to 18 months when 1937680 will own and operate the former PDI distribution system, will the personnel operating the "system" (including those in the support functions such as finance, HR , etc.) be employed by 1937680 or by HOI/HONI?

b) If some or all of the personnel will be employed by HOI/HONI please indicate what functions (if any) will be performed by employees of 1937680.

c) If some or all of the personnel will be employed by HOI/HONI please confirm that there will be affiliate services agreements for all services provided by HOI/HONI.

VECC-2

Reference: Exhibit A/T1/S1, page 5 (lines 12-13) and Attachment 5, Schedule 6.3

a) What community events/programs has PDI supported over the past two years?

b) Will all of these programs continue to be supported by HOI/HONI after the transaction is completed?

VECC-3

Reference: Exhibit A/T1/S1, page 6 (lines 17-18)

a) Please explain how the implementation of a guaranteed ESM protects PDI ratepayers in the year 11 and after from the risk of Hydro One failing to achieve the forecast level of synergy.

VECC-4

Reference: Exhibit A/T1/S1, page 7 (lines 10-13) and page 8 (lines 10-13)

a) Please confirm that: i) the 1% reduction in PDI's Base Distribution Delivery Rates will take place upon the time of closing and ii) PDI's approved specific service charges will continue to apply until the distribution system is transferred to Hydro One (up to 18 months later) at which time Hydro One Distribution's Specific Service Charges will apply.

b) Whose Conditions of Service (PDI's or HONI's) will apply during the period the assets are owned and operated by 1937680?

VECC-5

Reference: Exhibit A/T1/S1, page 10 (lines 1-3)
Exhibit A/T2/S1, pages 17-18
Attachment 5, Section 6.6

Preamble: While the January 2016 OEB Handbook (page 10) indicates that no evidence is required regarding public policy requirements such as CDM, the Application asserts that PDI customers will benefit from provincial programs that are not currently included in PDI's CDM Plan.

a) Please provide a schedule that compares the CDM programs (by sector) that PDI has offered in 2017-2018 with those that HONI has offered over the same time period.

b) Please provide a schedule that compares the CDM programs PDI currently proposes to offer under its 2015-2020 CDM Plan with those included in HONI's 2015-2020 CDM Plan.

VECC-6

Reference: Exhibit A/T1/S1, page 8 (lines 25-28)
Exhibit A/T2/S1, pages 20-21
Attachment 12, page 19 of 33 (Note 6)

Preamble: The Application states that the PDI regulatory assets currently approved by the OEB will continue to be tracked in their respective accounts and disposition will be sought at a future date.

a) Please provide a schedule listing PDI's currently approved regulatory asset accounts; provide the balance in each as of December 31, 2017 and reconcile the total with the balance reported in Attachment 12 (page 29-Note 6). Please also provide the (unaudited balances) as of December 31, 2018 – if available.

b) Which of these regulatory asset accounts does HONI plan on continuing to make additions to (when warranted) after the transaction is completed?

c) In particular, does HONI propose to continue to track variances (post the transaction) for Accounts #1550, #1580, #1584, #1586, #1588 and #1589? If yes, please explain how HONI will ensure the requisite information for the current OPDC service area is available.

d) HONI indicates that disposition for these accounts will be sought at a future date. At the time of disposition, will HONI propose to refund/recover the balances just to/from customers in PDI's current service area or also to/from HONI's legacy customers such that the latter will be impacted?

VECC-7

Reference: Exhibit A/T2/S1, pages 1-2 and page 12
Attachments 18 and 20

a) For purposes of Table 1 (page 2) the Application states that Year 1 most closely aligns with calendar year 2020, which would mean Year 10 aligns with 2029. Please reconcile the Year 10 Status Quo OM&A forecast of $12.0 M with the Status Quo OM&A forecast for 2029 of $9.433 M in Attachment 18.

b) Attachment 18 indicates that the Status Quo forecast was prepared by PDI while Attachment 20 indicates that the Residual (i.e., post transaction) forecast was prepared by HONI. How did the parties ensure that the two forecasts were comparable in terms of services provided to customers?

c) Please explain how HONI expects to achieve an ongoing OM&A reduction of approximately 65%. In doing so please identify and quantify the major areas where cost reductions are expected to be achieved and how this will be achieved without impacting service quality.

d) Please describe the types of work performed by the 13 staff that will be retained (page 12, lines 1-6).

e) Does the Hydro One Forecast OM&A in Table 1 include any allowance for wages and benefits for employees other than the 13 referenced at page 12? If yes, what are the roles of the additional employees and their expected total annual cost?

f) Has Hydro One undertaken an assessment of the incremental impact of acquiring PDI on its staff and contract service requirements for administration or support services (including customer services such as billing, etc.)?

   - If yes, was any dollar impact identified and, if so, is it included in Table 1?
   - If no. what was the basis for Hydro One's assumptions regarding the incremental costs for these activities?

g) It is noted that PDI is just one of recent acquisitions by Hydro One. Has Hydro One undertaken an assessment of the cumulative impact of acquiring these distribution utilities on its staff and contract service requirements for administration or support services (including customer services such as billing, etc.)? If yes, was any dollar impact identified and where/how are these dollars being recovered?

VECC-8

Reference: Exhibit A/T2/S1, pages 1-2 and page 11

a) Please explain how HONI expects to achieve capital spending reductions of $1.3 M per year. In doing so please identify and quantify the major areas where spending reductions are expected to be achieved and how this will be achieved without impacting service quality.

b) Please provide a schedule setting out PDI's actual annual capital expenditures for 2013-2017. Please also include actual 2018 capital spending if available.

c) If the average annual historic capital spending is materially different (10%) from the forecast Year 1 Status Quo Forecast capital spend please explain why.

d) If the transaction did not take place, would HONI still require a new operations and administration building in the Peterborough area similar to that described at page 11? If yes, please explain why?

e) What incremental capital spending has been included in Table 1 to account for the new operations and administration building and what is the basis for the cost estimate?

f) Is the current PDI Operating and Administration centre on Ashburnham Drive the only facility that is either: i) currently owned by PDI or ii) currently owned by PUSI but used to "house" staff that provide services to PDI? If not, what other facilities are there and are any of them being "acquired" by HONI?

g) How are the costs of the lease with PUSI for the centre of Ashburnham Drive treated in Table 1 assuming the acquisition occurs and is there a different treatment under the Status Quo scenario?

VECC-9

Reference: Exhibit A/T2/S1, page 3 (lines 1-7)
Attachments 2 & 4
OEB 2017 Yearbook

a) Please confirm that the 2017 HONI OM&A costs and customer counts used to derive the $179/customer cost for high density (UR) residential class are forecast values whereas the 2017 OM&A costs and customer counts for PDI are actual values.

b) Please provide a schedule that compares the HONI's total forecast versus actual 2017 OM&A costs and that also compares the customer/connection counts as used in the Cost Allocation Model submitted with the 2017 Draft Rate Order (EB-2016-0081) with the actual 2017 customer counts. (Note: Please include the forecast and actual customer/connection counts for each of HONI's customer classes).

VECC-10

Reference: Exhibit A/T2/S1, page 3 (lines 1-7)
OEB 2015 Yearbook

a) Please clarify the basis for the $241/customer 2017 OM&A cost referenced for PDI (i.e., what customer classes are included in the denominator of the calculation?).

b) Please provide a schedule that sets out using the same basis for the customer counts as in part (a): i) PDI's forecast 2013 OM&A per customer based on the total OM&A costs from PDI's 2013 rebasing application (EB-2012-0160) as approved by the OEB and ii) PDI's actual 2013 OM&A per customer.

c) Please confirm that PDI's actual OM&A cost per customer (as reported in the OEB Yearbooks) has declined from $277 in 2013 to $241 in 2017.

d) Based on the decline noted in part (c), is it reasonable to assume that PDI's OM&A cost per residential customer has declined since 2013 from the forecast values of $187 set out in Footnote #3? If not, why not?

e) Please confirm that the derivation of the $179/customer cost for HONI's UR class is based on the results of a Cost Allocation model that allocates OM&A costs to all of HONI's customer classes.

f) Based on HONI's 2017 Draft Rate Order what are the OM&A costs per customer to serve the $UG_{e,}$ UG_d and ST customer classes

g) Based on the last Cost Allocation model submitted by PDI to the Board, what percentage of total OM&A costs were allocated to the Residential, GS<50 and GS>50 and LU customer classes?

VECC-11

Reference: Exhibit A/T2/S1, page 3 (lines 1-7)

a) The Application indicates that the customer density for PDI is 65 customers per km of line while HONI's urban rate class covers areas containing 3,000 customers or more with a density of at least 60 customers per circuit km. What is the actual customer density for those areas that HONI as designated as "urban"?

VECC-12

Reference: Exhibit A/T2/S1, page 3 (lines 1-7)
OEB 2017 Yearbook

a) Please provide a schedule that contrasts the depreciation per customer for PDI (based on the 2017 Yearbook) versus that for HONI's UR, $UG_{e,}$ UG_d and ST customer classes (based on the 2017 DRO).

b) Please provide a schedule that contrasts the NBV per customer for PDI (based on the 2017 Yearbook) versus that for HONI's UR, $UG_{e,}$ UG_d and ST customer classes (based on the 2017 DRO).

VECC-13

Reference: Exhibit A/T2/S1, page 6 (lines 5-10)

a) Please provide a schedule setting out the specific services charges currently approved for PDI and compare them with HONI's currently approved specific service charges.

b) What would have been the impact on PDI's 2017 revenue from specific service charges if HONI's currently approved charges were used instead of PDI's currently 2017 approved charges?

VECC-14

Reference: Exhibit A/T2/S1, pages 8-10
OEB Electricity Reporting and Record Keeping Requirements (RRR)

a) If available, please update Table 4 to include 2018 (either all or as much of the year as information for both utilities is available).

b) With respect to Table 4, please provide the contribution to the reliability metrics for HONI and PDI for the following cause codes:
   - Scheduled Outages
   - Tree Contacts
   - Defective Equipment

c) Please provide a table similar to Table 4 but that contrasts the performance of the two utilities with respect to the Service Quality metrics as reported in accordance with the Electricity RRR, Section 2.1.4.1.

VECC-15

Reference: Exhibit A/T2/S1, pages 17-18)

a) What is the annual level of LEAP funding that PDI has provided in 2016, 2017 and 2018?

b) Were PDI's LEAP funds fully utilized in either 2016, 2017 or 2018 such that funds were not available to assist potentially eligible customers? If yes, please indicate for which years and when (during the year) funds were depleted.

c) Were HONI's LEAP funds (including top-ups provided by the Corporation) fully utilized in either 2016, 2017 or 2018 such that funds were not available to assist potentially eligible customers? If yes, please indicate for which years and when (during the year) funds were depleted.

VECC-16

Reference: Exhibit A/T2/S1, page 20 (lines 11-15)

a) Will the financing of the proposed transaction (including the premium paid over the assets' book value) impact the weighted cost of debt used in the determination of the cost of capital included in the revenue requirement for HONI?

b) If yes, is it anticipated that this will increase or decrease the overall weighted cost of debt?

VECC-17

Reference: Exhibit A/T2/S1, pages 21-22

a) If HONI were to apply for an ICM during the first ten years following the closing of the transaction, what customers would be responsible for paying the ICM rate rider?

VECC-18

Reference: Exhibit A/T2/S1, page 22-23

a) Does the change to US GAAP result in any accounting changes the cost implications for which need to accounted for through the introduction of a deferral account? If yes, please explain.

VECC-19

Reference: Exhibit A/T3/S1, pages 5-8

a) Table 1 indicates that revenues will be based on “forecast load and customer profiles”. Please provide the actual forecast used, by customer class, and fully explain how the forecast was derived.

b) Was the forecast rate base adjusted to remove the cost of the current PDI operations and administration centre on Ashburnham Drive? If not, why not?

c) Table 1 indicates that the annual depreciation is calculated using HONI’s OEB-approved depreciation rates. Do these depreciation rates differ from those approved for PDI? If yes, what are the differences?

d) What is the impact of the 20% risk factor which has been applied to OM&A costs on the overall calculation of $1.8 M of earnings sharing?

VECC-20

Reference: Exhibit A/T4/S1, page 7, lines 10-18

Preamble: The referenced portion of the Application lists a number of factors that are likely to be taken into account by both Hydro One and a future OEB Panel in determining the methodology to be used to establish the amount of Shared Costs to be included in rates, including those for former PDI customers.

a) Does Hydro One Networks consider the impact on rates for former PDI customers and HONI’s legacy customers as being relevant factors for purposes of establishing the methodology for allocating Shared Costs to customer classes or is the consideration of impacts limited to the adjustments that may be made to rates based on the revenue to customer class revenue to cost ratios that are calculated based on the established cost allocation methodology for Shared Costs?

b) If HONI’s views the impact on rates as a relevant factor in the establishment of the methodology for allocating Shared Costs to customer classes, please provide references as to where this view is supported by the either policies or decisions approved by the OEB.

c) Based on the cost allocation methodology and results that HONI filed in its most recent distribution rate application (EB-2017-0049) for 2021 please provide a schedule that sets out for the UR, UGS_e, UGS_d, Acquired UR, Acquired UGS_e, and Acquired UGS_d customer classes the following information:
    i. Total allocated OM&A

ii. Allocated Direct OM&A (comparable to the OM&A forecast in Table 3)
iii. Allocated OM&A associated with upstream distribution facilities (i.e., comparable to that reflected in LV charges to PDI) and
iv. Allocated OM&A associated with Shared Services. (Note: Items (ii), (iii) and (iv) should sum to Item (i).

VECC-21

Reference: Exhibit A/T4/S1, page 7 (lines 23-28)

Preamble: At page 7 (lines 23-28) the Application states: "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)." (Emphasis Added)

a) The choice of the word "collected" as opposed to say "allocated" suggests that HON is proposing that regardless of the results of the cost allocation methodology that will be used at the time of the harmonization and rebasing application, HONI will (at that time) propose a revenue to cost ratio for the customer class representing the former PDI customers such that the resulting rates will result in revenues between the two values referenced in the quote. Please confirm whether or not this is the intent of HONI's proposal as set out in the Preamble. If it is not, please clarify what HONI is proposing.

b) If response to part (a) is yes, would a similar approach be used in subsequent rebasing applications and, if so, how would the values for the Residual Cost to Serve and PDI Status Quo cost to serve be established?

c) If the response to part (a) is yes and the resulting revenues produce a revenue to cost ratio that is below the policy range established by the Board, would it be HONI's intent that any shortfall in revenue be: i) recovered from the other customer classes or ii) be covered by HONI's shareholders? If the former, please explain why this is appropriate.

d) If the response to part (a) is no, please address how the circumstances outlined in parts (b) and (c) would be addressed under HONI's proposal.

VECC -22

Reference: Exhibit A/T4/S1, page 7 (lines 23-28) and page 11 (lines 13-22)

a) At page 11 the Application indicates that Hydro One anticipates transitioning the former PDI customer to one of its proposed new acquired customer classes or to a new rate class. Please explain how the proposal outlined on page 7 will be implemented if the former PDI customers are transitioned to a customer class that also includes customers from other acquired utilities.

End of document