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

29. [Ex. A/5/1, p. 2 and Ex. A/4/1, Table 4, and Ex. I/1/27, p. 3] SEC is concerned with understanding the underlying drivers of the claimed ratepayer savings. With respect to Table 1 in the Update and Table 4 in the pre-filed evidence, please provide a detailed breakdown, for each year, of the components of the "ratepayer savings" of $9.3 million.

30. [A/5/1, p. 3] Please explain how, once the rates are harmonized, customers can be confident that they will continue to benefit from savings from the acquisition into the future, if the costs to serve the acquired customers are no longer being tracked.

31. [A/5/1, p. 3] The Applicants state that they are unable to "track…the costs associated with certain Hydro One resources that PDI customers will enjoy the benefit of". Please confirm that the Applicants can track the amounts with respect to those costs that would be allocated to the PDI customers if they were allocated on the same basis as the legacy customers.

32. [A/5/1, p. 4, 7] In the EB-2017-0049 Decision with Reasons, at p. 161/2, the Board said:

> *"As SEC argued, Hydro One's rate proposal is based on a snapshot of the existing asset base in the acquired service area. The OEB agrees and based on Hydro One's failure to demonstrate that its costs are the same or lower in its evidence,[308] finds that the proposal will result in one of the two following negative outcomes.*
>
> *a) In the absence of recalibration of the adjustment factors, an undue subsidy from Hydro One's legacy customers would be required.*
>
> *b) In the situation where the calibration of the adjustment factors is commensurate with asset renewal at Hydro One's higher costs, harm in the form of relatively higher rates to the customers of the Acquired Utilities would need to be imposed."*

Please explain how the current proposal for PDI will not produce either

a. A situation in which legacy customers bear part of the costs fairly attributable to PDI customers, or

b. As PDI assets are replaced with higher cost Hydro One assets over time, and the adjustment factor is reduced, the PDI customers will be harmed by higher longer term rates..

33. [A/5/1, p. 4-6] In the EB-2017-0049 Decision with Reasons, at p. 162, the Board said:

> *"The OEB has provided clear guidance with respect to its expectations that evidence of lower cost structures relied on in acquisition proposals are expected to result in concomitant lower rates. <u>Hydro One would be expected to apply any distinguishable cost causation analysis relied on in an acquisition application to any customers that met the identified cost causation criteria whether they are new or legacy customers.</u> The OEB did not direct Hydro One to isolate the Acquired Utilities in its cost allocation methodology. Hydro One has not demonstrated that its proposal is equitable to all customers." [emphasis added]*

Please confirm that, under the Applicants' new proposal, Customers in towns like Brockville, Smith's Falls, Ancaster and other Hydro One service areas of a similar size and density to Peterborough will also have their costs allocated using adjustment factors similar to those being applied to PDI. If that is not confirmed, please explain how the Applicants' current proposal complies with the direction of the Board as set forth above.

34. [A/5/1, p. 6] Please confirm that all of the examples of adjustment factors cited apply to all customers with similar characteristics, and are all designed to ensure that like customers are allocated costs in a consistent manner. Please explain how the proposed adjustment factors for PDI achieve a similar result.

35. [A/5/1, p. 7] SEC is seeking to better understand how the adjustment factors will change over time as Hydro One replaces PDI assets. For each of the categories of assets to which the adjustment factors are proposed to apply, please provide

    a. The most recent actual unit costs to Hydro One of new assets in each of those categories, and the most recent actual unit costs to PDI of new assets in each of those categories, and an explanation as to any material differences in unit costs.

    b. The current PDI book value per customer, by rate class, for each of those asset categories, and the current Hydro One book value per customer, by rate class, for each of those asset categories, plus any further information (such as weighted average vintage data) that can help the Board and parties understand any material differences in book value per customer for those asset categories.

36. [A/5/1, p. 7] Please provide a run of the cost allocation model for 2018, using Board-approved costs, book value, and all other necessary assumption, to show how costs would be allocated to PDI on a harmonized basis under the Hydro One proposal if that allocation took place in 2018. For the purposes of this sample allocation, please assume that all of the cost savings expected over the next ten years as a result of the PDI acquisition have been realized.

37. [A/5/1, p. 7] In the EB-2017-0049 Decision with Reasons, at p. 162, the Board said:

> *"Hydro One's cost allocation evidence indicates that in the absence of adjustment factors, Hydro One's long term costs to serve the Acquired Utilities are higher than*

> *the costs of those previous utilities. This is in direct contradiction to the evidence relied on in its acquisition proposals."*

Please confirm that this statement is true with respect to PDI as well, i.e. that absent any adjustment factors the costs normally allocated to PDI customers would be higher than status quo costs.

38. [A/5/1, p. 7] Please provide a detailed list of the current Shared Costs of Hydro One, and provide the amount of each such Shared Cost currently allocated to each UR, UGe, UGd, R1, GSe, and GSd customers as of the most recent cost allocation by Hydro One.

39. [A/5/1, p. 8, 10, 11] Please describe in detail the principles Hydro One proposes to apply in determining the revenue to cost ratios of the rate classes to which former PDI customers would be allocated, including any changes to those principles over time (for example, five years after harmonization, ten years after harmonization, etc.).

40. [A/5/1, p. 9] SEC is seeking to understand the purpose and import of the Navigant evaluation. Please explain the expertise that Navigant purported to apply in its evaluation that is not already the expertise of the Board itself.

41. [A/5/1, p. 10] Please explain how costs will be allocated at any time if the "Post-Consolidation Cost to Serve" PDI customers is greater than the status quo revenue requirement for those customers. Please calculate at what percentage allocation of Shared Costs to PDI customers will result in total cost to serve being greater than status quo.

42. [A/5/1, App. A] SEC is seeking to better understand the report of Navigant. In its EB-2017-0049 Decision with Reasons, at p. 161-2, the Board said:

> *"The OEB denies Hydro One's rates proposals with respect to the Acquired Utilities for the following reasons.*
>
> *1) Hydro One's proposal contains simplistically derived and questionable estimates of revenue requirement comparisons to demonstrate adherence to the no harm requirement. The OEB accepts VECC's submission that given the wide range of past rate adjustments, the rebasing rate increase for any utility can vary widely from the 6.3% average.*
>
> *2) Hydro One's proposal is based on a cost allocation approach that recognizes the existing assets of the Acquired Utilities as being distinguishable and at a lower cost than its legacy assets by using adjustment factors. It intends to revisit this approach and proposes to recalibrate the adjustment factors over time as assets are renewed in the acquired service areas. The new assets will be included in Hydro One's existing asset pool at a higher cost and result in a lowering of the adjustment factors over time.*
>
> *OEB staff submitted that Hydro One's proposal is reasonable because the adjustment factors are, in effect, performing a direct allocation of assets and depreciation to the Acquired Utilities. OEB staff accepted that where costs associated with specific rate classes are known, direct allocation is appropriate.*

OEB staff submitted that Hydro One's proposal to use the adjustment factors for capital and the allocation of OM&A costs based on the cost allocation model is a reasonable proxy for reflecting the cost to serve.

The OEB accepts that Hydro One's proposal adheres to some basic cost allocation principles that may be acceptable in a general sense. However, it is not acceptable to ignore the basis on which the approvals for acquiring the utilities were granted.

As SEC argued, Hydro One's rate proposal is based on a snapshot of the existing asset base in the acquired service area. The OEB agrees and based on Hydro One's failure to demonstrate that its costs are the same or lower in its evidence,[308] finds that the proposal will result in one of the two following negative outcomes.

a) In the absence of recalibration of the adjustment factors, an undue subsidy from Hydro One's legacy customers would be required.

b) In the situation where the calibration of the adjustment factors is commensurate with asset renewal at Hydro One's higher costs, harm in the form of relatively higher rates to the customers of the Acquired Utilities would need to be imposed.

3) Hydro One argued that its proposal adheres to previous OEB determinations with respect to treating the Acquired Utilities as separate rate classes and that its proposal to do so is in response to OEB direction. The OEB does not accept Hydro One's contention. The OEB has provided clear guidance with respect to its expectations that evidence of lower cost structures relied on in acquisition proposals are expected to result in concomitant lower rates. Hydro One would be expected to apply any distinguishable cost causation analysis relied on in an acquisition application to any customers that met the identified cost causation criteria whether they are new or legacy customers. The OEB did not direct Hydro One to isolate the Acquired Utilities in its cost allocation methodology. Hydro One has not demonstrated that its proposal is equitable to all customers.

4) Hydro One's cost allocation evidence indicates that in the absence of adjustment factors, Hydro One's long term costs to serve the Acquired Utilities are higher than the costs of those previous utilities. This is in direct contradiction to the evidence relied on in its acquisition proposals."

With respect to each of the reasons of the Board set forth above, please provide Navigant's expert opinion explaining how the current Hydro One proposal complies with the Board's conclusions and expectations.

43. [I/1/1, p. 2] Please update the table on this page to reflect the proposals in A/5/1, including the proposed allocation of Shared Costs. If this table remains valid, please explain why. In either case, please provide details of each adjustment factor applied to the Year 11 figures and the dollar impact of those adjustment factors.

44. [I/1/3, p. 2,3] Please update the tables on these pages to reflect the proposals in A/5/1, including the proposed allocation of Shared Costs. If these tables remain valid, please explain

why. In either case, please provide details of each adjustment factor applied to the Year 11 figures and the dollar impact of those adjustment factors.

45. [I/1/7, p. 2,3] Please confirm that, under the Board's current ten year deferred rebasing policy, Hydro One's legacy customers will subsidize the rates of PDI customers during that period with respect to 100% of the Shared Costs properly attributable to the PDI customers, and after the end of the deferred rebasing period under the current Hydro One proposal Hydro One's legacy customers will continue to subsidize the rates of PDI customers with respect to part of the Shared Costs properly attributable to the PDI customers.

46. [I/1/12 (d) and I/2/22] Please explain why the PDI rebasings are assumed to be four years apart, while the Hydro One rebasings are assumed to be five years apart. If this is an error, please recalculate Status Quo on page 2 of I/2/22 based on five year rebasings.

47. [I/1/15 (a)] Please restate Ex. A/2/1, Table 1 on the basis that overheads are not capitalized by PDI, i.e. on the same basis as the Hydro One comparison.

48. [I/1/16 (c) and I/1/18 (b) and I/2/6] Please provide the amount of the deferred tax asset, including all supporting calculations, and the proposed treatment of the FMV Bump for PDI and Hydro One revenue requirements and rates. Please identify the short and long term tax impacts of this FMV Bump on both PDI customers and Hydro One legacy customers. Please update Ex. A/3/1, Table 2 to reflect the impact of the tax shelter arising out of the FMV Bump.

49. [I/1/19 and I/1/27] Please confirm that Hydro One plans to change the depreciation rates for PDI rate base after the acquisition. Please confirm that, to the extent that the depreciation rates are lower than those used by PDI, the difference each year will be credited to account 1576 and refunded to PDI customers on rebasing. If that is not the case, please provide a detailed explanation of the proposed ratemaking treatment of the change in depreciation rates. Please confirm that, on current forecasts, Hydro One proposes to have take $15.6 million less depreciation than would arise at the PDI depreciation rates, resulting in rate base on rebasing that is $15.6 million higher than under a PDI status quo, all other things being equal.

50. [I/1/32, Attach. 1, and I/4/13] Please provide a detailed estimate of the charges to PDI customers in each of the deferred rebasing years using a) the current PDI specific service charges, and b) the proposed Hydro One specific service charges.

51. [I/1/44 (a)] Please explain how 1937680 Ontario Inc. will comply with section 11(2) of the Ontario Business Corporations Act.

52. [I/2/1 through I/2/5] SEC is seeking to better understand the refusal of the Applicant to file the requested documents, which as the Applicants are aware were provided freely to SEC in 2018 by PDI to assist SEC's counsel in reporting to our client. As we have seen the documents, we are aware of the many statements in the documents that estimate the costs and benefits of the proposed transaction to the customers of PDI, and the many other items in the documents relating to whether customers will be better off after the transaction takes place. We have in fact asked a number of questions related to those issues. Therefore, please provide a further and more detailed explanation as to the refusal to provide the documents and answer questions related to the documents or, in the alternative, provide full and complete responses to these five previous interrogatories.

53. [I/2/11] Please provide an updated response to this interrogatory consistent with the Updated Evidence and with the Board's Decision with Reasons in EB-2017-0049 (including the Board's statements quoted in SEC-33 above).

54. [I/3/19 (a)] Please provide a full and complete answer to this question, or provide a more detailed explanation as to why the level of Shared Costs that would otherwise be applicable to PDI customers is not relevant.

55. [I/3/20] Please describe the "standard Hydro One processes for tracking and reporting costs (OM&A and Capital)…", and describe how those standard processes are currently applied to other geographically distinct parts of the Hydro One franchise area.

56. [I/4/8 (a)] Please explain in detail how the Hydro One forecast was arrived at if not through a bottom up forecast.

57. [I/4/20 (c)(i)] Please restate the table in this response on a per customer basis.

58. [I/7/13] Please provide a full and complete response to this interrogatory, but with the documentation provided limited to those documents that include references to the impacts of the proposed transaction on PDI or Hydro One legacy customers.

Respectfully submitted on behalf of the School Energy Coalition this May 22, 2019.

Jay Shepherd
Counsel for the School Energy Coalition