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BY EMAIL

September 3, 2019

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

Dear Ms. Walli:

**Re: Peterborough Distribution Inc., Peterborough Utility Services Inc., Hydro One Networks Inc., and 1937680 Ontario Inc.
Application for approval to amalgamate Peterborough Distribution Inc. and Peterborough Utilities Services Inc. and sell the amalgamated electricity distribution system to Hydro One Networks Inc.**

OEB Staff Letter Regarding Topics for Technical Conference

Ontario Energy Board File Number: EB-2018-0242

In accordance with Procedural Order No. 5, please find below the list of interrogatory responses Ontario Energy Board (OEB) staff intends to seek clarification on during the Technical Conference scheduled for October 3 and 4, 2019.

OEB staff advises that the following does not represent a comprehensive list of questions that will be asked during the Technical Conference.

Yours truly,

Original Signed By

Andrew Bishop
Project Advisor, Supply & Infrastructure

1 INTRODUCTION

1.1 Overview of Submission

Peterborough Distribution Inc. (PDI), Peterborough Utilities Services Inc. (PUSI), Hydro One Networks Inc. (Hydro One), and 1937680 Ontario Inc. (1937680) (collectively, the Applicants), filed an application (Application) on October 12, 2018. A revised version of the Application was filed on November 1, 2018. The Application requested approval to amalgamate PDI and PUSI¹, sell the amalgamated corporation to 1937680², then dispose of it to Hydro One. Additionally, following the issuance of the OEB's Decision and Order on Hydro One's related application for approval of its electricity distribution rates for January 1, 2018 to December 31, 2022³ (Hydro One Dx), Hydro One filed supplemental evidence to the Application on April 26, 2019.

OEB staff and intervenors have been given the opportunity to ask two rounds of interrogatories. The first round concluded with the Applicants' filing of responses on February 27, 2019 to interrogatories specific to the November 1, 2018 Application. The second round concluded on June 14, 2019 with the Applicants' filing of responses to interrogatories specific to the supplemental evidence.

This letter identifies the specific interrogatories that OEB staff intends to further examine during the Technical Conference scheduled for October 3 and 4, 2019. OEB staff has provided context on each identified interrogatory in order to aid the Applicants' preparation. The context provided is general and meant to identify the broad themes OEB staff will pursue during the Technical Conference only. As stated on the covering page of this letter, the following does not represent a comprehensive list of questions that will be asked during the Technical Conference.

For ease of reference, OEB staff has organized this letter by interrogatory.

¹ PDI and PUSI are wholly owned subsidiaries of the City of Peterborough Holdings Inc. (CoPHI). CoPHI is a holding company that is wholly owned by the Corporation of the City of Peterborough.

² A Hydro One Inc. subsidiary.

³ EB-2017-0049

2 CLARIFICATIONS

2.1 OEB Staff IR #45

OEB staff IR #45 sought clarification on the Applicants' projected Year 11 savings of \$9.3 million. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #45:

- Confirmation of the accounting standard and policies underpinning the Applicants' projected Year 11 ratepayer savings of \$9.3 million (i.e., have the line items shown in Table 1 labelled "*PDI Status Quo Total Cost to Serve*" and "*Total Residual Cost to Serve*" been calculated using the same accounting standards [US GAAP or IFRS] and the same accounting policies [with respect to depreciation, capitalization, etc.]?).
- If the line items shown in Table 1 labelled "*PDI Status Quo Total Cost to Serve*" and "*Total Residual Cost to Serve*" were calculated under different accounting standards or policies, OEB staff will request that a new calculation using consistent accounting standards and policies be provided. In addition to Table 1 of the above referenced response to OEB Staff IR #45, OEB staff may request that any other evidence on the record that quantifies synergies or ratepayer savings be recalculated under consistent accounting standards and policies.

2.2 OEB Staff IR #46 parts b), c), and d)

OEB staff IR #46 sought additional evidence that supported the Applicants' proposal to track only incremental Operational, Maintenance & Administrative (OM&A) and capital costs to service current PDI customers during the rebasing deferral period. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #46:

- A detailed explanation of how incremental and capital costs will be tracked and accurately assigned to the correct utility service area.
- Additional understanding as to why an accurate tracking of shared costs during the rebasing deferral period is not feasible.
- In the Hydro One Dx decision⁴, the OEB indicated that Hydro One had failed to maintain records of the costs to serve acquired utilities as directed. In light of

⁴ EB-2017-0049

that Decision, OEB staff will pursue a line of questioning that seeks to clarify why the Applicants' proposal to only track incremental OM&A and capital costs is reasonable.

2.3 OEB Staff IR #47 parts a), b), and c)

OEB staff IR #47 sought additional evidence that supported the Applicants' proposal to create new rate classes for current PDI customers following the rebasing deferral period. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #47:

- The number and type of acquired rate classes Hydro One proposes to create following the rebasing deferral periods of various recent/proposed acquisitions (e.g., PDI, Orillia, Woodstock, Haldimand, and Norfolk).
- The rationale underpinning Hydro One's creation of acquired rate classes following its first cost of service after the deferred rebasing period:
 - In the Hydro One Dx decision⁵, the OEB denied Hydro One's rates proposals with respect to the acquired rate classes. In light of this decision, OEB staff will pursue a line of questioning that seeks to understand the Applicants' proposal to create acquired rate classes and assesses the reasonableness of this proposal.
- An explanation of what will happen if the OEB does not approve separate acquired rate classes (i.e., will current PDI customers still suffer no harm?).

2.4 OEB Staff IR #48 parts a), b), and e)

OEB staff IR #48 sought additional evidence that supported the Applicants' proposed post-acquisition approach to cost allocation as well as the effect of the approach on the underlying cost structures to serve former PDI customers. OEB staff will ask questions that, at a minimum, seek the following additional clarifications related to the Applicants' response to IR #48:

- The Applicants will be asked to walk OEB staff through the Excel spreadsheets provided in response to this IR. During the walkthrough, OEB staff will request

⁵ EB-2017-0049

that the Applicants explain the specific assumptions embedded in the spreadsheets, as well as the methodological approach used to create them.

- With respect to the OEB's cost allocation model (CAM), the Applicants will be asked to fully describe the issues that exist in the CAM that, in the Applicants' view, drive the significant over-allocation of costs to the acquired rate classes.

2.5 OEB Staff IR #49

OEB staff IR #49 requested that the Applicants demonstrate the bill impacts on PDI customers if PDI's customers were brought into Hydro One's existing rate classes **today** (i.e., September 3, 2019), but taking into account any savings expected over the deferred rebasing period (i.e., pretending that all expected savings had already occurred). In other words, OEB staff was looking for a calculation that would avoid assumptions regarding PDI's status quo rates or Hydro One's post deferral period rates, but that still allows for expected savings to be reflected. In response to IR #49, the Applicants demonstrated the bill impacts of the acquisition at 2030.

OEB staff will request that the Applicants provide a complete response to OEB staff's original IR.