



Ontario
Energy
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de l'énergie
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BY EMAIL

October 10, 2019

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

**Re: Chapleau Public Utilities Corporation (CPUC)
Application for approvals to amalgamate Chapleau Public Utilities
Corporation and Chapleau Energy Services Corporation and continue
operations as Chapleau Public Utilities Corporation
OEB Staff Interrogatories**

OEB File Number: EB-2019-0135

In accordance with Procedural Order No. 1, please find attached OEB staff interrogatories to CPUC for the above proceeding. This document has been sent to CPUC.

CPUC is reminded that its responses to the interrogatories are due by October 29, 2019.

Yours truly,

Original Signed By

David Martinello
Advisor, Generation & Transmission

Encl.



OEB Staff Interrogatories

**Application for approvals to amalgamate
Chapleau Public Utilities Corporation and
Chapleau Energy Service Corporation and
continue operations as Chapleau Public Utilities
Corporation**

Chapleau Public Utilities Corporation

EB-2019-0135

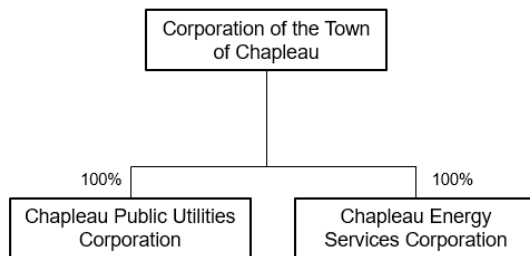
October 10, 2019

OEB 1-Staff-1

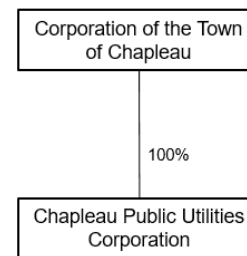
Ref: Application Form, s.1.3.5

Preamble: OEB staff has created an overview of the corporate ownership structure pre- and post-amalgamation based on information provided in the Application Form:

Pre-Amalgamation Ownership Structure



Post-Amalgamation Ownership Structure



Question:

- a) Please confirm that the corporate organizational chart outlined above accurately depicts the amalgamation. If it does not, please correct as necessary.

OEB 1-Staff-2

**Ref: Ontario Energy Board Act, 1998, (OEB Act) section 71(1)
Application Form, s.1.6.2**

Preamble:

Section 71(1) of the OEB Act states:

71 (1) Subject to subsection 70 (9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity, c. 23, Sched. B, s. 12

-and-

In s.1.6.2 of the Application Form, Chapleau Public Utilities Corporation (CPUC) states:

This cost increase is partially offset by the generation of other revenue from the non-CPUC customers of CESC that continue to require service

and use Amalco as their service provider, to the extent that such other revenue opportunities have persisted into the forecast test period Amalco has included those forecast revenues as an offset to its requested test year revenue requirement. [***Emphasis added***]

Questions:

- a) Based on the emphasized statement from s.1.6.2 of the Application Form, it appears that Chapleau Energy Services Corporation (CESC) has continued to provide services to non-CPUC customers following the amalgamation. In the CPUC cost of service application¹, it was noted that services to non-CPUC customers included streetlight maintenance, chimney cleans, and Hydro One rural work. Please confirm whether CESC is providing the aforementioned services to non-CPUC customers following the amalgamation of CPUC and CESC. If there are additional services to those previously outlined, please describe the type(s) of services provided.
- b) If CESC has continued to provide energy services to non-CPUC customers following its amalgamation with CPUC, please explain how CPUC plans to address non-compliance with section 71(1) of the OEB Act (i.e., whether CPUC plans to discontinue the non-compliant activity or seek an exemption under section 71(4) of the OEB Act).
- c) If an exemption will be sought, please explain why CPUC's circumstances would warrant an exemption.
- d) If CPUC determines to seek an exemption under section 71(4), please confirm that CPUC will formally request the exemption and provide reasoning for the request.

OEB 1-Staff-3

Ref: Application Form, s.1.3.1

Preamble:

CPUC states that CESC also provided outside services to various other customers.

Questions:

- a) Please briefly explain the type(s) of outside services that CESC provided to other customers (i.e., non-CPUC customers) prior to amalgamation with CPUC between

¹ EB-2018-0087

2012 and 2017.

- b) Did CESC continue to provide the services specified in part (a) in 2018 and 2019? Were these services provided to the same customers and/or new customers?
- c) Please summarize the revenues and costs related to these outside services in 2017 (and, if available, 2018 and 2019).
- d) Please advise whether CPUC intends to continue providing outside services that CESC provided prior to amalgamation and if so, describe the services that would be provided.

OEB 1-Staff-4

Ref: Application Form, s.1.6.2

Preamble:

In s.1.6.2 of the Application Form, CPUC states:

The amalgamation has no impact on prices to the consumers. Whether the transfer of the assets and personnel had been facilitated by either a direct asset transfer or indirectly through amalgamation, the practical effect on CPUC's customers is identical. ***CPUC would no longer be charged for the use of CESC resources; instead CPUC would incur the costs of those resources directly.*** Whether through an asset transfer or amalgamation, the effect on CPUC's customers was going to be an increase in gross costs, because ***instead of being allocated a portion of the total costs of CESC, with CESC bearing the costs of any shortfall in the amounts recovered from CPUC*** and any non-CPUC related revenue that CESC was able to generate, CPUC had to become directly responsible for the full gross costs of the assets and personnel it used to maintain and operate its system. ***This cost increase is partially offset by the generation of other revenue from the non-CPUC customers of CESC that continue to require service and use Amalco as their service provider;*** to the extent that such other revenue opportunities have persisted into the forecast test period Amalco has included those forecast revenues as an offset to its requested test year revenue requirement. ***[Emphasis added]***

Questions:

- a) The excerpt above suggests that CESC was not recovering from CPUC the full costs of providing services to CPUC. If that was the case, please confirm that these types

of amounts were recovered from CPUC between 2012 and 2017.

OEB 1-Staff-5

Ref: Application Form, s.1.6.7

Preamble:

CPUC states in the Application Form that the only costs incurred for the amalgamation were legal fees totaling \$3,929.85 and that no financing was required.

Questions:

- a) Please confirm that \$3,929.85 was the total cost incurred for the amalgamation to occur. If there were any other transaction/transition costs incurred as part of the amalgamation, please describe the activities and the associated cost(s).
- b) Please confirm which party (i.e., CPUC or CESC) paid the \$3,929.85 and how CPUC ensured that the cost was not included in its revenue requirement to be recovered from ratepayers.

OEB 1-Staff-6

Ref: Application Form, s.1.5.3

Preamble:

In s.1.5.3 of the Application Form, CPUC states:

CPUC operates under Electricity Distribution Licence ED-2002-0528 (Licence). It is CPUC's understanding that the licence will have to be transferred to Amalco on approval of the amalgamation by the OEB.

Questions:

- a) Please confirm whether CPUC is requesting, as part of this application, to transfer the Licence and rate orders to the amalgamated entity, pursuant to section 18 of the OEB Act, and confirm that the amalgamated entity's name is CPUC (i.e., the amalgamated entity's name is not changing). If not part of this application, please advise when CPUC intends to formally request transfer of the Licence and rate orders to the amalgamated entity.

- b) If the name of the amalgamated entity is changing (e.g., Chapleau Hydro) following the amalgamation, please confirm that CPUC will also make a formal request for a licence amendment pursuant to section 74 of the OEB Act.
- c) Please confirm whether CPUC is requesting permission for the amalgamated entity to continue to track costs to existing deferral and variance accounts.

OEB 1-Staff-7

Ref: Cover Letter, Application Form

Preamble:

CPUC noted in the cover letter accompanying its Application Form that it discovered during the course of its 2019 Cost of Service application (EB-2018-0087) that it had inadvertently failed to obtain the OEB's leave to amalgamate under Section 86(1)(c) of the OEB Act.

Questions:

- a) Please provide context for this oversight.
- b) Please file all relevant documentation pertaining to this amalgamation application that was filed as part of the evidence in CPUC's 2019 Cost of Service application (i.e., CPUC and CESC financial statements; organizational charts, resolution for amalgamation, etc.).

OEB 1-Staff-8

Ref: CPUC 2018 Performance Scorecard

Preamble:

OEB staff has reviewed CPUC's 2018 Performance Scorecard and noted an increasing trend for both the Average Number of Hours that Power to a Customer is Interrupted (SAIDI) and Average Number of Times that Power to a Customer is Interrupted (SAIFI) from 2014 to 2018.

In s.1.6.2 of the Application Form, CPUC states:

There is no impact to the adequacy, reliability and quality of electrical service as a result of the transaction. The equipment and personnel from CESC will continue to provide the same level of service as part of Amalco.

Questions:

- a) Please explain the increasing trend in CPUC's SAIDI and SAIFI scores from 2014 to 2018 and explain how CPUC plans to ensure quality and reliability of electricity service.
- b) Please more fully describe how CPUC will, at a minimum, maintain current service levels. Please provide examples as to where/how the amalgamation will maintain or improve service levels.

OEB 1-Staff-9

Ref: Application Form, s.1.7.1

Preamble:

In s.1.7.1 of the Application Form, CPUC states:

The transaction has had no impact on economic efficiency and cost effectiveness. The service territory remains the same, the customers did not change, IT services are the same, accounting remains the same and there are no changes to customer service.

Questions:

- a) Did CPUC actively seek to identify and implement efficiencies as part of the amalgamation process? If yes, please explain. If no, please explain why not?
- b) Please confirm the accounting policies used by CPUC and CESC both before and after January 1, 2018 (e.g., MIFRS, CGAAP, etc.).

OEB 1-Staff-10

Ref: Application Form, s.1.8.1

Preamble:

In s.1.8.1 of the Application Form, CPUC states:

It was determined that there was not a significant differential between the book value of the assets and the fair value as of the date of amalgamation given the age of the assets transferred over to Amalco. Therefore, this process was deemed appropriate.

Questions:

- a) How did CPUC determine the net book value of the assets?
- b) Please explain the reasoning for this approach and who determined this was an appropriate approach (e.g., an independent third party, CPUC's management, etc.).

OEB 1-Staff-11

Ref: Application Form, s.1.6.9

In s.1.6.9 of the Application Form, CPUC states:

The benefits of the transaction to the customers relate to the elimination of the Virtual Utility Structure. The result is more transparency in rate costs without the affiliate, as there is no need to maintain a methodology for the allocation of costs between affiliates. There are no additional costs as per 1.6.2; the amalgamation itself has no impact on the costs to customers.

Question:

- a) Please describe, and provide examples, how the amalgamation satisfies the “no harm” test that the OEB must apply when considering a merger or amalgamation, and address the following factors:
 - Price, Economic Efficiency and Cost Effectiveness
 - Provide a year over year comparative cost structure analysis for the proposed transaction comparing the costs pre-/post-amalgamation
 - Provide a comparison of the OM&A cost per customer pre-/post-amalgamation
 - Identify all incremental costs incurred by the amalgamation (e.g., legal, regulatory), incremental merged costs (e.g., employee severances), and incremental on-going costs (e.g., purchase and maintenance of new IT systems) – be sure to identify how the amalgamated entity intends to finance these costs

- Reliability and Quality of Electricity Service
 - Describe how the distribution system within the service area will be operated (e.g., any changes to operation centre locations, response times, staff experience in operating the system, etc.)
- Financial Viability
 - Provide details on the financing of the transaction

OEB 1-Staff-12

Ref: Certificate of Amalgamation

Preamble:

The Certificate of Amalgamation issued by the Ministry of Government and Consumer Services is dated January 1, 2018.

Section 86(6.2) of the OEB Act states:

(6.2) A certificate of amalgamation endorsed by the director appointed under section 278 of the *Business Corporations Act* is void if it is endorsed before leave of the Board for the amalgamation is granted. 2003, c. 3, s. 55 (2).

Question:

- a) Please describe the implications that would arise as a result of the Certificate of Amalgamation being voided given that it was issued before this application for leave to amalgamate was filed with the OEB. In your response, please be sure to discuss implications including, but not limited to, the following:
- Impacts on accounting and tax filings of CPUC and CESC for 2018 and 2019 and whether, for example, financial statements and/or tax filings would have to be revised
 - Please provide the costs that would be incurred to revise financial records, tax filings and any other procedures that may be required
 - Impacts on CPUC and/or CESC's financial and contractual obligations