

1 **IMPACT OF THE PROPOSED TRANSACTION**

2
3 **1.0 INTRODUCTION**

4
5 This exhibit provides HOI’s impact assessment of the proposed transaction and also
6 provides a discussion of the impact of the transaction on PDI’s and Hydro One’s future
7 operations in relation to the OEB’s statutory objectives. It elaborates on how the
8 transaction promotes economic efficiency and cost-effectiveness in the distribution sector
9 and also discusses other related matters pertaining to this transaction.

10
11 **2.0 IMPACT OF THE PROPOSED TRANSACTION**

12
13 The *Handbook to Electricity Distributor and Transmitter Consolidations* (the
14 “Handbook”), Schedule 2 Filing Requirements requires applicants to provide evidence to
15 demonstrate the impact of the proposed transaction with respect to the OEB’s first two
16 statutory objectives. The Handbook recognizes that there are other instruments and tools
17 that will ensure that the OEB’s remaining statutory objectives, relating to conservation
18 and demand management, implementation of smart grid and the use and generation of
19 electricity from renewable resources, will not be adversely impacted by a consolidation.
20 Therefore, the Board has determined that there is no need or merit in further review of
21 these statutory objectives as part of a consolidation transaction¹.

22
23 **2.1 Objective 1 – Protect Consumers with Respect to Price and Adequacy,**
24 **Reliability and Quality of Electricity Service**

25 This Application demonstrates that the ongoing cost structures following the closing of
26 the transaction will result in expected ongoing operations, maintenance and

¹ Handbook, Page 6

1 administrative (“OM&A”) savings of approximately \$7.8 million per year and reductions
 2 in capital expenditures of approximately \$1.3 million per year (based on the level of
 3 savings achieved by Year 10). These efficiencies represent an ongoing OM&A reduction
 4 of approximately 65% of PDI’s Year 10 status quo forecast. This will result in downward
 5 pressure on PDI’s cost structures relative to the status quo and will be realized while
 6 maintaining adequacy, reliability and quality of electricity service. These savings are
 7 expected to continue beyond the 10-year deferred rebasing period. Table 1 illustrates the
 8 projected cost savings from this transaction. How these savings will be attained is further
 9 discussed in Section 2.2.

10

11 Table 1 savings, illustrated below, are based on a comparison of PDI’s operations as a
 12 stand-alone distribution company relative to the costs of operating PDI’s service territory
 13 once it is integrated within Hydro One. Year 1 in the table represents a 12 month period
 14 post-closing of the transaction. This period is assumed to most closely align with
 15 calendar year 2020.

16

17

Table 1: Projected Cost Savings - \$M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
OM&A										
Status Quo Forecast	9.7	9.9	10.1	10.3	10.6	10.8	11.1	11.4	11.7	12.0
Hydro One Forecast	8.7	4.5	4.3	3.8	3.9	3.9	4.0	4.1	4.2	4.2
Projected Savings	1.0	5.4	5.8	6.5	6.7	6.9	7.1	7.3	7.5	7.8
Capital										
Status Quo Forecast	6.2	6.4	6.0	6.2	6.4	6.5	6.7	6.9	7.0	7.2
Hydro One Forecast	6.0	7.5	5.4	5.1	5.7	7.1	5.4	5.6	5.7	5.9
Projected Savings	0.2	(1.1)	0.6	1.1	0.7	(0.6)	1.3	1.3	1.3	1.3

1 Hydro One's 2017 OM&A cost to serve customers in its high density residential rate
2 class (UR) is \$179/customer², compared to PDI's cost of \$241/customer³. Hydro One's
3 urban rate class covers areas containing 3,000 or more customers with a density of at
4 least 60 customers per circuit kilometre. As such, it is reasonable to believe that if this
5 transaction proceeds, Hydro One will be able to serve PDI's service area, which has
6 approximately 37,000 customers and a density of 65 customers per km of line, at a cost
7 that is comparable to Hydro One's UR rate class.

8
9 **Price of Electricity Service**

10
11 Hydro One's application provides substantial rate benefits to former customers of PDI
12 during the deferred rebasing period. Firstly, rate base in the PDI territory has increased
13 since PDI's rates were last reset. There has been \$22.7 million in capital expenditures
14 incurred between 2014 and 2017, and additional capital expenditures are forecast to
15 continue throughout the deferred rebasing period. Hydro One's proposal absorbs this 16-
16 year (2014-2029) in-service capital increase thereby shielding PDI ratepayers from
17 substantive rate increases they would have otherwise experienced under the status quo
18 (absent this transaction). Secondly, Hydro One is foregoing any IRM rate increases in
19 years one through five as permitted under the OEB's consolidation policy, resulting in the
20 benefit of lower rates throughout the deferred rebasing period.

21
22 The acquired PDI customers will have rates adjusted during the deferred rebasing period
23 as discussed below.

² EB-2016-0081, 2017 Draft Rate Order Filed November 18, 2016.

³ Average value for all PDI customers as shown in the 2017 OEB Yearbook. For the PDI residential class (which comprises ~ 90% of their customers), the cost to serve is estimated to be \$187/customer, calculated by dividing the forecast OM&A cost for the residential class, (taken from PDI's cost allocation model supporting the 2013 rates rebasing [EB-2012-0160], filed on August 14, 2013) by the forecast residential customer total in that application. I.e. $\$5,938,842 / 31,758 = \187 per residential customer.

1 Detailed calculations of customer bill impacts and the determination of the rate riders can
2 be found in **Attachment 7** and **Attachment 8**. For the purpose of this application, Hydro
3 One proposes the residential variable rider, to effect the 1% reduction between years one
4 to five of the deferral period, be rounded to five decimal places. This is an exception to
5 the OEB’s general rule, of four decimal places. The five decimal places will facilitate
6 Hydro One providing a rider to benefit PDI customers. The other riders will continue to
7 be rounded to four decimal places, per OEB policy⁸. The proposed rate schedules, which
8 include the requested rate rider for the area currently served by PDI, effective after
9 closing, are filed as **Attachment 9**.

10
11 The cost of providing this rate rider (approximately \$135,500 per year⁹) will be recovered
12 from synergies that are generated from consolidating PDI’s operations into Hydro One.
13 This negative rate rider will be discontinued at the end of Year 5 of the deferral period.

14
15 PDI’s residential distribution rates will continue to be adjusted to move to a fully fixed
16 distribution charge, per OEB Policy “*A New Distribution Rate Design for Residential*
17 *Customers*” (EB-2012-0410). In EB-2015-0097, the OEB approved a four-year transition
18 period for PDI to move to fixed rates, beginning in 2016 and is expected to culminate in
19 fully fixed residential rates by the end of 2019.

20
21 All other PDI tariffs will remain as approved in PDI’s last rate order¹⁰; with the exception
22 of Specific Service Charges (“SSCs”) which Hydro One is seeking approval to amend to
23 align with the SSCs as approved, or will be approved¹¹, by the OEB for Hydro One

⁸ Hydro One asked the Board to approve a variable rate rider to five decimal places in EB-2017-0049 Exhibit H1 Tab 1 Schedule 1

⁹ Based on the Residential, General Service and Large Use rate class revenues from the OEB 2017 Yearbook for PDI (totaling (\$13,555k) multiplied by 1%

¹⁰ EB-2017-0266

¹¹ Hydro One has proposed updates to its SSCs in its 2018-2022 distribution rate filing [EB-2017-0049], currently before the OEB.

1 Distribution, upon integration of 1937680's assets into Hydro One.
2

3 *Specific Service Charges*
4

5 Amending PDI's rate schedules to reflect Hydro One's SSCs is the most reasonable and
6 cost-effective solution. This approach simplifies and reduces the cost of billing system
7 modifications and/or manual workarounds to accommodate different charges, reduces
8 call centre staff training and provides for a consistent customer experience. As noted in
9 Section 3.0 of Exhibit A, Tab 1, Schedule 1, the Hydro One SSCs would apply after
10 transfer of the distribution assets from 1937680 to Hydro One.
11

12 *Rate Riders*
13

14 Table 3 below is a (i) summary of PDI's current Rate Riders, and (ii) 1937680's and
15 Hydro One's request for those applicable rate riders.
16

17 **Table 3: Proposed updates to PDI's Rate Riders**

Current PDI Rider Description	Proposed Rider Description or Amendments in Proposed 2020 Rate Schedules
Smart Metering Entity Charge ¹² – effective until December 31, 2022	Will remain in effect until December 31, 2022
Rate Rider for Disposition of Global Adjustment Account (2018) - effective until April 30, 2019 <i>Applicable only for Non-RPP Customers</i>	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.
Rate Rider for Disposition of	This Rider expires in April, 2019. It will be

¹² The Smart Metering Entity Charge is a component of the "Distribution Charge" on a customer's bill, established by the OEB through a separate order. Decision and Order, EB-2017-0290, March 1, 2018

Deferral/Variance Accounts (2018) - effective until April 30, 2019	deleted if the transaction closes after this date.
Rate Rider for Disposition of Capacity Based Recovery Account (2018) - effective until April 30, 2019 <i>Applicable only for Class B Customers</i>	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.
Rate Rider for Disposition of Deferral/Variance Accounts (2018) - effective until April 30, 2019 <i>Applicable only for Non-Wholesale Market Participants</i>	This Rider expires in April, 2019. It will be deleted if the transaction closes after this date.

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Rate-setting in Years 6-10 of the Deferred Rebasing Period

Beginning in year six through to year ten, rates for the former customers of PDI will be set using the Price Cap adjustment mechanism, as outlined in the Board’s Report: “*Rate Making Associated with Distributor Consolidation*” issued March 26, 2015 (“Amended Report”). 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.

Rate-setting Post the Deferred Rebasing Period (Future Cost Structures)

The OEB, in Hydro One’s EB-2016-0276 decision, indicated that it wants information on future cost structures that will underpin rate-setting for acquired customers in the post-deferral period. As a result, Hydro One is filing evidence on potential rate setting mechanisms in years 11 and beyond (see **Exhibit A, Tab 4, Schedule 1**).

1 *Earnings Sharing Mechanism (“ESM”)*

2

3 Since Hydro One is requesting a 10-year deferred rebasing period, Hydro One will also
4 be implementing an ESM, in accordance with the Amended Report. As outlined in the
5 Handbook, the ESM as set out in the Amended Report may not achieve the intended
6 objectives for all types of consolidation proposals. Hydro One is therefore proposing an
7 ESM that protects PDI customer interests during the extended deferred rebasing period.
8 Further details on Hydro One’s proposed ESM are found in **Exhibit A, Tab 3, Schedule**
9 **1.**

10

11 *Hydro One Legacy Customers*

12

13 The proposed transaction also protects Hydro One’s existing legacy customers. On
14 March 31, 2017, Hydro One filed a five-year Custom Incentive Regulation (EB-2017-
15 0049) application for rates effective from 2018 through to 2022, which is currently
16 awaiting a Board decision/approval. That application did not include any costs
17 associated with serving the customers of PDI. Costs to serve PDI customers will not be
18 included in any Hydro One revenue requirement application until the deferred rebasing
19 period has expired.

20

21 **Adequacy, Reliability and Quality of Electricity Service**

22

23 If the relief requested in this Application is granted by the OEB, PDI’s regulated
24 distribution assets will be transferred to, and owned by 1937680. The subsequent transfer
25 of the distribution system from 1937680 to Hydro One Networks Inc. is expected to
26 occur up to 18 months thereafter. Once integration is complete, the assets will be
27 integrated with, and form part of Hydro One’s existing distribution system. This change
28 in control is expected to maintain or improve adequacy, reliability and quality of service.

1 Hydro One endeavors to maintain or improve reliability and quality of electricity service
 2 for all of its customers. Hydro One currently has existing assets serving many customers
 3 in close proximity to the current PDI service territory (please see map filed as
 4 **Attachment 10**), making Hydro One a natural consolidator for PDI. As part of the
 5 proposed consolidation, Hydro One will retain local knowledge from existing PDI staff.
 6 This local knowledge, in coordination with Hydro One’s regional operations and staff,
 7 will allow Hydro One to maintain or improve reliability.

8
 9 The existing reliability metrics for PDI and Hydro One’s local metrics are provided in
 10 Table 4 below. Hydro One has used distribution stations (Lily Lake D.S., Springville
 11 D.S., Burnham D.S., Bensfort Bridge D.S.)¹³ in the vicinity of PDI to compare with
 12 PDI’s metrics provided in the OEB Yearbook.

13
 14 **Table 4: Reliability Metrics***

	2014	2014	2015	2015	2016	2016	2017	2017
	Hydro One	PDI ¹⁴	Hydro One	PDI	Hydro One	PDI	Hydro One	PDI
Duration (SAIDI)	5.35	0.90	5.78	3.59	2.09	2.01	3.72	2.22
Frequency (SAIFI)	2.01	0.83	1.49	2.81	0.89	2.34	1.18	2.53

15 *Excluding LOS¹⁵

16
 17 Based on recent reliability statistics, Hydro One customers in the vicinity of the City of
 18 Peterborough experienced a level of service in terms of duration and frequency of
 19 interruptions similar to the level experienced by PDI customers. In terms of duration of
 20 outages, PDI performed better in all years. In terms of frequency of outages. Hydro One

¹³ The location of the four Hydro One distribution stations are identified on the Hydro One’s Distribution Service Area Map provided in Attachment 11.

¹⁴ Data-source is the OEB Yearbook

¹⁵ Loss of Supply (“LOS”) interruptions attributable to assets that are not part of the Hydro One Distribution System or the PDI Distribution System

1 performed better than PDI in all years except 2014. Hydro One anticipates that PDI's
2 service territory reliability may in fact improve with the combination of pre-existing
3 Hydro One and former PDI resources optimized for the broader Peterborough area.

4
5 In the long term, PDI customers are expected to benefit from operational efficiencies
6 expected by having the PDI assets integrated into Hydro One's larger distribution system.
7 Scale efficiencies are expected in the areas of operating and maintaining the distribution
8 system, planning capital replacement and the overhead and management functions. The
9 foregoing is discussed further in Section 2.2. Hydro One is committed to ensuring that
10 quality and reliability of the former PDI customers' electricity service will not be
11 adversely impacted as a result of this transaction. As the Board indicated in the EB-
12 2016-0276 Board Decision, Hydro One will be required to report on reliability and
13 quality of service metrics, thus if there is a risk of harm to Hydro One's customers, the
14 OEB's reporting requirements will make this apparent and the OEB will ensure it will be
15 addressed.

16
17 **Other Items**

18
19 There are no net metering customers in the current PDI service area. Therefore, the net
20 metering thresholds as a result of this consolidation will remain unchanged.

21
22 1937680 has agreed to establish an Advisory Committee to provide a forum for
23 communication between 1937680 and the community. Under the terms of the
24 Agreement, the City may appoint two representatives to the Advisory Committee, and
25 1937680 will appoint one senior Hydro One employee and one local Hydro One
26 employee.

27 AmalCo will retain the current PDI Operating and Administration centre on Ashburnham
28 Drive. 1937680 has agreed to enter into a five-year lease agreement with PUSI to lease

1 this centre. Conditional on the completion of the sale, Hydro One intends to commence
2 construction, during the lease period, of a permanent operations and administration
3 building within the City of Peterborough.

4
5 **2.2 Objective 2 – Promote Economic Efficiency and Cost Effectiveness and**
6 **Facilitate the Maintenance of a Financially Viable Electricity Industry**

7 Hydro One submits that this transaction will promote economic efficiency and cost
8 effectiveness which will result in lower ongoing cost structures.

9
10 Economic efficiency is attained through sector consolidation, which ultimately eliminates
11 redundant activities. Cost effectiveness reduces OM&A and capital expenditures and is
12 achieved by leveraging Hydro One’s economies of scale. These together result in
13 sustained operational efficiencies, both quantitative and qualitative.

14
15 With the integration of PDI’s operations with Hydro One’s existing operations, Hydro
16 One expects sustained operational efficiencies to be realized in distribution operations,
17 administration, information technology and customer service.

18
19 *Staff Integration*

20
21 As Hydro One already has an operating organization in place that provides many of the
22 same functions as PDI, certain duplicative functions will no longer be required. Direct
23 staff, such as line and forestry employees, work directly on the distribution assets. PDI’s
24 direct staff will be integrated into Hydro One’s local operations and will become part of
25 the area’s pool of resources working within the larger Hydro One service area, which
26 encompasses PDI’s current service territory. Hydro One will expand its current Central
27 region to include the PDI service territory. Hydro One will expand its local complement
28 of direct positions by only 13 staff to serve the expanded Central region, compared to the

1 17 direct positions currently required by PDI to operate only the existing PDI service
2 territory. The remaining 4 PDI direct staff will be absorbed into vacancies within Hydro
3 One. Therefore, the result is a net reduction of 4 local trades and technical positions to
4 serve the same territory.

5

6 Staff not working directly on the distribution assets are considered support staff such as
7 back-office, customer service, finance, etc. In addition to its own support staff, PDI
8 receives support services from affiliate PUSI and its complement of personnel. The 22
9 PDI operations support personnel will be absorbed into vacancies within Hydro One. In
10 addition, up to 23 PUSI support staff are expected to move to positions within Hydro One
11 once integration is complete. Although certain functions and positions will be
12 rationalized as part of the integration process (leading to efficiency gains), Hydro One,
13 due to its size and current staff retirement profile, is able to offer continued employment
14 to existing PDI and PUSI staff who will be transferred to Hydro One. PDI and PUSI
15 personnel currently in direct and support roles will have the opportunity to transition to
16 existing positions within the Hydro One organization. This will allow Hydro One to
17 leverage the industry knowledge of existing PDI and PUSI staff to meet customer needs.
18 As Hydro One will now be planning the electricity requirements for the entire
19 Peterborough area, it will be able to more efficiently manage both the operating and
20 capital costs associated with serving customers across the area.

1 *Distribution Operations*

2

3 Local area operating and capital savings will result in a more efficient distribution system
4 due to the elimination of an artificial electrical boundary and thereby realizing benefits
5 from contiguity.

6

7 Hydro One's existing service territory is situated immediately adjacent to the territory
8 served by PDI. The geographic advantage of contiguity allows for economies of scale to
9 be realized at the field and operational levels through the eventual integration of PDI's
10 and Hydro One's local systems.

11

12 The elimination of the artificial electrical boundary between these contiguous distributors
13 will result in operational efficiencies in various areas. Hydro One will be able to
14 rationalize local space needs through the elimination or repurposing of duplicate facilities
15 such as service and operating centres; more efficiently schedule operating and
16 maintenance work and dispatch crews over a larger service area; and, more efficiently
17 utilize work equipment (e.g., trucks and other tools), leading to lower capital replacement
18 needs over time. The elimination of the service area boundary allows for more rational
19 and efficient planning and development of the distribution system. All of the above
20 provide the potential to result in operating and capital savings, both immediate and over
21 time, which will provide long-term benefits to ratepayers relative to the status quo.

22

23 This geography situation is common throughout the Province and is shown in the
24 attached map (see **Attachment 11**) depicting the current fragmented pattern of the local
25 distribution system, with small- and medium-sized LDCs contiguous to or surrounded by
26 Hydro One.

1 Hydro One’s Asset Risk Assessment (“ARA”) process will also assist in achieving
2 ongoing distribution operational efficiencies. Hydro One’s ARA process determines the
3 state of Hydro One’s distribution system, identifies current asset needs, and creates a line
4 of sight to future needs, which enables an in-depth view of asset risk, and improved
5 decision-making. The ARA incorporates field asset assessment including visual
6 inspections and evaluation. This process allows Hydro One to assess the state of its
7 assets, assess the risks that those assets pose, and to develop appropriate plans in order to
8 ensure reliability and service quality are met. This assessment will allow Hydro One to
9 consider the state of the PDI distribution system, identify current asset needs, and create a
10 line of sight to future asset needs.

11

12 *Administration*

13

14 Sustained administrative efficiencies will result due to (a) the elimination of redundant
15 activities and (b) efficiencies resulting from economies of scale.

16

17 The following activities performed by PDI, or obtained by PDI through a service
18 agreement from PUSI, provide examples of what will be consolidated into Hydro One’s
19 portfolio of activities.

20

- Financial: financial accounting, planning, forecasting, management reporting, procurement, treasury, tax, and audit functions.

21

- Regulatory and legal: rate-setting applications, OEB initiatives, compliance, RRR reporting, and other regulatory reporting (e.g., CDM program administration costs, IESO Market Rules).

22

23

- Executive and governance: duplicative functions performed by PDI senior management would be eliminated, and PDI’s Board of Directors would no longer be required.

24

25

26

27

- 1 • Human Resources: Hydro One will have savings in recruitment, training, and staff
2 development costs, as trained and experienced PDI staff will be available to
3 Hydro One to replace expected retirements and other attrition. As well, there will
4 be a reduction in external consultants and contractor engagement between the two
5 companies.

6
7 Benefits are also expected to accrue to various agencies within the Ontario energy
8 industry. For example, the costs to regulate and administer the sector may be reduced as
9 this and further acquisitions are completed. The IESO, the OEB, and Ministry of Energy,
10 Northern Development and Mines can achieve potential savings through reduced
11 regulatory burden and industry oversight. Further, enhanced regional planning
12 efficiencies may also be achieved by having fewer distribution companies planning for
13 larger areas. For instance, capital can be deployed more efficiently than with the current
14 fragmented approach.

15
16 *Information Technology*

17
18 A larger customer base resulting from the creation of a larger regional distributor leads to
19 costs for processing systems, such as billing, customer care, human resources and
20 financial, being spread over a larger group of customers. Consolidation of these
21 functions is expected to result in efficiency benefits as duplicate systems are eliminated,
22 leading to lower capital, operating and maintenance costs over time.

23
24 The integration of Hydro One and PDI will allow for efficiency gains to be realized
25 through eliminating duplication in transaction-processing functions. For example, Hydro
26 One currently processes financial, human resource, information technology, and work
27 management transactions for its existing customers and staff. PDI processes very similar

1 transactions for its own service area. This means that if the transaction proceeds, Hydro
2 One has the opportunity to eliminate these sources of duplication.

3
4 *Customer Service*

5
6 Hydro One is undergoing a historic customer service transformation. From front line
7 service repairs to operational planning to Board of Directors meetings, Hydro One is
8 today more sharply focused on what's best for the customer. The following describes
9 some of the initiatives and ongoing customer services that Hydro One provides its
10 customers, and which would be offered to the customers of PDI.

11
12 *Call Centre*

13 Responding to requests for more convenient hours that fit customer schedules, Hydro
14 One has Contact Centres open on Saturdays from 9:00 a.m. to 3:00 p.m. and extended
15 weekday hours from 7:30 a.m. to 8:00 p.m. – making Hydro One the first electricity
16 service provider in Ontario to do so. For power outages and other emergencies, Hydro
17 One provides 24 hour assistance. The Hydro One Call Centre is open 4½ hours per day
18 longer, on Monday to Friday, than PDI's call centre and is supported by an award-
19 winning 24/7 Interactive Voice Response (“IVR”) system in addition to customer service
20 staff. This IVR provides customers the ability to self-serve, for example to report power
21 outages or execute common account needs such as obtaining their account balance. This
22 allows the customer to quickly and accurately get responses to many of their inquiries
23 and allows call centre agents to focus on the more complex questions. Hydro One also
24 insourced its Contact Centre representatives back from a third-party provider, allowing
25 Hydro One employees to better serve customers, by providing a more seamless
26 experience. This transition has also delivered improved service quality. By coming back
27 into the organization, the customer representatives will play a large part in advancing
28 Hydro One's renewed service culture, assuring customers they are now connecting

1 directly with Hydro One service leaders and decision makers who will be better equipped
2 to serve them.

3
4 *Increased Community Service and Presence:*

5 Hydro One continues to increase its presence in local communities through drop-in
6 sessions, its mobile Electricity Discovery Centre and by opening regional customer
7 service desks at the Sudbury Field Business Centre and piloting customer service offices
8 at the London and Markham Contact Centres. Hydro One also has a traveling customer
9 service team that visited over 20 cities and towns, and made over 50 visits to Indigenous
10 communities throughout the year, meeting customers face-to-face to help answer
11 questions about their bills, provide information about smart meters and help them learn
12 more about conserving energy and reducing their usage.

13
14 *Outages*

15 When an outage occurs, Hydro One customers can use other channels, such as online
16 access via smart-phone or other battery-charged laptops and devices for information
17 about outage details, including estimated restoration time. Customers have the option to
18 sign up for e-mail or text outage notifications. PDI customers currently do not have
19 these outage notifications, but upon integration, these channels will be become available
20 to PDI customers as well.

21
22 *Initiatives to Help Customers Manage their Bills*

23 Hydro One helps customers reduce their monthly bills through electricity conservation
24 programs. Hydro One is committed to delivering industry leading Conservation and
25 Demand Management (“CDM”) initiatives that help customers save on their electricity
26 usage and bills. PDI customers would benefit from provincial programs that are not
27 currently included in PDI’s CDM Plan such as the Process and System Upgrade Program,
28 Energy Manager, and Social Benchmarking as well as other Hydro One leading edge

1 offerings including the Green Button and Air Source Heat Pump programs. Hydro One
2 also eliminated security deposits for residential customers and significantly reduced
3 deposit requirements for business customers and expanded relief measures to help
4 customers who accumulated balances on their accounts over the winter. Customers can
5 sign up for digital notices that include notifications that their eBill is ready, how much
6 electricity they are consuming mid-month, and payment receipt alerts. All of these alerts
7 provide Hydro One customers with the information they need to effectively manage their
8 energy consumption and their finances. Additionally, Hydro One provides a range of
9 support to Indigenous customers through the First Nations Delivery Credit, First Nations
10 Conservation program and Hydro One's Get Local program.

11
12 *New Services*

13 Hydro One has redesigned the *HydroOne.com* website and *myAccount* self-service portal
14 to make them more intuitive, providing an array of information and tools, such as *Predict*
15 *My Bill*. The format of Hydro One's electricity bills were also completely redesigned
16 following extensive research and substantial direct feedback from thousands of
17 customers. The new, easy to understand electricity statements began in December 2017.
18 The new version of the bill also translates well digitally as an e-bill on both web and
19 mobile applications. The new bill changes have seen improvements to our customers
20 understanding of their bills.

21
22 *Service Guarantees*

23 Hydro One was the first electric utility in Ontario to offer Service Guarantees. These
24 guarantees provide tangible evidence that Hydro One is prepared to stand behind the
25 service provided to its customers. If Hydro One fails to meet commitments (e.g., misses
26 an appointment, takes longer than 5 business days to connect a new service once all

1 connection requirements are met, does not return a phone call within one business day)¹⁶,
2 the residential customer's account is proactively credited \$75.

3
4 *Incremental Transaction and Integration Costs*

5
6 Both parties to the transaction will have incurred some incremental costs associated with
7 the transaction.

8
9 Hydro One's incremental transaction costs are estimated to be approximately \$0.2
10 million. These include legal, and tax costs relating to completion of the transaction, and
11 costs associated with the necessary regulatory approvals.

12
13 Integration costs include incremental up-front costs to transfer the customers into Hydro
14 One's customer and outage management. These costs are estimated to be approximately
15 \$9 million. Hydro One is not expecting to incur any ongoing integration costs.

16
17 All of the above incremental costs will be financed through productivity gains associated
18 with the transaction, will not be included in Hydro One's revenue requirement, and thus
19 will not be funded by ratepayers.

20
21 *Financial Viability/Premium/Financing*

22
23 As contemplated in the Agreement, 1937680 has agreed to purchase the business and
24 distribution assets of PDI. The purchase price of \$105.0 million for the net assets of the

¹⁶ The terms and conditions for these Service Guarantees can be found at:
<https://www.hydroone.com/about/corporate-information/our-service-guarantees>

1 business represents the commercial value established through negotiations with an arms-
2 length third party.¹⁷

3
4 The premium paid over the asset's book value will not have a material impact on Hydro
5 One Inc.'s financial viability. This transaction price accounts for less than 2% of Hydro
6 One Distribution's net fixed assets. In addition, the premium paid will not be included in
7 Hydro One's revenue requirement and thus will not be funded by ratepayers. Copies of
8 PDI's, Hydro One Distribution's and Hydro One Inc.'s Financial Statements for 2016 and
9 2017 are provided in **Attachments 12 to 17**.

10
11 HOI will initially finance the proposed transaction through cash or its short-term
12 commercial paper program, which is operational and fully backed by a syndicated bank
13 line of credit maturing June 2022. Long-term financing will be through its Medium-
14 Term Note program, which is fully operational and valid until April 2020, and planned to
15 be renewed thereafter.

16 17 **3.0 OTHER RELATED MATTERS**

18 19 *Regulatory Assets and Rate Riders*

20
21 PDI's deferral and variance accounts will be held separately from Hydro One Network's
22 deferral and variance accounts. The Report of the Board on Electricity Distributors'
23 Deferral and Variance Account Review Report ("EDDVAR") provides that under the
24 Price Cap IR, the distributor's Group 1 audited account balances will be reviewed and
25 disposed if the pre-set disposition threshold is met. In the letter Update to EDDVAR
26 Report, released July 2009, dated July 25, 2014, distributors may seek to dispose Group 1

¹⁷ As contemplated in the asset purchase agreement, the final purchase price is subject to closing adjustments.

1 balances that do not exceed the threshold. Hydro One will comply with this policy during
2 the deferred rebasing period and will propose disposition of the former PDI Group 1
3 balances once they meet the threshold established by the Board, consistent with this
4 policy.

5
6 PDI is requesting a rate rider to reduce the residential, general service and Large User
7 rate classes' Base Distribution Delivery Rates that are in effect at the time this transaction
8 closes, by 1% for years one through five of the deferral period. All other PDI rate riders
9 will continue as per their existing rate schedules until expiry.

10
11 The PDI regulatory assets currently approved by the OEB will continue to be tracked in
12 their respective accounts, and disposition will be sought at a future date.

13
14 Also, Hydro One requests approval to establish and use a regulatory account to track
15 costs associated with the proposed ESM, which is proposed to be active in the deferral
16 period years six through ten as part of this Application. If approval is granted, Hydro One
17 will submit a Draft Accounting Order for the Board's approval either as a condition of
18 this Application's approval, or as a subsequent filing. More detail on Hydro One's
19 proposed ESM is at **Exhibit A, Tab 3, Schedule 1**.

20
21 *Incremental Capital Module*

22
23 To encourage consolidation, the Handbook has now explicitly extended the availability of
24 an ICM, for any prudent discrete capital projects, for consolidating distributors that are
25 on either Price Cap Incentive Regulation ("PCIR") or Annual IR Index. Currently, PDI
26 rates are set in accordance with PCIR.

1 Hydro One understands, from the Handbook, that an ICM will be made available for the
2 former PDI service territory should the need arise. Hydro One currently has no plan to
3 apply for ICM relief during the deferred rebasing period, however if circumstances
4 prevail where Hydro One does require an ICM, the details pertaining to the ICM will be
5 provided in that future application.

6
7 *US GAAP*

8
9 PDI's financial statements are currently prepared in accordance with International
10 Financial Reporting Standards ("IFRS"). Hydro One Distribution received OEB
11 approval to utilize US Generally Accepted Accounting Principles ("US GAAP") as its
12 approved framework for rate setting, regulatory accounting and regulatory reporting in
13 the Decision with Reasons in EB-2011-0399 (issued on March 23, 2012). In addition, in
14 the Hydro One Norfolk MAAD (EB-2013-0187/196/198) Decision and Order, the Board
15 decided that using US GAAP methodology in accounting for Norfolk Power Distribution
16 Inc. (the acquired utility) will be more efficient than continuing to use Modified IFRS.
17 Since that Decision, the OEB has also approved the use of US GAAP for Haldimand
18 County Hydro Inc. (EB-2014-0244) and Woodstock Hydro Services Inc. (EB-2014-0213)
19 in their MAAD applications.

20
21 Hydro One requests similar approval to utilize US GAAP for accounting purposes in
22 relation to the ongoing business of the former PDI. Approval to use US GAAP for PDI
23 will simplify any future rate integration, will avoid incremental costs or productivity
24 losses by simplifying processes and avoiding the need for workarounds, and will
25 facilitate Hydro One Inc.'s consolidated reporting for securities filing purposes (including
26 future U.S. Securities and Exchange Commission), thus avoiding incremental costs
27 and/or reduced productivity. By using one uniform standard of reporting, Hydro One
28 seeks to achieve integration and scale efficiencies. Given the relative small size of the

1 PDI operations (when compared to Hydro One), Hydro One believes it would be
2 inefficient and costly to maintain two different accounting regimes for divisions within
3 Hydro One.

4
5 *Compliance Matters*

6
7 Pending approval of this transaction and after notification to the Board that integration is
8 completed, PDI's distribution system and Rate Order (which at the time will be held by
9 1937680) will be transferred to Hydro One, and Hydro One's distribution licence will be
10 amended to include the PDI service territory. The customers, assets, systems, processes
11 and operations of PDI will be fully integrated into Hydro One's business activities.

12
13 Hydro One confirms that it is materially in compliance with its regulatory requirements,
14 subject to any approved regulatory exemptions. The list of specific code requirements
15 from which Hydro One has been exempted can be found in Schedule 3 of Hydro One's
16 Electricity Distribution Licence.

17
18 To the best of PDI's knowledge, it is in compliance with all relevant licence and code
19 requirements per its Electricity Distribution Licence. It is expected that following the
20 approval and completion of the transaction and after integration of PDI's distribution
21 business activities into those of Hydro One, Hydro One will continue to be materially
22 compliant with all applicable Legislation, Regulations, Market Rules, other Licence
23 Conditions and Codes.

24
25 Hydro One's compliance policy will continue to require that confirmed instances of non-
26 compliance be disclosed and mitigated as necessary including applications for
27 exemptions from such requirements, if necessary. Any potential instances of non-

1 compliance associated with PDI's distribution business activities will be addressed during
2 the integration process.

3

4 During the period after closing of the transaction and prior to full integration, service
5 level agreements in compliance with the OEB's *Affiliate Relationships Code for*
6 *Electricity Distributors and Transmitters* will be drafted between 1937680 and Hydro
7 One affiliates.

8

9 **SUMMARY**

10

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