EB-2019-0261

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, being Schedule B to the *Energy Competition Act, 1998*, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Hydro Ottawa Limited to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity effective January 1, 2021.

INTERROGATORIES OF

THE BUILDING OWNERS AND MANAGERS ASSOCIATION ("BOMA")

May 11, 2020

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Exhibit 1 – Updated Administration

Bill Impacts

1-BOMA-1

Ref: Updated Exhibit 1/Tab 1/Schedule 4/pp. 3-4; Exhibit 1/Tab 1/Schedule 5/pp. 19

Question(s):

(a) Please identify the source of the figures set out in original and updated Tables 1 and 2.

(b) Please provide a table in the form of Table 15 which provides historical rate and bill impacts for the years 2016 through 2020.

Changes to Methodologies Used in Previous Applications

1-BOMA-2

Ref: Updated Exhibit 1/Tab 1/Schedule 4/pp. 5

Preamble:

Hydro Ottawa states that in light of the modifications to the Conservation First Framework, its Application is proposing to rate-base certain conservation and demand management activities for all classes of customers, with a focus on commercial customers.

Question(s):

(a) Is the proposal to rate-base certain conservation and demand management for all classes of customers, with a focus on commercial customers consistent with the OEB's policy document for electricity distributor CDM (the CDM Requirement Guidelines (EB-2014-0278))?

Specific Relief Requested

1-BOMA-3

Preamble:

Hydro Ottawa is seeking approval to cease providing the transformer ownership credit effective November 1, 2025, as proposed in UPDATED Exhibit 8-1-1: Fixed/Variable Proportion.

Question(s):

(a) Please summarize the rationale for the proposal to cease providing the transformer ownership credit effective November 1, 2025.

1-BOMA-4

Ref: Exhibit 1/Tab 3/Schedule 4/Attachment A/pp. 1

Preamble:

Hydro Ottawa Limited (the "Utility") is a wholly-owned subsidiary of Hydro Ottawa Holdings Inc. ("Holdings") (see organization chart at p3 of the reference), which is a wholly-owned subsidiary of the City of Ottawa. Holdings raises the debt required to support both the Utility and Holdings' two unregulated subsidiaries, Energy Ottawa Inc. and Envari Holdings Inc. Holdings then passes through to the Utility that portion of the debt that it has raised for the Utility and receives a series of promissory notes from the Utility in return (Exhibit 5, Tab 1, Schedule 1). Holdings' debt is public debt which is rated by both DBRS and Standard & Poor. Recent reports from each of DBRS and Standard & Poor are filed as part of this application. Holdings has stated that it wishes to expand the unregulated parts of its business in the next few years.

Question(s):

(a) In its September 25, 2019 ratings report, DBRS stated the following:

"On August 26, 2019, DBRS Limited (DBRS) changed the trends on the above-noted ratings of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) to Negative from Stable; the ratings were also confirmed at "A." The confirmations reflect the continued strength of the Company's regulated electricity distribution operations. The Negative trends reflect Hydro Ottawa's growing non-regulated electricity generation business (25.7% of 2018 EBIT) which DBRS considers higher risk than the regulated business. As EBIT from investments in the nonregulated segment has significantly exceeded the previously stated 20% threshold, DBRS introduced the Rating Companies in the Independent Power Producer Industry methodology in its assessment of Hydro Ottawa.

Hydro Ottawa's business risk profile continues to benefit from its stable regulated electricity distribution business in the City of Ottawa (the City; 100% owner of Hydro Ottawa). However, this is partly offset by the Company's growing portfolio of non-regulated electricity generation assets. Earnings from the non-regulated business increased significantly in 2018 with of a full year's contribution from the 29-megawatt (MW) facility at Chaudière Falls (the Chaudière Falls Expansion; completed in August 2017). While non-regulated earnings are expected to decrease for 2019 during the Chaudière Hydro North and Hull Energy Refurbishments (the Refurbishments; total of 39 MW), DBRS estimates that following the Refurbishments, non-regulated operations will, on average, contribute around 30% to 35% of total annual EBIT. DBRS considers this to be a material and permanent shift in the business mix of the Company going forward, hence the introduction of the additional methodology. While Hydro Ottawa's generation assets are largely supported by long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS), this business segment does involve higher volume and operational risk when compared with the incumbent regulated business and could potentially result in more volatile earnings and cash flows. DBRS will likely downgrade the ratings of Hydro Ottawa by one notch to A (low) and change the trends back to Stable from Negative following the completion of the Refurbishments in mid-2020 as non-regulated operations will then represent a significant portion of the Company's operations.

Hydro Ottawa's financial risk profile weakened in the last 12 months ending June 30, 2019 (LTM 2019), because of the large capex program for maintaining distribution infrastructure, connecting new customers and the Refurbishments. DBRS notes the Company issued around $290.5 million of project-level debt in July 2019 to finance the Refurbishments. This project-level debt will become non-recourse to Hydro Ottawa once it reaches the recourse release dates (expected by year-end 2020) after the completion of each refurbishment. DBRS then expects the Company's key credit metrics to strengthen. However, should the Company's key credit metrics deteriorate to a level no longer commensurate with the current rating category, considering the mix of the regulated and non-regulated businesses, further negative rating actions may occur".

In the event that DBRS were to lower the Holdings' rating by one notch to A (low), please estimate the increase in the interest rate(s) that Holdings would need to pay on its bond and debenture issues going forward.

(b) Please confirm that under the pass-through mechanism, referred to in the preamble, the Utility's interest rate on its promissory notes to Holdings would increase by the same amount.

(c) Please indicate whether the refurbishments referred to in the excerpt from the ratings report have been completed and that non-regulated operations will, on average, contribute about thirty to thirty-five percent of total annual EBIT.

(d) Please advise what steps the Utility intends to take in conjunction with Holdings and the City of Ottawa, or otherwise, to ensure that its ratepayers do not have to pay an additional interest charge on the Utility's debt, brought about by the continued increase in the non-regulated portion of Holdings' business, given the fact that Holdings raises debt for its overall business on an undifferentiated basis.

Exhibit 2 – Updated Rate Base Overview

Updated New Administrative Office and Operations Facilities

Project Benefits and Prudency

2-BOMA-1

Ref: Updated Exhibit 2/Tab 1/Schedule 1/Attachment A/pp. 10

Preamble:

Hydro Ottawa states that the Facilities Renewal Program was prudently managed throughout each phase and had an active governance, reporting and cost control structure. Potentially higher-than-anticipated costs were identified in advance and decisions made on a timely basis regarding appropriate trade-offs and changes.

Question(s):

(a) Please describe all trade-offs and changes that were made to bring the January 20, 2016 estimate of $124.7M back down to $96.3M that are in addition to reducing the size of the Administrative Office Building, reducing office workplace standards (Workplace 2.0 modified) and retaining the Bank Street facility for fleet and training?

(b) Please describe "Workplace 2.0 modified".