INTERROGATORY RESPONSE - BOMA-1

1-BOMA-1

EXHIBIT REFERENCE:

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

SUBJECT AREA: Bill Impacts

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.

RESPONSE:

a) The source of the figures set out in the original and UPDATED Tables 1 and 2 can be found in UPDATED Exhibit 8-12-1: Bill Impact Information. The supporting calculations can be found in Attachment 8-12-1(A): 2021-2025 Bill Impacts Model, as submitted on February 10, 2020, and in UPDATED Attachment 8-12-1(A): Bill Impacts Model, as submitted on May 5, 2020.

b) Please see Table A below for bill impacts for 2016-2020. Hydro Ottawa has included the 8% Provincial Rebate, Ontario's Fair Hydro Plan, Ontario Electricity Rebate, and Debt Retirement Charge, where applicable. Regulated Price Plan ("RPP") rates were used with an effective date of January 1 for each year. For Non-RPP customers, a weighted average RPP rate was used for the years 2015-2017. For Non-RPP customers for the years 2018-2020, the electricity rate presented in the OEB Bill Impacts model was used. Therefore, the total bill will not reflect any changes to the electricity rate.

Table A – 2016-2020 Distribution and Total Bill Impacts

Rate Class			Approved				
		2015	2016	2017	2018	2019	2020
Residential (750 kWh)	Distribution Charge	$27.22	$27.76	$27.94	$28.39	$28.34	$28.64
	Change in Distribution Charge		$0.54	$0.19	$0.44	-$0.05	$0.30
	% Distribution Increase		1.97%	0.68%	1.57%	-0.16%	1.06%
	% Increase of Total Bill		13.05%	-4.06%	-18.16%	-0.66%	4.50%
General Service <50 kW (2,000 kWh)	Distribution Charge	$58.72	$61.04	$63.29	$66.20	$68.27	$71.32
	Change in Distribution Charge		$2.32	$2.25	$2.91	$2.07	$3.05
	% Distribution Increase		3.95%	3.69%	4.60%	3.13%	4.47%
	% Increase of Total Bill		18.21%	-3.52%	-17.48%	-4.79%	6.23%
General Service 50 kW - 1,499 kW (250 kW)	Distribution Charge	$1,153.10	$1,191.12	$1,284.35	$1,346.28	$1,392.00	$1,461.93
	Change in Distribution Charge		$38.03	$93.23	$61.93	$45.73	$69.93
	% Distribution Increase		3.30%	7.83%	4.82%	3.40%	5.02%
	% Increase of Total Bill		11.41%	0.72%	-1.05%	-3.84%	-0.41%
General Service 1,500 kW - 4,999 kW (2,500 kW)	Distribution Charge	$12,915.68	$13,050.53	$14,024.93	$14,652.43	$15,095.93	$15,941.18
	Change in Distribution Charge		$134.85	$974.40	$627.50	$443.50	$845.25
	% Distribution Increase		1.04%	7.47%	4.47%	3.03%	5.60%
	% Increase of Total Bill		10.98%	0.75%	-0.95%	-3.83%	-0.24%
Large Use (7,500 kW)	Distribution Charge	$40,078.07	$40,403.32	$43,258.07	$45,013.82	$46,311.32	$48,420.32
	Change in Distribution Charge		$325.25	$2,854.75	$1,755.75	$1,297.50	$2,109.00
	% Distribution Increase		0.81%	7.07%	4.06%	2.88%	4.55%
	% Increase of Total Bill		11.19%	0.28%	-0.77%	-3.94%	-0.23%
Sentinel Lighting (0.4 kW)	Distribution Charge	$6.63	$7.54	$7.95	$8.78	$9.14	$9.53
	Change in Distribution Charge		$0.91	$0.41	$0.83	$0.36	$0.39
	% Distribution Increase		13.67%	5.48%	10.40%	4.11%	4.22%
	% Increase of Total Bill		21.33%	-3.00%	-9.93%	-1.73%	-2.62%
Street Lighting (1 kW)	Distribution Charge	$4.57	$5.80	$6.46	$6.83	$7.10	$7.76
	Change in Distribution Charge		$1.23	$0.66	$0.36	$0.27	$0.67
	% Distribution Increase		26.94%	11.38%	5.65%	3.95%	9.40%
	% Increase of Total Bill		9.99%	5.25%	-14.00%	-3.72%	34.56%
Unmetered Scattered Load (470 kWh)	Distribution Charge	$14.72	$14.49	$15.22	$15.88	$16.28	$17.08
	Change in Distribution Charge		-$0.23	$0.73	$0.65	$0.41	$0.79
	% Distribution Increase		-1.60%	5.07%	4.29%	2.55%	4.88%
	% Increase of Total Bill		17.29%	-3.28%	-17.44%	-4.74%	6.11%

INTERROGATORY RESPONSE - BOMA-2

1-BOMA-2

EXHIBIT REFERENCE:

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

SUBJECT AREA: CDM

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))?

RESPONSE:

a) Yes, the activities Hydro Ottawa has outlined in Exhibit 4-1-6: Conservation and Demand Management will support, and are consistent with, activities outlined in the Conservation and Demand Management Guidelines for Electricity Distributors.[1]

[1] Ontario Energy Board, *Conservation and Demand Management Guidelines for Electricity Distributors*, EB-2014-0278 (December 19, 2014).

INTERROGATORY RESPONSE - BOMA-3

1-BOMA-3

EXHIBIT REFERENCE:

UPDATED Exhibit 8-1-1: Fixed/Variable Proportion

SUBJECT AREA: Rate Design

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.

RESPONSE:

a) Please see the response to interrogatory OEB-162 for the rationale for the proposal to end the Transformer Ownership Credit.

INTERROGATORY RESPONSE - BOMA-4

1-BOMA-4

EXHIBIT REFERENCE:

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

SUBJECT AREA: Cost of Capital

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.

RESPONSE:

a) Please see the response to interrogatory VECC-92 part (b).

b) Hydro Ottawa continues to use the same approach and receives its financing on a "pass through" basis. This is so that in the event its parent company, Hydro Ottawa Holding Inc. (the "Holding Company"), issues external debt that is to be passed onto Hydro Ottawa, it would be passed on with the same rate, terms, and conditions achieved.

c) One of the generation plant refurbishments has been completed as contemplated in the DBRS report. Due to delays as a result of flooding and the COVID-19 pandemic, the larger project will not be completed in 2020 as originally planned. As such, the 30-35% EBIT contribution from unregulated operations will not occur in 2020.

d) As shown in UPDATED Exhibit 5-1-1: Cost of Capital and Capital Structure, Hydro Ottawa's forecast weighted long-term debt continues to be low and very favourable compared to its peers. Please see the response to interrogatory VECC-92 part (a) for a peer comparison.

Hydro Ottawa will continue to minimize its borrowing costs for rate-payers as has been realized historically. The five-year forecast reflects only two smaller long-term tranches, which will also assist in minimizing additional future borrowing costs for electricity customers. It is also important to note that the growth in the unregulated business has been largely financed at the project level and not through the Holding Company.

INTERROGATORY RESPONSE - BOMA-5

2-BOMA-1

EXHIBIT REFERENCE:

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

SUBJECT AREA: Facilities Renewal Program

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".

RESPONSE:

a) Please see Table A below for a list of trade-offs and changes that were made to bring the January 20, 2016 estimate of $124.7M back down to $96.5M.

Table A – List of Changes between Estimate of $124.7M and $96.5M ($'000,000s)

Re-Engineering of Building Designs, Sites and Interiors	
Reduce EC-2 inside parking and operational access ramp	*$3.6*
Re-engineer sites and building developments	*$3.1*
Revise office workplace standards (i.e. Workplace 2.0 Modified)	*$7.4*
Sub-total	***$14.1***
Program Retention	
Retain current functionality at Bank Street	***$9.5***
Other Adjustments	
Reduction of professional fees and capital contingencies	***$4.6***
TOTAL REDUCTIONS	***$28.2***

b) "Workplace 2.0 modified" standards are the *Federal Government Workplace 2.0 Fit up Standards*, as modified for Hydro Ottawa's specific requirements. For example, position titles and space assignments used in "Workplace 2.0" are for typical public service positions and levels (e.g. Assistant Deputy Minister, EX minus 2 level) for which there is no direct equivalent in the utility's organizational structure. Hydro Ottawa therefore used Workplace 2.0 as a reference guideline and established space allotments consistent with its positions and structure.