Ontario Energy Board | Commission de l'énergie de l'Ontario

BY E-MAIL

April 4, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.
Application to Amalgamate
OEB Staff Interrogatories
Ontario Energy Board File Number: EB-2022-0006

In accordance with Procedural Order No. 1, please find attached OEB staff's interrogatories in the above noted proceeding. The Applicants and all intervenors have been copied on this filing.

Responses to interrogatories, including supporting documentation, must not include personal information unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Yours truly,

Georgette Vlahos

Digitally signed by Georgette Vlahos
Date: 2022.04.04 14:29:46 -04'00'

Georgette Vlahos
Advisor, Electricity Distribution: Major Rate Applications & Consolidations

Attach.

*Responses to interrogatories, including supporting documentation, must not include personal information unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Kitchener Wilmot Hydro Inc. (KWHI) and
Waterloo North Hydro Inc. (WNHI) (the Applicants)

Application for approval to amalgamate

OEB Staff Interrogatories
EB-2022-0006

Staff-1
Affiliates
Ref: Application, pgs. 16-17

The pages in the reference above outline the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

(a) Please describe the extent to which the Applicants foresee LDC MergeCo utilizing the services of the affiliates identified post-amalgamation.

(b) If applicable, please describe the actions the Applicants will take to ensure all services provided by affiliates to LDC MergeCo will be procured and conducted in manner consistent with the Affiliate Relationships Code for Electricity Distributors and Transmitters.

Staff-2
Ref 1: Application, pg. 22
Ref 2: Application, pg. 25
Ref 3: Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, pgs. 11-12
Ref 4: Application, Attachment I, Merger Participation Agreement (MPA), Section 9.3

The Applicants are requesting leave to maintain two separate distribution rate zones: one for the KWHI service area and one for the WNHI service area for both the "10-year Deferred Rebasing Period" and the "Rate Harmonization Period", which the Applicants are defining as the 10-years following the 10-year deferred rebasing period.

The Application states that LDC MergeCo intends to propose in 2032 a "rate harmonization proposal". The phase-in of distribution rates is intended to minimize rate impacts to customers in the former KWHI service territory. Customer rates will be harmonized to ensure that all customers benefit from the merger as compared to where they would have been had the distributors operated in status quo.

Reference 3 (MAADs Handbook) states:

> Rate-setting following a consolidation will not be addressed in an application for approval of a consolidation transaction unless there is a rate proposal that is an integral aspect of the consolidation e.g. a temporary rate reduction. Rate-setting for the consolidated entity will be addressed in a separate rate application, in accordance with the rate setting policies established by the OEB. The OEB's review of a utility's revenue requirement, and the establishment of distribution rates paid by customers, occurs through an open, fair, transparent and robust process ensuring the protection of customers.[1]

The MAADs Handbook further states:

> To encourage consolidations, the OEB has introduced policies that provide consolidating distributors with an opportunity to offset transaction costs with any achieved savings. The 2015 Report [EB-2014-0138, *Rate-making Associated with Distributor Consolidation*][2] permits consolidating distributors to defer rebasing for up to ten years from the closing of the transaction. The 2015 Report also states that consolidating entities deferring rebasing for up to five years may do so under the policies established in the 2007 Report [*Report of the Board on Rate-Making Associated with Distributor Consolidation*][3]. [Footnote omitted] The extent of the deferred rebasing period is at the option of the distributor and no supporting evidence is required to justify the selection of the deferred rebasing period subject to the minimum requirements set out below.
>
> While the OEB has determined that allowing a longer deferred rebasing period is appropriate to incent consolidation, there must be an appropriate balance between the incentives provided to utilities and the protection provided to customers. The OEB will therefore require consolidating distributors to identify in their consolidation application the specific number of years for which they choose to defer. It is <u>not</u> sufficient for applicants to state that they will defer rebasing for up to 10 years. Distributors must select a definitive timeframe for the deferred rebasing period. This will allow the OEB to assess any proposed departure from this stated plan. [Emphasis in original][4]

[1] Handbook to Electricity Distributor and Transmitter Consolidations (MAADs Handbook), p. 11
[2] EB-2014-0138, *Report of the Board on Rate-Making Associated with Distributor Consolidation*, March 26, 2015
[3] *Report of the Board on Rate-making Associated with Distributor Consolidation*, July 23, 2007
[4] MAADs Handbook, pp. 11-12

Section 9.3 of the MPA states:

> In the event that the KPC Group or Waterloo North Group, as applicable, is of the opinion, acting reasonably, that the OEB Approval decision (i) will reduce the sitout period (i.e., the deferred rebasing period) to less than 10 years and/or reduce the expected savings that may be allocated the direct and indirect shareholders of LDC Amalco during the sitout period pursuant to the policies of the OEB, and/or (ii) does not approve *the continuation of Distribution Rate Zones for a minimum period of 20 years post-Closing*, which shall be expressly identified as a separate and distinct head of relief under the order requested in the mergers, amalgamations, acquisitions and divestitures (MAADs) application filed by the Parties pursuant to Section 9.1(a) (in each case, an "Adverse Determination"), either the KPC Group or Waterloo North Group, as applicable, may provide written notice to the other parties of such potential Adverse Determination. The Parties agree to cooperate and negotiate any desirable or required amendments to this Agreement to address a potential Adverse Determination. *For clarity, the mergers, amalgamations, acquisitions and divestitures (MAADs) application filed by the Parties pursuant to Section 9.1(a) will seek, over a minimum period of 20 years following Closing, the harmonization of Zone A and Zone B Rates* in a fair and reasonable manner for LDC Amalco's customers. (emphasis added)

(a) OEB staff is seeking clarification on the leave being sought as part of this application in reference to items 7 and 8 on pages 21 and 22 of the Application. Please confirm whether the Applicants are exclusively requesting approval to maintain two separate rate zones for the Rate Harmonization Period (i.e., the 10-years following the Deferred Rebasing Period; **or** approval to maintain two separate rate zones **and** approval to harmonize rates over the Rate Harmonization Period.

(b) Given that the MAADs Handbook states that the merging utilities select their deferred rebasing period, please explain what circumstances could give rise to an "Adverse Determination" within the meaning of subsection 9.3(i) in the MPA?

(c) Please provide the Applicants' reasons for how they consider the provisions in subsection 9.3(ii) of the MPA conform with the OEB's policies regarding rate-setting as set out in the MAADs Handbook. Specifically, please explain the how the following provisions in section 9.3 of the MPA are consistent with the MAADs Handbook:

    i. "the continuation of Distribution Rate Zones for a minimum period of 20 years post-Closing" (described in the Application as the "Special Request)

ii. "over a minimum period of 20 years following Closing, the harmonization of Zone A and Zone B Rates in a fair and reasonable manner for LDC Amalco's customers."

(d) Please identify any precedents or examples, in Ontario or elsewhere, that the Applicants can refer to in support of including a provision such as subsection 9.3(ii) of the MPA. Please provide complete references and/or source documents.

(e) Please confirm if OEB approval to continue two separate rate zones for 20 years or more after the merger is completed is a condition for the merger to proceed.

(f) Page 53 of the Application states: "The timing and approach to the future harmonization of rates will be carefully considered to ensure that there is no harm to customers." OEB staff notes that, of necessity, a rate harmonization plan between regions with different rates will have rates for some customers increase while rates for other customers decrease, in order to ensure that the same approved revenue requirement is recoverable by both unharmonized and harmonized rates.
    i. How will the Applicants "ensure that there is no harm to customers" as stated in the Application?
    ii. How was the period of 10 years for the Rate Harmonization Period determined? Please provide the analysis, including working spreadsheets used, assumptions, etc.

(g) Based on the statements in section 5.4 of the Application, an actual harmonization proposal would be applied for no earlier than the first rebasing application for the merged utility, i.e., 10 years after closing of the merger, if approved. Thus, "[r]ate-setting for the consolidated entity will be addressed in a separate rate application…The OEB's review of a utility's revenue requirement, and the establishment of distribution rates paid by customers, occurs through an open, fair, transparent and robust process ensuring the protection of customers." (MAADs Handbook)
    i. Please explain why, beyond the inclusion of s. 9.3 ii) in the MPA, approval of the 10-year harmonization plan after the elected 10-year Deferred Rebasing Period is "an integral aspect of the consolidation" (MAADs Handbook).
    ii. Do the Applicants consider that approval by the OEB panel in this Application for a 10-year harmonization plan subsequent to the 10-year Deferred Rebasing Period could interfere with the discretion of future OEB panels that would be reviewing LDC MergeCo's applications for rates through "open, fair, transparent and robust process[es] ensuring the protection of customers"?

Staff-3
Ref 1: Application, Attachment I, MPA, Section 9.3
Ref 2: Application, Attachment R: Consumer Engagement

Attachment R is a compendium of public communication as prepared by an external communications consultant. Page 3 of the consultant's report states that public communication commenced on October 1, 2021.

An examination of the items in Attachment R indicates that, with respect to rate harmonization, the public was not provided with a set length of how long harmonization would take, but only given a general response. For example, on pages 18 and 19 of Attachment R, the following messaging is documented:

> … Thereafter, the combined utility will harmonize distribution rates over time, between Kitchener-Wilmot Hydro and Waterloo North Hydro customers.

(a) The MPA is dated January 12, 2022. Was the MPA, including s. 9.3, substantially known by the time that public communication commenced on October 1, 2021? If not, please explain.
(b) Were customers informed of the plan that rate harmonization would take place over 10 years from 2033 to 2042? If so, please provide the communication provided.
(c) If not, please explain why customers were not informed of the 10-year harmonization plan and were only informed that harmonization would occur “over time”.

Staff-4
Ref 1: Application, pg. 21
Ref 2: Application, Attachment I, MPA, Section 9.3
Ref 3: EB-2020-0059, Waterloo North Hydro, 2021 cost of service application, June 30, 2020, Exhibit 1, pg. 63
Ref 4: EB-2021-0038, Decision and Rate Order, December 16, 2021
Ref 5: EB-2021-0062, Decision and Rate Order, December 9, 2021

The Applicants are requesting leave to transfer the rate orders of KWHI and WNHI to LDC MergeCo pursuant to section 18 of the OEB Act, which would include the continuation of related distribution rates and low voltage rates associated with Embedded Distributors.

In WNHI's cost of service rate application for 2021 rates, WNHI notes that it is:

1. A host distributor to Hydro One Networks Inc. at the Elmira Transformer Station
2. Partially embedded to KWHI, Energy + Inc. and Hydro One Networks.

KWHI's 2020 rebasing application notes that KWHI is a host distributor to WNHI, and that KWHI has an existing Embedded Distributor service classification for WNHI.

WNHI's current approved Tariff of Rates and Charges shows that all customer classes are charged one class-specific Low Voltage charge, to recover the amounts charged to WNHI by the three distributors (namely, KWHI, Energy + and Hydro One Networks).[5] WNHI also has an embedded distributor class.[6]

Assuming OEB approval of the proposed transaction, upon amalgamation, the host/embedded relationship of KWHI and WNHI will continue in a "virtual" sense. From a cost causality principle, allocated costs on these assets, and their operation, in the KWHI rate zone should continue to be recovered from customers in the WNHI rate zone.

The WNHI rate zone will also continue to be partially embedded to Energy + and Hydro One Networks and will also be a partial host distributor to Hydro One Networks.

(a) Please confirm that, during the 10-year deferred rebasing period, LDC MergeCo will continue with existing tracking of costs and revenues, including Low Voltage rates, Deferral and Variance Accounts and rate riders to dispose of balances in these accounts, due to existing host and embedded distributor relationships. Please confirm that this also applies to the (virtual) host/embedded situation for the two separate rate zones of KWHI and WNHI post-merger. Please note that OEB staff is asking additional interrogatories regarding the Applicants' accounting and associated ratemaking practices further in this document.

(b) At the time of LDC MergeCo's cost of service rebasing following the 10-year deferred rebasing, the host/embedded relationship between the two rate zones could presumably be addressed through cost allocation and for any rate harmonization period. However, all else being equal, the WNHI rate zone would still be partially embedded to Energy + and Hydro One Networks and would be a partial host to Hydro One Networks. Please provide any preliminary ideas that the Applicants have made at this point, regarding the host and embedded distributor circumstances of the Applicants.

(c) Please explain how the host and embedded distributor circumstances of the Applicants was a consideration in the 10-year rate harmonization proposal as documented in ss. ii) of s. 93 of the MPA.

[5] EB-2021-0062, Decision and Rate Order, December 9, 2021, Schedule A: Tariff of Rates and Charges
[6] *Ibid*., p. 10 of 12

Staff-5
Price
Ref: Application, pg. 25

The application states:

> The Applicants intend to propose in 2032 a plan to harmonize distribution rates, since the phase-in of distribution rates is intended to minimize rate and bill impacts to customers in the former KWHI service territory. Customer rates will be carefully harmonized to ensure that all customers benefit from the merger as compared to where they would have been had the LDCs operated in status quo.

Please clarify what is meant by “benefit” (i.e., does benefit solely pertain to changes in rates faced by customers based on changes in the costs to provide services compared to the stand-alone scenario?).

Staff-6
Reliability
Ref 1: Application, pg. 28, 40
Ref 2: Application, Attachments K and L, 2020 Scorecards

The Applicants indicate that LDC MergeCo is expected to maintain and/or improve upon the five-year average reliability indices and the OEB Customer Service Standard metrics for customers.

Please more fully describe how LDC MergeCo will, at a minimum, maintain current service levels. As part of the response, please provide examples as to where/how the amalgamation will maintain or improve service levels.

Staff-7
Staffing Levels
Ref 1: Application, pg. 29
Ref 2: Application, pg. 27

LDC MergeCo indicates that one of the areas in which it estimates that savings will be realized is the optimization and reduction of staffing levels, expected to be achieved primarily through planned retirements and natural attrition.

At reference 2, the Applicants indicate that overall staffing levels are not expected to change in the Operations area.

(a) Please provide the number of employees eligible for retirement in the next 10 years for each of KWHI and WNHI. Please include in the response the area(s) of responsibility for each employee.
(b) Please provide the number of currently vacant positions and their area of responsibility.
(c) Please confirm if the Applicants intend on backfilling operations staff that are expected to retire.
(d) Please explain how the Applicants will ensure continuity of staff knowledge.

Staff-8
Cyber Security
Ref 1: Application, pgs. 29, 32
Ref 2: Application, pgs. 41-42

One of the areas in which the Applicants estimate that savings will be realized is the reduction in information technology costs. The Applicants provide the consolidation of cyber security infrastructure as one example. The Applicants note that there will be an integration of enterprise security to address cyber security risks informed by best practices and the OEB's Cyber Security Framework.

(a) When will the Applicants begin the consolidation of cyber security infrastructure?
(b) Are the Applicants aware of any material differences in the cyber security plans of the each of the utilities?
   i. If any fundamental differences exist between the cyber security plans of the two utilities, how do the Applicants propose to resolve these differences to create a harmonized approach to cyber security that meets the standard set by the Ontario Cyber Security Framework.
   ii. Please describe if harmonization efforts will affect the timing by which cyber security practices that meet the standard set by the Ontario Cyber Security Framework are introduced in either territory.

Staff-9
OM&A Savings
Ref: Application, pgs. 29-30, 42

The table below shows the projected OM&A savings as presented in the application.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 20,501	$ 21,025	$ 21,562	$ 22,113	$ 22,677	$ 23,257	$ 23,851	$ 24,460	$ 25,084	$ 25,725	$ 26,382
WNHI	$ 15,890	$ 16,234	$ 16,586	$ 16,945	$ 17,312	$ 17,687	$ 18,070	$ 18,461	$ 18,861	$ 19,270	$ 19,687
Total (Stand-Alone)	**$ 36,391**	**$ 37,259**	**$ 38,147**	**$ 39,057**	**$ 39,989**	**$ 40,943**	**$ 41,920**	**$ 42,921**	**$ 43,946**	**$ 44,995**	**$ 46,069**
MergeCo	**$ 36,089**	**$ 35,720**	**$ 35,009**	**$ 35,856**	**$ 36,724**	**$ 37,613**	**$ 38,523**	**$ 39,456**	**$ 40,411**	**$ 41,390**	**$ 42,392**
Net Costs / (Synergies)	**$ (302)**	**$ (1,538)**	**$ (3,139)**	**$ (3,201)**	**$ (3,265)**	**$ (3,331)**	**$ (3,397)**	**$ (3,465)**	**$ (3,535)**	**$ (3,605)**	**$ (3,677)**

The Applicants estimate that the proposed transaction will result in annual OM&A savings of approximately $3.7M by year 11 after the transaction close. Total OM&A savings, net of transition costs ($4.3M), are approximately $28.8M over the 10-year deferred rebasing period.

(a) OEB staff calculates ($33.1M) as the summation of ($28.8M) and $4.3M in transition costs. OEB staff notes that the sum of the net synergies in the table above to be ($32.455M). Please reconcile.

(b) Please provide the above table in Excel format, showing the calculations and any source data used to derive the numbers. Please explain all assumptions the Applicants have made to derive the changes in the numbers from 2022 to 2032.

(c) Please provide a breakdown of the OM&A cost savings indicating which are attributable to the following categories (as listed on pg. 29 of the application): administrative, governance, information technology, regulatory, financial functions, or other (please specify).

   i. Please provide the underlying calculations for the assumptions made with respect to the net synergies.

(d) Please provide a table which breaks down the $4.3M integration and implementation cost projections into applicable categories and the years in which the costs are expected. OEB staff has provided a sample table below:

Projected Transition Costs	**Year 1**	**Year 2**	**Year 3**	**…**	**Year 11**
Human Resources	$xx	$xx			
Legal	$xx				
… etc.					

Staff-10
OM&A/Customer and Total Cost/Customer
Ref 1: Application, Table 7, pg. 31
Ref 2: Application, Table 10, pg. 37

The following tables are extracted from the application:

Table 7 – Projected OM&A Cost per Customer (Page 31)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 207	$ 208	$ 210	$ 211	$ 213	$ 214	$ 216	$ 218	$ 219	$ 221	$ 222
WNHI	$ 272	$ 274	$ 276	$ 278	$ 281	$ 283	$ 285	$ 288	$ 290	$ 292	$ 295
Total (Stand-Alone)	**$ 231**	**$ 233**	**$ 234**	**$ 236**	**$ 238**	**$ 240**	**$ 241**	**$ 243**	**$ 245**	**$ 247**	**$ 249**
MergeCo	**$ 229**	**$ 223**	**$ 215**	**$ 217**	**$ 218**	**$ 220**	**$ 222**	**$ 223**	**$ 225**	**$ 227**	**$ 229**

Table 10 – OM&A Cost per Customer 2020 (Page 37)

	OM&A ($000`s)	# Customers *	OM&A Cost per Customer	Benchmarking Total Cost per Customer
KWHI	$ 21,730	99,026	$ 219.43	$ 519
WNH	$ 14,453	58,438	$ 247.32	$ 797
Ontario Average			**$ 324.44**	**$ 832**

As shown in Table 10, KWHI's 2020 OM&A per customer was $219.43. As shown in Table 7, KWHI's OM&A per customer drops to $207 per customer in 2022. Conversely, WNHI's 2020 OM&A per customer as shown in Table 10 was $247.32, however, increases to $272 in 2022.

(a) Please explain why the OM&A/customer numbers shown in Table 7 differ so much from those in Table 10.
(b) Please explain how Table 7 relates to the table copied in the preamble to interrogatory Staff-9 above.
(c) With respect to Table 7, please describe how the amounts shown in all rows were calculated. Please identify all assumptions used to make these calculations, and provide any underlying calculations in Excel format, if possible.
(d) Please confirm that the OM&A/customer numbers shown in Table 10 are taken from the 2020 Statistical Yearbook of Electricity Distributors. In the alternative, please explain.
(e) As shown in Table 10, significant differences exist between the total cost/customer between KWHI and WNHI. Please describe the relationship, if any, between the significantly differing costs of service between KWHI and WNHI and the request for the rate harmonization period.

Staff-11
Capital Expenditures
Ref: Application, pgs. 32-33

In tables 8 and 9 on page 33, the Applicants provide the projected gross and net capital expenditures broken down for each of KWHI and WNHI.

(a) Please identify what the basis is for the gross and net capital expenditures forecasted.
(b) Please provide the underlying calculations for the assumptions made with respect to the net synergies.

Staff-12
Distribution Revenue
Ref: Application, pgs. 34-36

The Applicants state that the proposed transaction is expected to deliver lower distribution costs to LDC MergeCo customers of approximately 3.1% through the 10-year deferred rebasing period and 4.5% following the transfer of the merger benefits to customers in year 11.

(a) One of the benefits the Applicants included is the avoidance of future cost of service applications. How did the Applicants forecast the distribution revenue from future cost of service applications for each of KWHI and WNHI? What assumptions were made about the incremental OM&A and capital costs, and resulting revenue requirement proposed and approved in these cost of service applications, including input price inflation?

(b) Please describe how sensitive the calculated expected reductions are.

(c) Please provided a chart, similar to Figure 1, which shows the total distribution revenue trend on a per customer basis. Similarly, please provide two charts, similar to Figure 2 and Figure 3, showing total distribution revenue for each of KWHI and WNHI.

Staff-13
Cohort Assignment
Ref: Application, pg. 37

Based on the 2020 PEG report issued August 2021, KWHI is currently in Cohort 2 and WNHI is in Cohort 3. Please confirm if the Applicants intend to use one consolidated stretch factor for LDC MergeCo when the Pacific Economics Group Research (PEG) assessment would enable it to do so.

Staff-14
System Operations
Ref: Application, pgs. 38-42

At the reference above, the Applicants describe how the systems within the service area will be operated.

(a) With respect to the Customer Service section, it states that LDC MergeCo is targeting to improve on existing service levels while adopting best practices and achieving efficiencies in its operations. The focus will continue to be on billing accuracy, first contact resolution and other customer service metrics.

   i. What do the Applicants define as “best practices”?

ii. Do the customer service objectives for LDC MergeCo differ from the current customer service objectives of each of the two amalgamating utilities? If yes, how, and how do the Applicants intend to resolve any differences?

(b) With respect to the Control Room section, please provide a current description of the control room(s) of the Applicants.

i. When do the Applicants anticipate the transition to a centralized control room will be operational?

ii. In light of KWHI’s and WNHI’s service reliability as shown in Table 5 on page 28 of the Application, please identify the reasons for and priority of consolidation into one control room as documented in this Application.

iii. Please describe the changes needed and the estimated costs for consolidating into one control centre. Please also identify expected savings, and who (shareholders and/or customers) will receive the benefits of the savings.

(c) With respect to Engineering Services, please identify:

i. The major differences between the two amalgamating utilities with respect to engineering standards, project management standards and inventory and asset management practices.

ii. Which utility’s policies are being adopted?

Staff-15
Incremental Capital Module
Ref: Application, pg. 51

The Applicants note that that there is no need to address an ICM in this Application, however, if LDC MergeCo requires an ICM, a request will be incorporated as part of a future incentive rate-setting mechanism application.

Are the Applicants currently aware of any potential ICM application that may be filed with the OEB? If yes, please describe the nature of the project and expected timing. Please note, this could include any known future obligations to either the transmitter or upstream distributor with respect to true-up payments.

Staff-16
Distribution System Planning

(a) Please confirm that KWHI’s current Distribution System Plan goes to 2024.
(b) Please confirm that WNHI’s current Distribution System Plan goes to 2025.
(c) Do the Applicants plan to have an updated consolidated DSP over the 10-year deferral period? If not, how have the Applicants considered consolidated distribution system planning and what is the expected timeline for any combined planning?

(d) Are the Applicants' Asset Condition Assessments expected to be consolidated?

Staff-17
Specific Service Charges
Ref: Application, pg. 58

KWHI and WNHI each have their own unique set of Specific Service Charges. The Applicants state that:

> LDC MergeCo has selected a 10-year Deferred Rebasing period in the Application with the individual rate zones for the two predecessor LDCs. However, LDC MergeCo may propose to file a change in rates to Specific Service Charges under s.78 of the OEB Act prior to the next rebasing.

Please explain the basis for why the Applicants believe a change to Specific Service Charges prior to any rebasing application is appropriate, including why changing these charges would not violate the no-harm test, and the Applicants' elected 10-year deferred rebasing period.

Staff-18
Conditions of Service

(a) Please identify and describe any material differences in the current Conditions of Service of KWHI and WNHI.
(b) Please identify what steps LDC MergeCo intends to take to consolidate the Conditions of Service post-merger, and the timing for when consolidation will occur.
(c) Are there any impacts on OEB-approved rates expected to result from combining the Conditions of Service of KWHI and WNHI?

Staff-19
Distribution Licence
Ref 1: Application, pgs. 20-21
Ref 2: Application, pg. 54 and Attachment P

The following is listed under the "Leave Being Sought" section of this application:

> The issuance of a Distribution License to LDC MergeCo pursuant to section 60 of the OEB Act and the cancellation of the Distribution Licenses of KWHI (ED-2002-0573) and WNHI (ED-2002-0575) pursuant to section 77(5) of the OEB Act upon the issuance of the Distribution License to LDC MergeCo.

On page 54 of the application, the Applicants indicate that "An application for a new Electricity Distribution Licence is included as part of the MAADs Application." In the next sentence, the Applicants state that a draft version of LDC MergeCo's proposed electricity distribution licence is included as Attachment P to the application. Further, **if the proposed transaction is approved, an application for a licence for LDC MergeCo will be filed with the OEB (emphasis added).**

(a) Please confirm that the Applicants request that the licence application (i.e. Attachment P) be considered by the OEB concurrently with their amalgamation request as part of this application.
(b) Please explain why the Applicants consider this licence application "draft".
(c) Please provide a signed and dated version of the licence application (i.e., at pages 14 and 15).

Staff-20
Ref 1: EB-2020-0059, WNHI 2021 Cost of Service, Settlement Proposal, pgs. 11, 26, 31
Ref 2: EB-2019-0049, KWHI 2020 Cost of Service, Settlement Proposal

The settlement proposal filed as part of WNHI's 2021 cost of service proceeding, indicates that WNHI and parties agreed to certain items. OEB staff has summarized these below.

- Pg. 11 of settlement proposal
    - As part of WHNI's distribution system planning from 2022-2025, consider non-wires alternatives for capacity constraint projects that WNHI determines may have a material impact on one or more of the following: reducing line losses, improving reliability or reducing costs.
    - When WNHI considers non-wires solutions it shall do so early enough to allow for cost-effective solutions that require a longer lead time (e.g. opportunities that are only cost-effective at the time of new construction of the applicable distribution infrastructure), including in relation to the "East Side Development Lands."
- Pg. 26 of settlement proposal
    - Target 5-year historical average distribution line losses of below 3.16%.[7]
    - Prepare a plan over the course of 2020-2021 to reduce distribution losses as much as reasonably possible through cost-effective measures. WNHI shall file the plan with the OEB when complete.
    - In 2022-2025, WNHI shall implement as many of the cost-effective measures set out in its plan as reasonably possible. All other cost-effective measures will be incorporated into WNHI's next rebasing application and DSP. For clarity, cost-effective measures to reduce line

[7] Subject to variation in distribution losses due to factors outside of WNH's control, such as peak demand that varies from the 5-year historical average

losses will be prioritized as against other capital projects in accordance with the prioritization processes outlined in the DSP to ensure that all utility priorities are best achieved and overall capital expenditures are maintained at a reasonable level.

- Pg. 31 of settlement proposal
    - No adjustment to any fixed charge that is above the Minimum System plus PLCC level for all classes except the residential class during the subsequent IRM period, and for those classes instead propose to the OEB to collect all IRM rate increases through the variable portion of the charges applicable to each affected class.[8]

(a) Please confirm that LDC MergeCo will, for the WHNI rate zone, implement and/or address the matters outlined pursuant to the 2021 settlement proposal for WNHI.
(b) Please confirm that there are no commitments between parties included in the settlement proposal for KWHI's 2020 cost of service application. If not confirmed, please outline any commitments, and confirm that LDC MergeCo will implement and/or address the matters outlined in the settlement proposal.

Staff-21
Ref: Application, pg. 45

Please confirm that the post closing adjustments are not expected to be material and will not affect LDC MergeCo's financial liability or financing circumstances.

Staff-22
Audited Financial Statements and Pro Forma Financial Statements
Ref: Section 4.2.4, pg. 46

The Applicants have provided a table which shows the debt-to-total capital ratios at the reference above.

Please explain how the percentages in this table were derived and provide a reconciliation to the audited financial statements and pro forma financial statements.

Staff-23
Audited Financial Statements and Pro Forma Financial Statements
Ref 1: Attachment O, Pro Forma Financial Statement Year 1
Ref 2: Section 5.1, pg. 49

[8] Parties acknowledged that WNHI's ability to comply with this provision is dependent on adjustments to the relevant IRM model for each year to accommodate these changes.

Ref 3: Schedule 4.12 – December 31, 2020 Financial Statements, Kitchener-Wilmot Hydro and Waterloo North Hydro

At reference 1, the pro-forma financial statement for year 1 is provided. The Income from Operating Activities is expected to be $31,511,000.

Reference 2 states that the Applicants are requesting a Deferred Rebasing Period for LDC MergeCo of ten years from the date of closing, which is targeted for no later than January 1, 2023.

OEB staff has prepared the following table, OEB Staff Table 1, which summarizes the December 31, 2020 audited financial statements' net income from operations for KWHI and WNHI, as well as the expected income from operating activities for LDC MergeCo for year 1.

OEB Staff Table 1 – Comparison of Income from Operations

	Kitchener-Wilmot Hydro December 31, 2020	Waterloo North Hydro December 31, 2020	Combined Kitchener-Wilmot Hydro/ Waterloo North Hydro December 31, 2020	LDC Mergeco Pro Forma Year 1 (December 31, 2023)	Difference
	A	B	C = A + B	D	E = D - C
Net revenue	39,718,000	36,062,221	75,780,221	511,113,000	
Operating expenses	31,823,000	25,201,971	57,024,971	479,602,000	
Net income from operations	7,895,000	10,860,250	18,755,250	31,511,000	12,755,750

(a) Please confirm that since the date of closing is targeted for no later than January 1, 2023, the pro-forma financial statement provided at reference 1 for year 1 is estimated for the period January 1, 2023 to December 31, 2023. If this is not the case, please explain.

(b) Please explain the methodology used to forecast amounts in the pro-forma financial statements at reference 1.
(c) Please confirm whether the Applicants are in agreement with OEB staff's calculations and values shown in OEB Staff Table 1.
(d) If this is not the case, please explain, and update OEB Staff Table 1, as required.
(e) Please explain why the net income from operations amount in OEB Staff Table 1 Column E of approximately $12.8 million (or any updated value calculated by the Applicants) is so large, which represents the difference between the LDC MergeCo Pro Forma Year 1 value and the combined KWHI/WNHI December 31, 2020 values.

Staff-24
Audited Financial Statements and Pro Forma Financial Statements
Ref: OEB Staff Table 1 – Comparison of Income from Operations

OEB staff has prepared a table, OEB Staff Table 1, which summarizes the December 31, 2020 audited financial statements' net income from operations for KWHI and WNHI, as well as the expected income from operating activities for LDC MergeCo for year 1.

(a) Please update OEB Staff Table 1 with December 31, 2021 audited financial statement values, or with a draft of these values, as available.
(b) Please generate revised December 31, 2021 audited financial statement values (by inserting a new Column F) that are adjusted for the applicable inflation and X-factor impacts (as per the relevant IRM decisions), for the years 2022 and 2023. Please explain all significant assumptions used in calculating these values.
(c) Please explain any material variances between the Column D value of $31.5 million and that calculated by the Applicants in the new Column F.
(d) Please generate a new Column G that shows the combination of the approved revenues and expenses for KWHI and WNHI in their respective 2020 and 2021 cost of service proceedings, adjusted for the applicable inflation and X-factor impacts (as per the relevant IRM decisions), for the years 2021 to 2023 (as applicable). Please explain all significant assumptions used in calculating this value.
(e) Please explain any material variances between the Column D value of $31.5 million and that calculated by the Applicants in the new Column G.

Staff-25
ESM
Ref 1: Section 4.1.1.1, pg. 25
Ref 2: Section 5.1, pg. 49
Ref 3: Section 5.2, pg. 50

Ref 4: EB-2021-0312, North Bay Hydro Distribution Limited and Espanola Regional Hydro Distribution Corporation, Decision and Order, March 17, 2022, pg. 17

As per reference 1, OEB staff's understanding is that the Applicants' cost of service application will be filed in 2032, with rates expected to be effective January 1, 2033.

Reference 2 states that the Applicants are requesting a Deferred Rebasing Period for LDC MergeCo of ten years from the date of closing, which is targeted for no later than January 1, 2023.

As per reference 3, an earnings sharing is proposed for the years 6 through 10 post-merger.

OEB staff notes that this proposal may have one or more stub periods (i.e., partial years) at the start or end of the period when the earnings sharing mechanism (ESM) would be in place, particularly if the closing of the transaction is different than January 1, 2023.

At reference 4, the OEB required New North Bay Hydro Distribution Ltd. to implement a proportional calculation of any overearnings during the stub periods based on the calendar year earnings in which the stub period occurs.

(a) Please confirm that if the date of closing is January 1, 2023, the ESM will be in effect for the periods commencing January 1, 2028 (i.e., year 6), and ending December 31, 2032, as the planned cost of service proceeding has rates expected to be effective January 1, 2033. If this is not the case, please explain.

(b) Please confirm that if the closing of the transaction is different than January 1, 2023, there may be different treatments of the stub periods at the start and end of the ESM. For example, if the closing of the transaction is instead October 1, 2022:

  i. Please confirm that the Applicants will implement a proportional calculation of any overearnings during the start of the stub period (i.e., October 1, 2027 to December 31, 2027), based on the calendar year earnings in which the stub period occurs. If this is not the case, please explain.

  ii. Please confirm that the Applicants will not implement a proportional calculation of any overearnings during the end of the stub period (i.e., October 1, 2032 to December 31, 2032), but in fact will cease the ESM on December 31, 2032, as the planned cost of service proceeding has rates expected to be effective January 1, 2033. If this is not the case, please explain.

iii. Please confirm that the term of the ESM may be in effect longer than a 60-month period, depending on whether the closing of the transaction is different than January 1, 2023. If this is not the case, please explain.

Staff-26
ESM
Ref: Section 5.2, pg. 50

The Applicants propose calculating the ESM consistent with the OEB's established regulated ROE model, under the OEB's Reporting and Record-keeping Requirements (RRR). The Applicants state that under this methodology, regulated ROE is calculated by dividing the current year's adjusted regulatory net income by the deemed equity component of rate base.

OEB staff has prepared the following table, calculating the consolidated approved ROE based on the approved rate base and approved ROE of each legacy distributor.

OEB Staff Table 2 – Weighted Consolidated Approved ROE

	Approved ROE	**Approved Rate Base**	**Weighted: Approved Rate Base**	**Weighted Consolidated: Approved ROE**
	A	B	C	D = A X C
Kitchener-Wilmot Hydro 2020 CoS EB-2019-0049	8.52%	239,578,611	50%	4.22%
Waterloo North Hydro 2021 CoS EB-2020-0059	8.34%	243,626,447	50%	4.21%
		483,205,058	100%	8.43%

(a) Please confirm that the regulatory net income and achieved ROE will be computed based on LDC MergeCo's annual audited financial results, adjusted for any revenue and expenses that are not otherwise included for regulatory purposes, consistent with the OEB's established regulated ROE model. If this is not the case, please explain.

(b) Although the Applicants stated that the deemed equity component of rate base is used as the denominator of the achieved ROE, please confirm that values from the OEB's RRR 2.1.7 filing are generally used in the calculation of rate base values factored into achieved ROE (as opposed to rate base values from the last CoS). The deemed equity component remains at 40%. If this is not the case, please explain.

(c) Please confirm whether the Applicants are in agreement with OEB staff's calculations and values shown in OEB Staff Table 2, showing a consolidated deemed/ approved ROE of 8.43%. If not, please explain and update the table as required.

(d) Please explain, with rationale, how the Applicants propose to determine the consolidated deemed/approved ROE, if different from the approach used in OEB Staff Table 2.

Staff-27
ESM
Ref: OEB Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, pg. 16

The OEB stated that earnings will be assessed each year once audited financial results are available and excess earnings beyond 300 basis points will be shared with customers annually.

(a) Please explain when the Applicants plan to report and dispose of ESM amounts, if there are any calculated to be shared.

(b) Would the Applicants be amenable to filing the results of the ESM annually, but with the detailed review and disposition of the ESM account balance being considered in the cost of service rate proceeding at the end of the Deferred Rebasing Period? Please explain.

Staff-28
ESM
Ref: Section 5.2, pg. 50-51

Regarding the ESM, the application states that the computation of the adjusted regulatory net income will continue to exclude any revenue and expenses that are not otherwise included for regulatory purposes. One of the items listed is the impact of regulatory assets/liabilities including the Lost Revenue Adjustment Mechanism (LRAM).

(a) Please confirm that the above statement means both the Applicants currently adjust regulatory net income to reflect LRAM related revenues in the year in which it relates, and will also continue to do so, going forward.
(b) If this is not confirmed, please explain what that statement means.

Staff-29
ESM
Ref: Section 6.3, pg. 55

The Applicants request approval to establish and use a regulatory account associated with the proposed ESM. If approval is granted, the Applicants will submit a draft accounting order for the OEB's approval.

Please provide the draft accounting order for the proposed regulatory account associated with the proposed ESM.

Staff-30
PILs Account 1592
Ref 1: Section 6.3, pg. 55
Ref 2: EB-2020-0059, Waterloo North Hydro Inc., 2021 CoS Settlement Proposal, November 16, 2020, pg. 17

At reference 1, the application states the following:

> The Applicants seek approval to continue the use of DVA Account 1592, PILS and Tax Variances Sub-Account CCA Changes for the WNHI service area to track the grossed-up PILs impact, of the variance between the CCA unsmoothing approach adopted by WNHI in its Settlement Proposal, and the effective PILs impact of the phase-out/elimination of the accelerated CCA anticipated to begin after 2023 and until LDC MergeCo's rebasing.

At reference 2, WNHI's settlement proposal stated the following regarding Account 1592, sub-account CCA Changes:

> WNH agrees to use the unsmoothed accelerated depreciation approach (AIIP) in its PILs calculations and to use sub-account Account 1592 – PILs and Tax Variances – CCA Changes Sub-account – Incentive Phase Out to account for the lost revenue during the eventual phase out of the Accelerated Investment Incentive anticipated to begin after 2023 and to track eventual increase in tax expenses as part of the phase out. The balance in this variance account is to be disposed of at WNH's next Cost of Service filing in accordance with the OEB's rules and accounting guidance.

OEB staff notes that the term AIIP generally refers to the accelerated investment incentive program.

Please confirm that the continued use by WNHI of the Account 1592, PILs and Tax Variances, sub-account CCA Changes, will capture the impact of differences that result from the phasing out of accelerated CCA from the accelerated CCA that underpins the OEB-approved rates in WNHI's 2021 cost of service rate proceeding. If this is not the case, please explain.

Staff-31
PILs Account 1592
Ref 1: Section 3.2, pg. 21
Ref 2: EB-2019-0049, Kitchener-Wilmot Hydro Inc., 2020 CoS DVA Continuity Schedule, September 13, 2019, Tab 2b, cell BT83

At reference 1, the application states that certain differences would be included in Account 1592, PILs and Tax Variances, sub-account CCA Changes, for the WNHI service area only.

OEB staff notes that the application was silent on the treatment of Account 1592, PILs and Tax Variances, sub-account CCA Changes for the KWHI service area.

At reference 2, KWHI disposed of an Account 1592 credit balance of $91,676 (principal balance as at December 31, 2018 plus carrying charges to December 31, 2019) in its 2020 cost of service proceeding.

(a) Please confirm that the Applicants' position is that Account 1592, PILs and Tax Variances, sub-account CCA Changes, continues to be applicable to KWHI, beyond the credit of $91,676 (i.e., December 31, 2018 principal balance plus carrying charges to December 31, 2019) that was cleared in its 2020 cost of service proceeding. If this is not the case, please explain.
(b) Please confirm that in particular, there is a large credit Account 1592, PILs and Tax Variances, sub-account CCA Changes, pertaining to balances accumulated during the 2019 calendar year, that has not yet been returned to KWHI's customers. Please quantify the approximate impact and explain when this amount is expected to be returned to KWHI's customers.
(c) Please explain whether (and if so, when) the Applicants are proposing to report a combined Account 1592 for tracking purposes for LDC MergeCo, and the proposed timing, given that KWHI and WNHI will begin filing taxes as one entity at some point in the future, and how this would work (at a high level).

Staff-32
DVAs
Ref: Section 6.3, pg. 55

The application states that:

> The Applicants request that LDC MergeCo be granted approval to continue to track costs to the existing regulatory and deferral and variance accounts currently approved by the Board for KWHI and WNHI. KWHI's deferral and variance accounts will be held separately from WNHI's deferral and variance accounts during the 10-year Deferred Rebasing Period and the Applicants will seek disposition at a later date in accordance with OEB policy.

(a) Please confirm that the Applicants' statements in the above preamble refer to both Group 1 and Group 2 accounts. If this is not the case, please explain.
(b) Please explain whether and when the Applicants would be amenable to consolidating Group 1 accounts before the end of the Deferred Rebasing Period, including whether the Applicants have any ratemaking concerns with this notion, given that KWHI and WNHI have different grid-connection configurations and settlement practices.
(c) Please discuss whether the Applicants have any material Group 2 balances at this time, or expect to have material Group 2 balances. If so, would the Applicants be receptive to filing its Group 2 balances with the first rate application after year five of the Deferred Rebasing Period, together with a proposal for disposition that considers the materiality of the balances? Please explain.

Staff-33
DVAs
Ref 1: Section 5.1, pg. 49
Ref 2: Section 3.2, pg. 21

The application states that all existing and future rate riders approved for KWHI and WNHI shall continue as per the existing and approved rate schedules until expiry.

The application also states that following the 10-year Deferred Rebasing Period, LDC MergeCo intends to prepare a rate harmonization proposal that will harmonize the rates in the KWHI rate zone with the WNHI rate zone over a further 10 years following the 10-year Deferred Rebasing Period (the Rate Harmonization Period).

Please explain whether the Applicants plan to continue to hold KWHI's and WNHI's deferral and variance accounts (each of Group 1 and Group 2) and associated rate riders separately during the Rate Harmonization Period (i.e., during the further 10 years following the 10-year Deferred Rebasing Period).

Staff-34
Accounting Standards
Ref: Section 6.4, pg. 56

The Applicants state that they currently prepare their financial statements under International Financial Reporting Standards (IFRS). LDC MergeCo will also prepare its financial statements under IFRS. The Applicants utilize Modified International Financial Reporting Standards (MIFRS) for regulatory reporting purposes, consistent with OEB policy, and therefore, LDC MergeCo will also utilize MIFRS.

Under IFRS consolidation rules, the accounting policies of the acquiree must be revised, where necessary, to align to that of the acquirer. In an amalgamation, the acquirer is generally defined as the entity that holds the majority voting shares in the newly amalgamated corporation, usually the larger entity (which OEB staff understands to be KWHI in this proposed transaction).

(a) Please confirm that WNHI (the acquiree) will adopt the accounting policies of KWHI (the acquirer), given IFRS consolidation rules, such that LDC MergeCo will maintain the accounting policies of KWHI. If this is not the case, please explain.
(b) Have the Applicants undertaken any review of the accounting policies for KWHI and WNHI to determine what changes in accounting policy the acquiree may be required to make to align to that of the acquirer? If not, please explain when such a review is expected to be completed.
(c) If such a review has been undertaken, please identify and explain whether there are any material accounting policy differences between KWHI and WNHI, as well as any impacts for regulatory and ratemaking purposes.
(d) Would the Applicants be agreeable to establishing a deferral account (e.g., Account 1576) to track these differences, such as rate base impacts? If not, why not? If so, please provide a draft accounting order for the OEB's consideration.