April 25, 2022

BY RESS & EMAIL

Ms. Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON, M4P 1E4

Re: **Board File No. EB-2022-0006**
Responses to Interrogatories re: KWHI and WNHI Merger Application

Dear Ms. Marconi:

Pursuant to the OEB's Procedural Order No. 2, enclosed find interrogatory responses from the Applicants in the above noted proceeding.

Contact the undersigned should you require any further information.

Respectfully submitted,

M. Nanninga

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Kitchener-Wilmot Hydro Inc.
VP Finance & CFO

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MAAD IR Responses

EB – 2022-0006

Filed: April 25, 2022

TABLE OF CONTENTS

LIST OF ATTACHMENTS

Pollution Probe Interrogatories

PP - 1

a) Kitchener-Wilmot Hydro Inc., Waterloo North Hydro Inc. and the respective municipalities they serve have been leaders in community energy and emissions planning. Please describe how these activities will be impacted, maintained or enhanced through the proposed merger.

Response

The leadership and support provided in community energy and emissions planning will be maintained through the proposed merger as the leadership of both organizations support increased collaboration across communities, stakeholders and operating groups. The merger will enable resources to focus on innovation and new technologies to help build awareness amongst stakeholders and provide additional support for the development and implementation of projects that will help our communities meet their energy and emission reduction objectives.

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b) Please describe what support activities (including CDM support) the merger will maintain or enhance to support energy and emissions reporting and reductions requirements under Ontario Regulation 397/11 for the municipalities and all broader public sector (including university) buildings served.

Response

It is the Applicants understanding that Ontario Regulation 397/11 was revoked pursuant to Section 11 of the *Green Energy Repeal Act, 2018* effective January 1, 2019. The proposed merged entity will maintain or enhance its support for energy and emissions reporting and reductions requirements for the municipalities and all broader public sector (including university) buildings served. The enhanced support may include more focused resources to perform outreach, engagement and education to stakeholders, facilitate collaboration amongst stakeholders, and support the development and implementation of projects to support stakeholder emission reduction targets. Additional LDC MergeCo initiatives may include automated fault detection and restoration, grid support for additional electrification and rate base EV chargers.

PP - 2

What protections (particularly over the 10-year deferred rebasing period) are in place to ensure that the communities with a lower proportion of proposed ownership for the merged entity will receive the support needed to achieve CDM (including requirements under Ontario Regulation 397/11) and/or community energy and emission plan objectives?

Response

Kitchener-Wilmot Hydro Inc. (KWHI) and Waterloo North Hydro Inc. (WNHI) have a long history of serving all customers in their existing service areas, regardless of shareholder ownership, including CDM programs. In addition, the minority shareholder townships have representation on the Board of Directors and this governance structure has a long standing history of collaboration among the communities. We expect this well-established culture of service to all customers to continue. It is the Applicants understanding that Ontario Regulation 397/11 was revoked pursuant to Section 11 of the *Green Energy Repeal Act, 2018* effective January 1, 2019.

PP - 3

Ref: pg. 24 "Customers will benefit by LDC MergeCo having additional resources to invest in innovation and new technologies that address their needs."

Please describe what specific additional innovation and new technologies customers and communities will receive due to the proposed merger.

Response

Additional innovation and new technologies that LDC MergeCo may explore include but are not limited to an enhanced user portal that provides greater functionality and support for customers for managing their energy usage and costs, electrification technologies including electric vehicle charging, energy storage, space and water heating and cooling, and renewable energy generation.

PP - 4

Ref: 2021 OEB Conservation & Demand Management Guidelines for Electricity Distrubutors - [Conservation and Demand Management Guidelines for Electricity Distributors | Ontario Energy Board (oeb.ca)]

Please describe what activities (including CDM and distributed energy resources) outlined in the OEB 2021 CDM Guideline the merger will maintain or enhance locally and regionally.

Response

Currently neither KWHI nor WNHI participate in any distribution rate funded CDM activities. The merger will see a continued evaluation of opportunities to undertake activities including considering CDM in system planning and CDM activities addressing regional needs as outlined in the Conservation and Demand Management Guidelines for Electricity Distributors EB-2021-0106.

PP - 5

Ref: Kitchener Climate Action Plans (community and corporate) - Corporate sustainability - City of Kitchener

TransformWR unanimously supported by all municipalities - TransformWR: Waterloo Region's Transition to an Equitable, Prosperous, Resilient Low Carbon Community (climateactionwr.ca)

a) Please confirm that the merged entity will ensure that its business plan(s) and Distributions Service Plan(s) will be developed and implemented to support the local community energy and emission plan objectives, including TransformWR. If not confirmed, please explain why not.

Response

The merged entity will continue to work collaboratively with local stakeholders to advance the community energy and emission plan objectives including TransformWR. The merged entity will have an even larger stake in the local communities and will remain rooted in the community much like its predecessors KWHI and WNHI have for over 100 years.

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b) Please identify the local community energy and emission (including climate change) related committees and organizations (e.g. TransformWR) that the merged utility will participate in and whether that is an increase or decrease to the current level of community support for those types of activities.

Response

The leadership team of KWHI and WNHI support local community energy and emission-related committees and organizations including, but not limited to: ClimateActionWR, ChargeWR, TransformWR, Sustainable Waterloo Region, WR Community Energy, REEP Green Solutions. The CEO of KWHI is the past Chair and the CEO of WNHI is the current Chair of WR Community Energy. The merged utility support of local organizations and participation on related committees will at a minimum continue at the current levels.

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c) Please explain specifically how the proposed merger will enable incremental (if any) opportunities to help its communities meet their energy and emission reduction objectives.

Response

The proposed merger will bring together a larger group of stakeholders that collectively have common interests and objectives concerning energy and emission reductions. This will provide more focused resources to facilitate and support increased collaboration across communities, stakeholders and operating groups and support the development and implementation of projects that will help communities meet their energy and emission reduction objectives.

PP – 6

a) When will the merged entity have an integrated Business Plan and Distribution System Plan (DSP) based on the merged entity and when would it be filed with the OEB?

Response

The integrated Business Plan of LDC MergeCo is detailed throughout the Application as the evidence being put forth to satisfy the "no harm" test. Refer to the Grant Thornton Business Case Report included as Attachment A.

Both KWHI (EB-2019-0049) and WNHI (EB-2020-0059) have recently filed a Distribution System Plans (DSP) with the OEB. In this context, KWHI and WNHI plan to file a combined Business Plan and DSP as part of its next Cost of Service application in 2033. This proposal is consistent with the OEB's efforts to ensure the efficiency of its regulatory processes.

It is also worth noting the Applicants have filed a capital budget forecast for the entire deferred rebasing period in Tables 8 and 9 of the Application, which is further broken into the four respective sub-categories of expenditures in response to SEC-8.

However, should LDC MergeCo file an incremental capital module application beginning in 2025[1], then regardless of the service area that the ICM is in it will concurrently file a consolidated DSP. This approach is consistent with the OEB's Decision in EB-2021-0280.

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b) In the interim, how will the Business Plan and/or DSP be coordinated between the utilities?

Response

KWHI and WNHI will use current asset management practices and good business planning until such time as merged operations and practices can be set. LDC MergeCo will work towards combining and maintaining best practices into the new company.

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[1] The last year of the KWHI DSP forecast period is 2024 (EB-2019-0049) and the last year of the WNHI DSP forecast period is 2025 (EB-2020-0059).

PP - 7

Will the merged entity have a Net Zero emission commitment? If yes, please describe the details. If not, please explain why not.

Response

At present, the proposed merged entity does not have a net-zero emission commitment as technology for certain aspects of our business is still not reliable. The proposed merged entity will continue to focus on decreasing its energy and emissions footprint while exploring innovation and new technologies that will enable the proposed merged entity to move towards a net-zero emission commitment.

School Energy Coalition Interrogatories

SEC - 1

Ref:

Please provide a copy of any business case or similar document provided to each of the KWHI and WNHI Board of Directors and/or their direct or indirect shareholders with respect to the approval transaction (either preliminary or final approval).

Response

See Attachment A.

SEC - 2

Ref: pg. 28

Please revise Table 5 to include 2021 reliability information.

Response

The 2021 results are considered preliminary as they have not yet been filed with the OEB through the respective RRR filings. As the numbers are finalized, these results may change.

	2016	2017	2018	2019	2020	2021 Preliminary
SAIDI						
KWHI	1.11	0.92	0.70	1.02	0.53	0.57
WNHI	0.71	0.76	0.92	0.85	0.80	0.61
SAIFI						
KWHI	1.11	1.03	0.97	1.05	0.92	0.71
WNHI	1.15	1.50	1.32	1.29	1.02	0.72

SEC - 3

Ref: pgs. 31 – 36

Please provide a copy of the underlying spreadsheets, with all formulas intact, with respect to Tables 6-9, and Figures 1-3.

Response

See attached Excel file “Tables with Formulas” Tabs SEC-3 – tables 6-7, SEC-3 – Table 8-9, SEC-3 – Figures 1-3 and Tab SEC-9.

SEC - 4

Ref: pgs. 31-36

Please provide 2020 and 2021 actual OM&A, OM&A costs per customer, gross capital expenditures, net capital expenditures, distribution revenue, and distribution revenue per customer, for each of WNHI and KWHI.

Response

The 2021 results are considered preliminary as they have not yet been filed with the OEB through the respective RRR filings. As the numbers are finalized, these results may change.

	KWHI		WNHI	
	2020	2021 (preliminary)	2020	2021 (preliminary)
OM&A ($000's)	$ 21,730	$ 22,877	$ 14,453	$ 15,946
OM&A Cost per Customer	$ 219.43	$ 228.65	$ 247.32	$ 271.45
Gross Capital Expenditures ($000's)	$ 25,920	$ 26,147	$ 20,121	$ 22,382
Net Capital Expenditures	$ 21,414	$ 20,201	$ 17,579	$ 18,686
Distribution Revenue ($000's)	$ 42,982	$ 44,429	$ 34,940	$ 38,890
Distribution Revenue per Customer	$ 434.05	$ 444.05	$ 597.90	$ 662.01

SEC - 5

Ref: pgs. 31, Table 6

Please provide a detailed breakdown of the forecast OM&A net synergy costs expected to be achieved in each year.

Response

Synergy Savings Projections	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Salary & Wages	$ (2,213)	$ (2,257)	$ (2,302)	$ (2,348)	$ (2,395)	$ (2,443)	$ (2,492)	$ (2,542)	$ (2,592)	$ (2,644)
Operating Services	(298)	(304)	(310)	(317)	(323)	(329)	(336)	(343)	(349)	(356)
Information Technology	(282)	(288)	(293)	(299)	(305)	(311)	(317)	(324)	(330)	(337)
Professional Services	(123)	(125)	(128)	(131)	(133)	(136)	(139)	(141)	(144)	(147)
Corporate	(101)	(103)	(105)	(107)	(109)	(111)	(114)	(116)	(118)	(121)
Total Synergy Savings	**$ (3,017)**	**$ (3,077)**	**$ (3,139)**	**$ (3,201)**	**$ (3,265)**	**$ (3,331)**	**$ (3,397)**	**$ (3,465)**	**$ (3,535)**	**$ (3,605)**

Incremental OM&A Integration and Implementation Cost Projections	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Human Resource Costs	$ 375	$ 375	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Systems Integration	250	860	-	-	-	-	-	-	-	-
Financial, Legal & Regulatory Costs	1,540		-	-	-	-	-	-	-	-
Rebranding	400	-	-	-	-	-	-	-	-	-
Facilities	-	300	-							
Other	150	4	-	-	-	-	-	-	-	-
Total Integration and Implementation Costs	**$ 2,715**	**$ 1,539**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Net Costs/ (Synergies)	**$ (302)**	**$ (1,538)**	**$ (3,139)**	**$ (3,201)**	**$ (3,265)**	**$ (3,331)**	**$ (3,397)**	**$ (3,465)**	**$ (3,535)**	**$ (3,605)**

SEC - 6

Ref: pg. 32, Table 6

Please provide details regarding the long-term planned capital investments in the capital plans of KWHI and WNHI that may be avoided or reduced as a result of the proposed transaction.

Response

The Applicants plan to maintain the same level of distribution system capital spending as the individual capital plans of KWHI and WNHI.

There are potential synergies with the integration of the software systems such as CIS, ERP, and GIS. However, in the initial years during integration, the merged entity would incur significant costs to integrate the systems. Long-term, after software systems rationalization is complete, the need to replace multiple systems that perform the same function may result in some avoided capital expenditures. The extent of the potential avoided capital expenditures has not been quantified.

SEC - 7

Ref: pg. 32, Table 6

Please provide further details, including forecast costs, of information system technology integration and implementation costs that the Applicants expect will offset any capital savings as a result of the transaction.

Response

Refer to SEC-6

SEC - 8

Ref: pg. 33, Table 8 and 9

Please provide Tables 8 and 9 into each of the four expenditure categories (system access, renewal, service and general plant).

Response

KWHI - Gross Capital Expenditures	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
System Access	$ 7,817	$ 7,717	$ 7,717	$ 7,870	$ 8,000	$ 8,160	$ 8,000	$ 8,000	$ 8,000	$ 8,000	$ 8,000
System Renewal	11,278	12,411	12,907	13,165	13,456	13,724	14,019	14,444	14,828	15,223	15,641
System Service	2,965	2,504	2,581	2,634	2,688	2,743	2,978	3,029	3,121	3,210	3,290
General Plant	3,775	3,810	3,906	3,984	4,064	4,145	4,349	4,460	4,583	4,709	4,834
Total Gross Capital Expenditure	**$ 25,835**	**$ 26,442**	**$ 27,112**	**$ 27,654**	**$ 28,207**	**$ 28,771**	**$ 29,347**	**$ 29,933**	**$ 30,532**	**$ 31,143**	**$ 31,766**
Contributed Capital	4,041	3,990	4,044	4,061	4,120	4,202	4,120	4,120	4,120	4,120	4,120
Total Net Capital Expenditure	**$ 21,794**	**$ 22,452**	**$ 23,068**	**$ 23,593**	**$ 24,087**	**$ 24,569**	**$ 25,227**	**$ 25,813**	**$ 26,412**	**$ 27,023**	**$ 27,646**

WNHI - Gross Capital Expenditures	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
System Access	$ 6,166	$ 5,959	$ 6,448	$ 6,592	$ 6,724	$ 6,858	$ 6,995	$ 7,135	$ 7,278	$ 7,424	$ 7,572
System Renewal	9,572	9,498	9,643	9,851	10,048	10,249	10,454	10,663	10,877	11,094	11,316
System Service	1,346	1,313	1,436	1,412	1,440	1,469	1,498	1,528	1,559	1,590	1,622
General Plant	3,861	3,866	2,676	2,372	2,420	2,468	2,517	2,568	2,619	2,671	2,725
Total Gross Capital Expenditure	**$ 20,945**	**$ 20,636**	**$ 20,203**	**$ 20,227**	**$ 20,632**	**$ 21,045**	**$ 21,465**	**$ 21,895**	**$ 22,333**	**$ 22,779**	**$ 23,235**
Contributed Capital	2,710	2,536	2,819	2,876	2,763	2,818	2,874	2,932	2,991	3,050	3,111
Total Net Capital Expenditure	**$ 18,235**	**$ 18,100**	**$ 17,384**	**$ 17,351**	**$ 17,869**	**$ 18,227**	**$ 18,591**	**$ 18,963**	**$ 19,342**	**$ 19,729**	**$ 20,124**

LDC MergeCo Capital Expenditures	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
System Access	$ 13,983	$ 13,676	$ 14,165	$ 14,462	$ 14,724	$ 15,018	$ 14,995	$ 15,135	$ 15,278	$ 15,424	$ 15,572
System Renewal	20,850	21,909	22,551	23,017	23,504	23,973	24,474	25,107	25,704	26,317	26,957
System Service	4,311	3,817	4,018	4,046	4,128	4,212	4,477	4,558	4,680	4,801	4,912
General Plant	7,636	7,676	6,582	6,356	6,483	6,613	6,866	7,028	7,202	7,381	7,559
Total Gross Capital Expenditure	**$ 46,780**	**$ 47,079**	**$ 47,315**	**$ 47,881**	**$ 48,839**	**$ 49,816**	**$ 50,812**	**$ 51,828**	**$ 52,865**	**$ 53,922**	**$ 55,001**
Contributed Capital	6,751	6,526	6,863	6,937	6,883	7,020	6,994	7,052	7,111	7,170	7,231
Total Net Capital Expenditure	**$ 40,029**	**$ 40,553**	**$ 40,452**	**$ 40,944**	**$ 41,956**	**$ 42,796**	**$ 43,818**	**$ 44,776**	**$ 45,754**	**$ 46,752**	**$ 47,769**

SEC - 9

Ref: pgs. 34-36

Please provide a table that shows for each of 2022 to 2032, a forecast of the KWHI, WNHI, and LDC MergeCo distribution revenue and distribution revenue per customer, broken down by class. Please detail all assumptions and provide the response in Excel format.

Response

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
DISTRIBUTION REVENUE - STANDALONE ($000's)												
KWH	**Budget**	**IRM**	**IRM**	**COS**	**IRM**	**IRM**	**IRM**	**IRM**	**COS**	**IRM**	**IRM**	**IRM**
				51,193					60,354			
Residential	25,567	26,451	27,366	29,510	30,530	31,586	32,678	33,808	34,791	35,994	37,238	38,526
GS<50	5,938	6,143	6,356	6,854	7,091	7,336	7,590	7,852	8,080	8,360	8,649	8,948
GS>50	12,000	12,415	12,844	13,851	14,330	14,825	15,338	15,868	16,329	16,894	17,478	18,082
Large User	281	291	301	324	336	347	359	372	382	396	409	423
Streetlighting	316	327	338	365	377	390	404	418	430	445	460	476
Unmetered Scattered Load	142	147	152	164	170	175	181	188	193	200	207	214
Embedded Distributor	109	113	117	126	130	135	139	144	148	153	159	164
Total	**44,353**	**45,887**	**47,473**	**51,193**	**52,963**	**54,795**	**56,689**	**58,650**	**60,354**	**62,441**	**64,600**	**66,834**
Distribution Revenue per Customer	**$ 447.40**	**$ 454.65**	**$ 462.02**	**$ 489.37**	**$ 497.30**	**$ 505.36**	**$ 513.55**	**$ 521.88**	**$ 527.50**	**$ 536.05**	**$ 544.74**	**$ 553.57**
WNH	**Budget**	**IRM**	**IRM**	**IRM**	**COS**	**IRM**	**IRM**	**IRM**	**IRM**	**COS**	**IRM**	**IRM**
					45,572					51,574		
Residential	20,927	21,520	22,129	22,756	24,795	25,497	26,219	26,962	27,726	28,061	28,855	29,673
GS<50	5,870	6,036	6,207	6,382	6,954	7,151	7,354	7,562	7,776	7,870	8,093	8,322
GS>50	10,543	10,841	11,149	11,464	12,492	12,845	13,209	13,583	13,968	14,137	14,537	14,949
Large User	819	842	866	891	970	998	1,026	1,055	1,085	1,098	1,129	1,161
Streetlighting	177	182	187	193	210	216	222	228	235	238	244	251
Unmetered Scattered Load	125	129	132	136	148	152	157	161	166	168	172	177
Embedded Distributor	2	2	2	2	3	3	3	3	3	3	3	3
Total	**38,463**	**39,552**	**40,672**	**41,824**	**45,572**	**46,863**	**48,190**	**49,555**	**50,958**	**51,574**	**53,035**	**54,537**
Distribution Revenue per Customer	**$ 657.28**	**$ 667.01**	**$ 676.89**	**$ 686.91**	**$ 738.62**	**$ 749.55**	**$ 760.65**	**$ 771.91**	**$ 783.33**	**$ 782.38**	**$ 793.96**	**$ 805.71**
STANDALONE - KWH + WNH	**82,816**	**85,439**	**88,146**	**93,017**	**98,535**	**101,657**	**104,879**	**108,204**	**111,312**	**114,015**	**117,635**	**121,371**
DISTRIBUTION REVENUE - MERGED ($000's)												
KWH Rate Zone	**Budget**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**COS**
Residential	25,567	26,451	27,366	28,312	29,291	30,304	31,352	32,436	33,558	34,718	35,919	35,843
GS<50	5,938	6,143	6,356	6,576	6,803	7,038	7,282	7,533	7,794	8,063	8,342	8,325
GS>50	12,000	12,415	12,844	13,288	13,748	14,223	14,715	15,224	15,750	16,295	16,859	16,823
Large User	281	291	301	311	322	333	345	356	369	382	395	394
Streetlighting	316	327	338	350	362	375	387	401	415	429	444	443
Unmetered Scattered Load	142	147	152	157	163	168	174	180	186	193	199	199
Embedded Distributor	109	113	117	121	125	129	134	138	143	148	153	-
Total	**44,353**	**45,887**	**47,473**	**49,115**	**50,813**	**52,571**	**54,388**	**56,269**	**58,215**	**60,228**	**62,311**	**62,027**
Distribution Revenue per Customer	**$ 447.40**	**$ 454.65**	**$ 462.02**	**$ 469.51**	**$ 477.12**	**$ 484.85**	**$ 492.71**	**$ 500.69**	**$ 508.81**	**$ 517.05**	**$ 525.43**	**$ 513.75**
WNH Rate Zone	**Budget**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**IRM**	**COS**
Residential	20,927	21,520	22,129	22,756	23,400	24,063	24,745	25,445	26,166	26,907	27,669	27,611
GS<50	5,870	6,036	6,207	6,382	6,563	6,749	6,940	7,137	7,339	7,547	7,760	7,744
GS>50	10,543	10,841	11,149	11,464	11,789	12,123	12,466	12,819	13,182	13,556	13,940	13,910
Large User	819	842	866	891	916	942	968	996	1,024	1,053	1,083	1,081
Streetlighting	177	182	187	193	198	204	210	215	222	228	234	234
Unmetered Scattered Load	125	129	132	136	140	144	148	152	156	161	165	165
Embedded Distributor	2	2	2	2	2	2	3	3	3	3	3	3
Total	**38,463**	**39,552**	**40,672**	**41,824**	**43,009**	**44,227**	**45,479**	**46,767**	**48,092**	**49,454**	**50,855**	**50,747**
Distribution Revenue per Customer	**$ 657.28**	**$ 667.01**	**$ 676.89**	**$ 686.91**	**$ 697.08**	**$ 707.39**	**$ 717.87**	**$ 728.49**	**$ 739.28**	**$ 750.22**	**$ 761.32**	**$ 749.73**
MERGED	**82,816**	**85,439**	**88,146**	**90,939**	**93,822**	**96,797**	**99,868**	**103,037**	**106,307**	**109,682**	**113,165**	**112,774**

See attached Excel file “Tables with Formulas” Tab SEC-9. The Applicants have used the following assumptions to prepare the distribution revenue forecast:

- Customer growth: 1.81% and 1.33% for KWHI and WNHI, respectively. Customer growth has been uniformly applied across the total number of customers across all classes. 2022 values are based on budgeted figures for Residential, GS <50kW, GS >50kW, and Large User classes.
- Inflation: Inflation is assumed to be constant at 1.80%
- Stretch factor: For the purposes of the standalone calculations, it is assumed that KWHI and WNHI will remain in their current groups with stretch factors of 0.15% and 0.30%, respectively. The same stretch factors have been applied in the merged scenario. Should the Applicants choose to file RRR information together, a single stretch factor would be applied to both rate zones.
- 2022 Distribution Revenue: The Applicants used budgeted distribution revenue per customer class for 2022 projections.
- Cost of Service (COS) Years: KWHI rebasing was assumed in years 2025 and 2030. WNHI rebasing was assumed in years 2026 and 2031. The Applicants have estimated total distribution per revenue requirement inputs as follows:
  - Rate base per year:
    - Net capital expenditures in Table 9 of the Application
    - Cost of power increase of 3.0% annual net of OER
    - OM&A per below
    - Working capital allowance of 7.5%
  - Cost of capital parameters for equity, long-term debt and short-term debt of 8.66%, 3.49% and 1.17%, respectively based on 2022 rates published by the OEB.
  - OM&A expenditures per Table 9 of the Application
  - Depreciation estimated based on historical proportion of depreciation as a percentage of net fixed assets for assets in-service and half-year rule for current additions.
  - Other revenues at a growth rate of 2.0%

  - Cost allocation was assumed to be equal to previous year structure

- For the 2033 rebasing year of LDC MergeCo, revised OM&A and capital expenditure amounts were used based on Table 6 and 9. No changes to cost allocation structure were made with the exception of removal of the Embedded Distributor rate class for KWHI. The Applicants note that the tables presented in the initial application assumed a rebasing year in 2032. This has been updated to be consistent with the revised timeline suggested in these responses.

SEC - 10

Ref: pg. 51

Do the Applicants expect to file an ICM during its deferred basing period? If so, please provide details.

Response

No ICM is expected to be filed during the 10-year Deferred Rebasing Period at this time. Both KWHI and WNHI have recent DSP's filed in 2020 (EB-2019-0049) and 2021 (EB-2020-0059) respectively that should assist in the planning of capital expenditures during the 10-year Deferred Rebasing Period. The Applicants reserve the right to revisit this determination as required throughout the deferred rebasing period.

SEC - 11

Ref: pg. 55

Please provide an annual forecast of the balance, with all supporting calculations, of the proposal to track the grossed-up PILs impact of the variance between the unsmoothed accelerated depreciation approach agreed to by Waterloo North Hydro in its 2021 Cost of Service Settlement Proposal (EB-2020-0059), and the effective PILs impact of the phase-out/elimination of the accelerated CCA anticipated to begin after 2023 and until rebasing.

Response

The Applicants have replicated WNHI's 2021 Schedule 8 per EB-2020-0059, Waterloo_Settlement_PILs_Workform_2021_COS_20201116 on the attached Excel file "Tables with Formulas" Tab SEC-11. WNHI 2021 Test Year CCA has been calculated at the Accelerated Investment Incentive Plan (AIIP) wind-down factors; 1.5x (2021 COS), 1.0x, 0.5x. For each factor, the CCA difference is tax-effected at an assumed rate of 26.5% and grossed-up for revenue requirement purposes. The calculated amounts have then been input into a table outlining the annual forecast of the balances to be entered into Uniform System of Accounts (USoA) Account 1592.

SEC - 12

Ref: pgs. 52, 57

On a similar basis as Table 13, for each of the GS<50 and >50 rate classes, please provide a table that has a side-by-side comparison of each rate included in the 2022 tariffs of WNH and KWHI.

Response

GENERAL SERVICE LESS THAN 50 KW SERVICE CLASSIFICATION	KWHI EB-2021-0038		WNH EB-2021-0062	
Service Charge	$	28.95	$	33.71
Smart Metering Entity Charge - effective until December 31, 2022	$	0.57	$	0.57
Distribution Volumetric Rate	$/kWh	0.0139	$/kWh	0.0183
Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022	$/kWh	0.0029	$/kWh	(0.0005)
Rate Rider for Disposition of Global Adjustment Account (2022) - effective until December 31, 2022 Applicable only to Non-RPP customers	$/kWh	0.0010	$/kWh	0.0000
Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022	$/kWh	0.0007	$/kWh	0.0004
Low Voltage Service Rate	$/kWh	0.0000	$/kWh	0.0003

GENERAL SERVICE GREATER THAN 50 KW SERVICE CLASSIFICATION	KWHI EB-2021-0038		WNH EB-2021-0062	
Service Charge	$	192.88	$	125.96
Distribution Volumetric Rate	$/kW	4.9657	$/kW	5.6486
Rate Rider for Disposition of Deferral/Variance Accounts (2022) - effective until December 31, 2022	$/kW	1.3713	$/kW	0.0313
Rate Rider for Disposition of Deferral/Variance Accounts - Applicable only for Non-Wholesale Market Participants - effective until December 31, 2022	$/kW	(0.2869)	$/kW	(0.2235)
Rate Rider for Disposition of Global Adjustment Account (2022) - effective until December 31, 2022 Applicable only to Non-RPP customers	$/kWh	0.0010	$/kW	0.0000
Rate Rider for Disposition of Lost Revenue Adjustment Mechanism Variance Account (LRAMVA) (2022) - effective until December 31, 2022	$/kW	0.2927	$/kW	0.3945
Low Voltage Service Rate	$/kW	0.0000	$/kW	0.1322

SEC - 13

Ref: p.52

With respect to rate harmonization:

a) Please confirm that the Applicants are seeking approval in this application that after the end of its deferred rebasing period in 2032, it will be allowed to maintain two separate rate zones for up to an additional 10 years (i.e. 2042) for the purposes of rate harmonization.

Response

Not confirmed.

The Applicants have made no proposal with regards to rate harmonization in this Application consistent with the OEB's MAADs Handbook. Rate harmonization is an issue that will be addressed by a future OEB panel at the time of rebasing of the consolidated entity.

However, the Applicants are seeking approval in this application that it be allowed to maintain two separate rate zones for an additional 10 years after the deferred rebasing period ends.

This approval will in no way limit or restrict the discretion of a future OEB panel with regards to rate harmonization. It is being sought in response to a key term of the Merger Participation Agreement (MPA) between the parties. The Applicants have accounted for the incremental administrative requirements associated with maintaining two separate rate zones over this period. There is no harm arising from approval of this request.

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b) If (a) is confirmed, please explain why it would be appropriate for the OEB to either approve any post-deferred rebasing period rate-setting.

Response

See the response to part (a) above.

c) Please provide a copy of any post deferred rebasing period rate modeling or forecast that either Applicant has undertaken.

Response

See Attachment D and Staff-2(f)(ii).

SEC - 14

Ref: pg. 56

Please provide a comparison of the difference in the depreciation rates, and accounting and capitalization policies of the Applicants.

Response

	KWHI	WNHI
Buildings	20-50 Years	15-60 Years
Transformer and Substation Equipment	15-50 Years	15-50 Years
Supervisory Control and Data Acquisition Equipment	15 Years	15 Years
Distribution System	25-60 Years	15-50 Years
Meters	15-25 Years	15-25 Years
General Equipment	3-10 Years	5-15 Years
Computer Software	3-10 Years	5-10 Years
Land Rights	100 Years	No amortization period

Refer to Staff-34. Accounting and capitalization policies are the same for each utility. The rates of depreciation differ slightly in some areas. As part of IFRS, depreciation rates are estimates that are reviewed by management each year. LDC MergeCo will review depreciation rates in 2022 and will apply any changes in estimate, if necessary, on a prospective basis.

Staff Interrogatories

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.

Response

At the current time, the LDCs do not use services of the affiliates. There is no expectation that this will change post-amalgamation.

For more information on existing shared service arrangements, refer to the evidence filed in EB-2019-0049 for KWHI and EB-2020-0059 for WNHI.

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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.

Response

It is anticipated that some shared corporate services (as defined in the ARC) would be provided by LDC MergeCo to KESI, AMS and/or MergeCo Affiliates through service agreements. This will be done in accordance with the ARC. Currently, the Applicants comply with the ARC. No changes are anticipated to operating in a manner that will be inconsistent with the ARC.

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]

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.

Response

LDC MergeCo is requesting approval to maintain two separate rate zones for the Rate Harmonization Period (the 10-years following the 10-year Deferred Rebasing Period).

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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?

Response

It is worth noting at the outset that the OEB has previously determined that:

> "*The Board is of the view that its mandate in these matters is to consider whether the transaction that has been placed before it will have an adverse effect relative to the status quo in terms of the Board's statutory objectives. It is not to determine whether another transaction, whether real or potential, can have a more positive effect than the one that has been negotiated to completion by the parties.*"[2]

This is a specific transaction that is before the OEB for approval. The issue the OEB is charged with is whether or not the transaction will cause no harm relative to the OEB's statutory objectives. In the Applicant's view, there will be no harm. The issue is not whether another transaction with different terms could have been negotiated by the parties.

In this context, the Applicants are concerned that this question is straying outside of the proper scope of discovery for a MAADs Application.

The municipal shareholders of KWHI and WNHI agreed to the terms of the MPA on the basis of the OEB's existing policy framework related to the approval of amalgamations of this nature.

For example, the proposed merger assumes a 10-year deferred rebasing period and the ability to recoup synergies over this period to offset costs. If the OEB were to change its policies in this regard, then it may be grounds for an Adverse Determination under section 9.3 of the MPA.

[2] Combined MAADs Decision in RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257 at pg. 6.

In addition, if the OEB does not approve the continuation of two separate rate zones for a minimum of 20 years post-closing, then this too may be grounds for an Adverse Determination under section 9.3 of the MPA.

These are key commercial considerations that were and still are relevant to the municipal shareholders in deciding to approve the transaction and sign the MPA.

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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."

Response

There appears to be some confusion regarding the terms of the commercial agreement between the parties to the MPA with the relief sought in the Application which is explicitly set out in Section 3.2 of the Application.

The MAADs Handbook applies to the Application.

The Application includes two key requests for relief relevant to this question: one is to defer rebasing for 10 years following closing of the Proposed Transaction, which is consistent with the MAADs Handbook; and the second is to maintain two separate rate zones for an additional 10 years following the end of the Deferred Rebasing Period (the "Special Request").

It cannot be argued that the Special Request is inconsistent with the MAADs Handbook. The Special Request is not mentioned in the MAADs Handbook.

There is no proposal in the Application with regards to harmonizing rates, which is also consistent with the MAADs Handbook. The Applicants recognize that rate harmonization will be addressed in the first Cost of Service application following the end of the Deferred Rebasing Period.

The Special Request is made **without prejudice** to a future OEB panel making whatever determination it sees fit with regards to rate harmonization. It is a simple request to allow LDC MergeCo to maintain two separate rate zones for 20 years post-closing, which is a key concern of the municipal shareholders in entering into the MPA.

In this context, the Applicants have indicated in the Application that "*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*."

This is a statement of intention, which is consistent with the requirements of Section 9.3 of the MPA. The Applicants believe it is important for the OEB to understands the Applicant's plan. As demonstrated in the MPA, this issue was a live consideration for the municipal shareholder prior to agreeing to the merger.

The Special Request will not cause any harm with regards to the OEB's statutory objectives. It has been made without prejudice to a future OEB panel making whatever determination it sees fit with regards to rate harmonization. If for whatever reason a future OEB panel denies the Applicants request for a 10-year rate harmonization period, LDC

MergeCo could still easily implement whatever harmonization plan is approved by the OEB at that time while still maintaining two separate rate zones over 10 years.

While there may be a minor incremental administrative burden to continue two separate rate zones over an additional 10 years, the Applicants are willing to assume this voluntarily and have accounted for this in the proposed merger plan.

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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.

Response

Adverse Determination clauses such as the one set out in Section 9.3 of the MPA are routinely included in MAADs transactional documentation in Ontario.

For example, on March 17, 2022 the OEB approved a proposal to amalgamate Brantford Power Inc. and Energy+ Inc. (EB-2021-0280).

In Section 9.3 of Brantford/Energy+ MPA, the shareholders agreed that:

> "*In the event that the BEC Group or Energy Plus Group, as applicable, is of the opinion, acting reasonably, that the OEB Approval will be obtained in whole or in part on terms that will (i) reduce the maximum allowable time and/or maximum amount of savings that may be allocated the shareholder of LDC Amalco pursuant to the policies of the OEB, and/or* ***(ii) result in a material adverse change to the proposed rate structure and rate harmonization of LDC Amalco proposed in the application under the OEB Act for the OEB Approval pursuant to Section 9.1(a) following Closing*** *(in each case, an "Adverse Determination"), either the BEC Group or Energy Plus Group, as applicable, may provide written notice to the*

other parties of such potential Adverse Determination. The Parties agree to cooperate and negotiate to reach agreement with respect to any desirable or required amendments to this Agreement to address a potential Adverse Determination."

The Applicants have limited this response to the most recent OEB approved transaction, although the vast majority of other LDC transactions in Ontario likely contain similar language.

It is worth noting that 9.3(ii) of the Energy+/Brantford MPA ties an Adverse Determination to a material adverse change to the proposed rate structure and rate harmonization of LDC Amalco. Arguably, this means that an Adverse Determination could occur after the first rebasing application following the deferred rebasing period.

By contrast, in the MPA for this Application, Section 9.3(ii) is tied not to rate harmonization but is rather limited to the Special Request. This simplifies the provision and provides additional certainty to all parties, including this OEB panel, about the potential occurrence of an Adverse Determination.

Section 9.3(ii) of the MPA included in this Application reflects an evolution of the Adverse Determination clause to better reflect the OEB's policies as set out in the MAADs Handbook, while still addressing the key concerns of the municipal shareholders when approving the proposed transaction.

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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.

Response

If LDC MergeCo does not receive approval to continue two separate rate zones for 20 years, the "Adverse Determination" definition in the MPA is triggered. The Parties will have to consult with their respective shareholders to negotiate and determine what an agreeable alternate outcome would be. The Parties agree to cooperate and negotiate any desirable or required amendments to this Agreement to address a potential Adverse Determination. This may result in the proposed merger not proceeding.

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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?

Response

It is premature to discuss the details of a rate harmonization plan at this time, as consistent with the MAADs Handbook, it is not a live issue in this Application.

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ii) How was the period of 10 years for the Rate Harmonization Period determined? Please provide the analysis, including working spreadsheets used, assumptions, etc.

Response

The Applicants have made no proposal with regards to rate harmonization in this Application consistent with the OEB's MAADs Handbook. Rate harmonization is an issue that will be addressed by a future OEB panel at the time of rebasing of the consolidated entity.

In this context, this question is seeking to explore information that is not relevant to the matters at issue to this Application.

The Applicants have done some preliminary modelling of a potential harmonization scenario. For the purposes of transparency, the output of this modelling together with the relevant assumptions is included as Attachment D.

The modelling does assume the continuation of two separate rate zones for 10 years after the end of the deferred rebasing period, consistent with the Special Request.

Further exploration of rate harmonization scenario modelling including the excel models, calculations or detailed analysis is not warranted given that rate harmonization is not a matter at issue in this Application.

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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).

Response

It is worth noting at the outset that the OEB has previously determined that:

> "*The Board is of the view that its mandate in these matters is to consider whether the transaction that has been placed before it will have an adverse effect relative to the status quo in terms of the Board's statutory objectives. It is not to determine whether another transaction, whether real or potential, can have a more positive effect than the one that has been negotiated to completion by the parties.*"[3]

There is a specific transaction that is before the OEB for approval which is stipulated in the terms of the MPA. In this context, the Applicants cannot accept the assumption "beyond the inclusion of s. 9.3 ii) in the MPA" in answering this question. There is no transaction that does not include Section 9.3 ii) of the MPA.

It is a key part of the transaction for the reasons set out in the responses to subsections (a) through (e) above.

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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"?

[3] Combined MAADs Decision in RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257 at pg. 6.

Response

No. The Special Request is being sought without prejudice to the right of any future OEB panel to make any future determination with regards to rates or rate harmonization with the sole exception that two separate rate zones will continue to exist for 10 years after the Deferred Rebasing Period. Approval is not being sought in this application for a rate harmonization plan. The approval being sought is to maintain two rate zones for a period of up to 10-years after the 10-year Deferred Rebasing Period. Future rates will be determined using established practices.

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.

Response

No, the MPA, including s. 9.3, was not substantially known by the time that public communication commenced on October 1, 2021. KWHI and WNHI had received direction by the municipalities on October 4, 2021 to continue and finalize negotiating the shareholders agreement, MPA and associated legal documents.

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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.

Response

No, customers were not informed of the plan that rate harmonization would take place over 10 years from 2033 to 2042.

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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".

Response

Consulting with customers on a detailed rate harmonization plan would be premature at this time. There is no rate harmonization plan included in the Application and no detailed rate harmonization plan exists at this time. Consistent with the OEB's MAADs Handbook, rate harmonization is not to be determined until the first rebasing application after the deferred rebasing period.

In this context, customers were informed of a gradual phase-in to rate harmonization after the sit-out period. This was presented in the five Councils meetings on October 4 and 5,

2021. Each of the Councils were provided and presented the business case summary that is provided as Attachment A to discuss the gradual phase-in of rates.

LDC MergeCo will consult with customers on a detailed rate harmonization plan in advance of submitting that plan to the OEB for approval as part of the first rebasing application after the deferred rebasing period.

STAFF - 4

Ref 1: Application, pg. 21

Ref 2: Application, Attachment I, MPA, Section 9.3

Ref3: 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.

Response

LDC MergeCo will continue with tracking 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 for the two separate rate zones of KWHI and WNHI post-merger. For the Embedded Distributor relationship between KWHI and WNHI, these costs will be tracked. A rate harmonization plan will be presented in the 2033 Cost of Service application. Financial consolidation accounting will eliminate the revenue and expense of KWHI and WNHI to be compliant with IFRS reporting standards.

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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.

Response

The Applicants plan to address the host/embedded relationship between KWHI and WNHI rate zones as part of the cost allocation evidence filed as part of the first rebasing application following the deferred rebasing period. Any embedded distributor relationships with Energy+ and Hydro One will be re-evaluated from-time-to-time based on system needs consistent with good utility practice. At this time, the partial host relationship with Hydro One is anticipated to be long term in nature.

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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.

Response

The Host and Embedded Distributor relationship was not a primary consideration when proposing the Special Request. The Applicants anticipate that there will be likely be a proposal in the 2033 Cost of Service application of LDC MergeCo that will reallocate costs appropriate so as to eliminate the Embedded Distributor relationship between KWHI and WNHI.

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?).

Response

"Benefit" solely pertains 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, pgs. 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.

Response

Reliability:

LDC MergeCo aims to improve reliability by having one contiguous service territory with many interconnections compared to the current two separate distribution systems that have limited connections to each other. LDC MergeCo will also have more transformer stations supported from multiple transmission circuits which will build in better system redundancy. LDC MergeCo will also focus on distribution automation, such as investment in Fault Location Interruption & Service Restoration (FLISR).

Customer Service Standards:

Table below provides Customer Service Standards for KWHI and WNHI:

LDC MergeCo will continue with current customer service processes that are meeting the OEB Customer Service Standards. In the process of merging resources, systems and processes, LDC MergeCo will be evaluating the current processes and systems at KWHI and WNHI to identify opportunities for improvements that will at a minimum maintain current OEB Customer Service Standard metrics. Improvements may include improved systems such as phone and customer outreach, additional channels for customer support such as on-line chat and SMS messaging.

	OEB Target	2020		2021 (Preliminary)	
		KWHI	WNHI	KWHI	WNHI
Telephone Calls Answered On Time	65%	87.97%	86.59%	74.39%	94.71%
First Contact Resolution		99.28%	99.90%	98.84%	99.95%
Billing Accuracy	98%	99.98%	99.97%	99.89%	99.95%
Customer Satisfaction Survey Results		A	96.00%	A	96.00%

STAFF - 7

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.

Response

The following Table outlines the number of employees eligible to retire in the next ten years.

Function	KWHI	WNHI	Total
Executive	3	4	7
Administration	5	0	5
Finance & Regulatory	4	2	6
Information Technology	6	0	6
Billing & Customer Care	8	5	13
Engineering	9	5	14
Operations	26	6	32
Facilities	3	1	4
Metering	1	2	3
Purchasing & Stores	3	2	5
Total	**68**	**27**	**95**

---

b) Please provide the number of currently vacant positions and their area of responsibility.

Response

The following Table shows current vacancies for KWHI and WNHI.

Function	Total
Administration	1
Finance & Regulatory	1
Information Technology	2
Engineering	4
Operations	4
Metering	2
Total	**14**

---

c) Please confirm if the Applicants intend on backfilling operations staff that are expected to retire.

Response

The proposed merger will have minimal effect on the operations side of the business. It is not anticipated that there will be a reduction in distribution assets that are needed to service existing customers, provide for future growth, and maintain service levels.

---

d) Please explain how the Applicants will ensure continuity of staff knowledge.

Response

Retirements are known years in advance, and this allows management to plan the timing of recruiting/promoting staff to replace retirees. In some cases, younger and less experienced staff are trained and mentored by retiring employees. In other cases, apprentices are recruited years in advance to allow them the time needed to acquire formal certifications and on the job skills necessary to replace retirees. This ensures a planned transfer of knowledge from the retiring staff member to remaining staff. The merger of the two utilities will increase the pool of talent by having more staff with several years of operational and business experience and reduce the risk associated with knowledge retention.

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?

Response

KWHI and WNHI are mapping out a comparison of system architecture and cyber security infrastructure. Pending merger approval, consolidation of cyber security infrastructure will begin in 2023.

---

b) Are the Applicants aware of any material differences in the cyber security plans of the each of the utilities?

Response

There are no obvious or material differences in the cybersecurity plans of the two LDCs.

---

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.

Response

No fundamental differences exist.

---

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.

Response

Once approved the merged entity is expected to score in the "high risk" category. As a result, harmonization will include additional controls expanding the required effort to reach full Ontario Cyber Security Framework compliance.

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.

Response

In the above table, Staff has added 11 years, that being the period 2022 to 2032 to sum the net synergies as $32.455M. To sum up the synergies, 2023 to 2032 should be used. The synergies have been updated to the table below. Refer to SEC-5.

Table 6 - Projected OM&A Cost Savings	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
KWHI	$ 21,025	$ 21,562	$ 22,112	$ 22,677	$ 23,256	$ 23,850	$ 24,459	$ 25,084	$ 25,725	$ 26,382
WNHI	16,234	16,586	16,945	17,312	17,687	18,070	18,462	18,862	19,270	19,687
Total KWHI and WNH (Stand-Alone)	$ 37,259	$ 38,147	$ 39,057	$ 39,989	$ 40,943	$ 41,920	$ 42,921	$ 43,945	$ 44,995	$ 46,069
MergeCo	36,957	36,609	35,919	36,788	37,678	38,590	39,524	40,480	41,460	42,464
Net (Costs) / Synergies	**$ (302)**	**$ (1,538)**	**$ (3,139)**	**$ (3,201)**	**$ (3,265)**	**$ (3,331)**	**$ (3,397)**	**$ (3,465)**	**$ (3,535)**	**$ (3,605)**
Total Synergy Savings										**$ (28,778)**

Based on this revised calculation, total OM&A savings, net of transition costs ($4.3M), are approximately $28.7M over the 10-year deferred rebasing period.

---

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.

Response

See attached Excel file “Tables with Formulas” Tab SEC-5

---

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.

Response

Please refer to SEC-5

---

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.					

Response

See the Table below which provides a breakdown of the $4.3M integration and implementation cost projections. Per SEC-5, Year 1 is considered to be 2023.

Incremental OM&A Integration and Implementation Cost Projections	Year 1	Year 2	Total
Human Resource Costs	$ 375	$ 375	$ 750
Systems Integration	250	860	1,110
Financial, Legal & Regulatory Costs	1,540	-	1,540
Rebranding	400	-	400
Facilities	-	300	300
Other	150	4	154
Total Integration and Implementation Costs	**$ 2,715**	**$ 1,539**	**$ 4,254**

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.

Response

Table 10 presents 2020 Actuals from the OEB Yearbook and Table 7 presents the Projected OM&A Cost per Customer. Table 7 is a forecast and includes certain costs that are not included in the OM&A cost per customer as calculated in the Yearbook. These include CDM costs, and forecasted synergies that will be realized in 2023. Customer counts in the model are lower than expected.

---

b) Please explain how Table 7 relates to the table copied in the preamble to interrogatory Staff-9 above.

Response

Table 7 was used to generate the OM&A cost per customer.

---

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.

Response

See attached Excel file “Tables with Formulas” Tab SEC-3

---

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.

Response

Confirmed

---

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.

Response

The Application includes no proposal related to rate harmonization, consistent with the MAADs Handbook.

The Special Request to continue two separate rate zones 10-years after the 10-year Deferred Rebasing Period relates to the desire to establish a two rate zone framework that would enable the Applicants to propose a future Rate Harmonization Plan, which would be expected to not increase distribution rates for any group of customers beyond which they would have otherwise increased on a stand-alone basis.

STAFF - 11

Capital Expenditures

Ref: Application, pgs. 31-33

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.

Response

KWHI's 2020 DSP and WNHI's 2021 DSP were used to the end of 2024 and 2025, respectively. Thereafter, a 2% increase was used to the end of 2032.

---

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

Response

Refer to SEC-6

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?

Response

To calculate Distribution Revenue from future Cost of Service Applications, the Revenue Requirement was calculated in a Cost of Service year (i.e. 2025 for KWHI), and distribution revenue was increased by the deficiency.

For a more detailed description of forecast methods used for the Cost of Service years, refer to SEC-9.

---

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

Response

The forecasted distribution rates are very sensitive to inflation rates, borrowing costs and rates of return. The sensitivity of the calculations depends upon LDC MergeCo's ability to decrease OM&A through synergies achieved. The impacts on the resulting rate differential due to changes in drivers of the rates under various scenarios is likely to be low or favourable under the merger scenario due to the synergies being achieved.

---

c) Please provide 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.

Response

See attached Excel file "Tables with Formulas" Tab SEC-3

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.

Response

Confirmed. It is KWHI's and WNHI's intention to file separate regulatory filings for 2022, and combined filings for 2023 and beyond.

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"?

Response

LDC MergeCo defines best practices as the best practices, methods, policies, or actions engaged in or accepted by a significant portion of the electricity distribution industry in Ontario, which a reasonable utility official would expect, in light of the facts reasonably discernable at the time, to accomplish the desired results of reliability, safety, environmental protection, economic efficiency and expediency. It includes a strategy or approach to processes and systems adopted for LDC MergeCo. Best practices meet the business, technology, and customer needs of the organization effectively as well as regulatory requirements. Best practices will also take into consideration timing, cost factors and common practices within the industry.

---

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?

Response

No. The customer service objectives for LDC MergeCo will not differ from the current customer service objectives of KWHI and WNHI. Both utilities currently meet the customer service objectives and standards as required by regulations and codes. Both Customer Service departments will continue to follow OEB targets and code requirements.

---

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

Response

The KWHI Control Room is operated 24x7 with eight (8) full time employees in a secure location at its facility, 301 Victoria Street South in Kitchener. The WNHI Control Room is operated 24x7 with (8) eight full time employees in a secure location at its facility, 526 Country Squire Road in Waterloo. Both existing control room facilities are equipped with uninterruptible power supply including backup power generation, security and surveillance equipment, and ergonomic workspaces.

---

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

Response

The critical dependencies associated with the transition to a centralized Control Room include the harmonization of day-to-day operating directives, policies and procedures with a strong focus on safety.

Administrative issues surrounding successor Union(s) and Collective Agreements need to be resolved. Other dependencies include the harmonization of a number of Advanced Distribution Management Systems (ADMS) modules including Supervisory Control and Data Acquisition (SCADA), Outage Management System (OMS), Fault Location Isolation Service Restoration (FLSIR), and Advanced Metering Infrastructure (AMI) tools, Geographic Information System (GIS), and Customer information Systems (CIS).

A detailed Control Room Integration Plan will be prepared following the approval of the merger. It is projected that, a full transition to a single, centralized Control Room will take place within 18 to 24 months of the approval of the merger.

---

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.

Response

KWHI and WNHI are at different maturity levels in their respective distribution automation technologies. Consolidating Control Room technologies provides an opportunity to adopt industry best practices around distribution automation with a positive impact to reliability.

---

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.

Response

A detailed Control Room Integration Plan will be prepared following the approval of the merger. At this time, we do not have detailed information on the specific changes that will be required, the estimated costs for Control Room consolidation or expected 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.

Response

The Applicants are just beginning work on the transition and integration activities. The two utilities use slightly different construction standards: WNHI uses a combination of USF and internal standards whereas KWHI uses mostly internal standards. Any major differences have not yet been identified.

---

ii) Which utility's policies are being adopted?

Response

To date, the utilities have not made any decision on which policies will be adopted. The Applicants will undertake a detailed review and analysis process to decide on the best course of action as part of the transition and integration activities.

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.

Response

Refer to SEC-10

STAFF - 16

Distribution System Planning

a) Please confirm that KWHI's current Distribution System Plan goes to 2024.

Response

Confirmed.

---

b) Please confirm that WNHI's current Distribution System Plan goes to 2025.

Response

Confirmed

---

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?

Response

The Applicants use the same principles for managing their assets, based on the principles developed by the same consultant, with some differences in the software platform to capture and analyze the asset performance data and develop capital plans. Over time, the Applicants will look to utilize a common platform to perform this analysis. As the asset information systems get integrated, this will naturally move to one asset management platform for the two predecessor service territories, and hence, one distribution system plan for the consolidated service territory. The exact timing will be determined through the recently begun work on the transition and integration activities.

See also the response to PP-6.

---

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

Response

Yes.

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.

Response

LDC MergeCo has no plan to apply to change any of its Specific Service Charges as part of this Application or at any time during the 10-year deferred rebasing period.

Specific Service Charges are set during a Cost of Service application. The revenue derived by these charges are used to offset the revenue requirement of the LDC. Chapter 3 Filing Requirements states that the IRM process is not appropriate way to seek relief and Specific Services Charges are excluded from the IRM rate application process.

STAFF - 18

Conditions of Service

a) Please identify and describe any material differences in the current Conditions of Service of KWHI and WNHI.

Response

The Applicants are just beginning work on the transition and integration activities. To date, material differences in the Conditions of Service have not been identified. Both utilities adhere to good utility practice and are compliant with the relevant OEB codes and standards, and expect that the adequacy, reliability and quality of electricity service will be maintained.

---

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.

Response

In May 2022 a project team will be assembled to discuss the individual Conditions of Service and how to consolidate the two documents. The project is expected to take about one year. Once the document is consolidated and complete, LDC MergeCo will follow the requirements of the Distribution System Code to obtain customer feedback and input prior to the implementation of the merged Conditions of Service.

---

c) Are there any impacts on OEB-approved rates expected to result from combining the Conditions of Service of KWHI and WNHI?

Response

There are not anticipated to be any rate impacts at this time arising from combining the Conditions of Service.

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.

Response

Confirmed.

---

b) Please explain why the Applicants consider this licence application “draft”.

Response

The licence application was considered "Draft" since information such as Full Legal Name of Applicant, Ontario Corporation Number and Date of Formation will not be available until approval of this Application. A revised application with these factual details included will be filed promptly once the information is known.

---

c) Please provide a signed and dated version of the licence application (i.e., at pages 14 and 15).

Response

See Attachment B. Note that the application still remains in draft form for the reason set out in response to (b) above.

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 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 WNHI rate zone, implement and/or address the matters outlined pursuant to the 2021 settlement proposal for WNHI.

Response

Confirmed. Note that on December 23rd, 2021 (EB-2020-0059) WNHI filed a plan to reduce distribution losses as much as reasonably possible through cost effective measures.

---

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.

Response

Confirmed

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.

Response

Confirmed

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.

Response

As per the chart below, the 2020 percentages were derived from the audited 2020 financial statements of the individual entities. The on closing numbers are the expected balances at closing. The pro forma numbers were derived from the pro forma financial statement as provided in Attachment O of the original application.

	KWHI	WNHI	
	Audited Financial Statement Dec 31, 2020	Audited Financial Statement Dec 31, 2020	Combined
	A	B	C=A+B
Long Term Debt	76,963	111,866	188,829
Total Shareholders Equity	165,714	101,497	267,211
December 31, 2020	32%	52%	41%
Long Term Debt			188,802
Total Shareholders Equity			283,550
On Closing			40%
Long Term Debt			192,585
Total Shareholders Equity			301,547
Pro Forma Financial Statements, Year 1			39%

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

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.

Response

Confirmed.

---

b) Please explain the methodology used to forecast amounts in the pro-forma financial statements at reference 1.

Response

The pro-forma statements are based on the summation of the individual LDCs for 2023, less synergies. The following rates were used to forecast balances based on 2020 actuals:

	KWHI	**WNHI**	**LDC MergeCo**
Customer Growth	1.81%	1.33%	
Cost of Power Increase	3.00%	3.00%	3.00%
Inflation	1.80%	1.80%	
Cohort	2	3	2
Other Revenue Growth	2.00%	2.00%	2.00%

---

c) Please confirm whether the Applicants are in agreement with OEB staff's calculations and values shown in OEB Staff Table 1.

Response

The presentation of the audited financial statements is not the same as the presentation of the pro-forma financial statements. Certain revenue and expense items are missing from Staff's presentation of the audited financial statements, most notably the line "Net movement in regulatory deferral account balances".

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d) If this is not the case, please explain, and update OEB Staff Table 1, as required.

Response

The Applicants have made a new table that aligns with audited financial statements using all line items that calculate net income from operating activities.

	KWHI December 2020	WNHI December 2020	KWHI/WNHI December 2020	LDC Mergeco Pro Forma Year 1 (December 31, 2023)	Difference
	A	B	C = A + B	D	E = C - D
REVENUES					
Sales of Electricity	238,247	194,634	432,881	419,307	13,574
Distribution Revenue	43,324	35,959	79,283	86,680	(7,397)
Other Income	3,605	2,134	5,739	5,126	613
	285,176	232,727	517,903	511,113	6,790
EXPENSES					
Energy Purchases	238,247	194,634	432,881	419,307	13,574
Operating Expenses	22,445	14,634	37,079	35,720	1,359
Depreciation and Amortization	10,021	10,568	20,589	24,575	(3,986)
	270,713	219,836	490,549	479,602	10,947
Income from Operating Activities	14,463	12,891	27,354	31,511	(4,157)

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.

Response

Based on the new presentation which includes all relevant income and expense items, the variance is $4.1 million and not $12.8 million. Ignoring the cost of power variation that has no effect on the net income from operations, the two significant differences are reflected in distribution revenue and the depreciation expense.

Distribution revenue is forecast to be greater in 2023 than the sum of 2020 due to customer growth and inflation. The inflation factor has been adjusted by the individual LDC's stretch factors. Depreciation expense is different than 2020 due to investments in capital assets.

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.

Response

The Applicants have revised Table 1 as per Staff-23 and 2021 preliminary results are presented below:

The 2021 results are considered preliminary as they have not yet been filed with the OEB through the respective RRR filings. As the numbers are finalized, these results may change.

	KWHI December 2021 (Preliminary)	WNHI December 2021 (Preliminary)	KWHI/WNHI December 2021 (Preliminary)	LDC MergeCo Pro Forma Year 1 (December 31, 2023)	Difference
	A	B	C = A + B	D	E = D - C
REVENUES					
Sales of Electricity	204,722	165,493	370,215	419,307	
Distribution Revenue	44,801	39,063	83,864	86,680	
Other Income	4,111	2,788	6,899	5,126	
	253,634	207,345	460,979	511,113	
EXPENSES					
Energy Purchases	204,722	165,493	370,215	419,307	
Operating Expenses	24,168	15,668	39,836	35,720	
Depreciation and Amortization	10,977	11,021	21,998	24,575	
	239,867	192,182	432,049	479,602	
Income from Operating Activities	13,767	15,163	28,930	31,511	2,581

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.

Response

Starting with combined preliminary 2021 results for KWHI and WNHI and adjusting for inflation and stretch factors a forecast of 2023 is presented in the table below.

	KWHI December 2021 (Preliminary)	WNHI December 2021 (Preliminary)	KWHI/WNHI December 2021 (Preliminary)	LDC MergeCo Pro Forma Year 1 (December 31, 2023)	Difference	KWHI/WNHI December 2023 Adjusted for inflation and x factor
	A	B	C = A + B	D	E = D - C	F
REVENUES						
Sales of Electricity	204,722	165,493	370,215	419,307		420,775
Distribution Revenue	44,801	39,063	83,864	86,680		87,218
Other Income	4,111	2,788	6,899	5,126		7,301
	253,634	207,345	460,979	511,113		515,294
EXPENSES						
Energy Purchases	204,722	165,493	370,215	419,307		420,775
Operating Expenses	24,168	15,668	39,836	35,720		42,437
Depreciation and Amortization	10,977	11,021	21,998	24,575		24,747
	239,867	192,182	432,049	479,602		487,959
Income from Operating Activities	13,767	15,163	28,930	31,511	2,581	27,335

The following assumptions were used to generate the forecast for 2022 and 2023:

- Cost of Power – increase by 3% per year plus customer growth (KWHI – 1.81% and WNHI – 1.33%)
- Distribution Revenue – increase by 3.3% in 2022 and 1.8% in 2023 for inflation plus customer growth as above less Cohort factor (KWHI – 0.15%, WNHI – 0.30%), less 2021 LRAM
- Other Revenue Growth – 2% per year, Deferred Revenue Growth (included in Other Revenue – 4.8%)
- Operating Expenses – KWHI – 2.55%, WNHI – 2.17%
- Depreciation Expense – 4.8% growth

---

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.

Response

The largest variance is in operating expenses and is a reflection of the synergies that will be realized as a merged operation.

---

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.

Response

	KWHI December 2021 (Preliminary)	WNHI December 2021 (Preliminary)	KWHI/WNHI December 2021 (Preliminary)	LDC MergeCo Pro Forma Year 1 (December 31, 2023)	Difference	KWHI/WNHI December 2023 Adjusted for inflation and x factor	KWHI/WNHI December 2023 COS - adjusted for inflation and x factor
	A	B	C = A + B	D	E = D - C	F	G
REVENUES							
Sales of Electricity	204,722	165,493	370,215	419,307		420,775	387,355
Distribution Revenue	44,801	39,063	83,864	86,680		87,218	85,404
Other Income	4,111	2,788	6,899	5,126		7,301	5,981
	253,634	207,345	460,979	511,113		515,294	478,740
EXPENSES							
Energy Purchases	204,722	165,493	370,215	419,307		420,775	387,355
Operating Expenses	24,168	15,668	39,836	35,720		42,437	40,055
Depreciation and Amortization	10,977	11,021	21,998	24,575		24,747	23,225
	239,867	192,182	432,049	479,602		487,959	450,635
Income from Operating Activities	13,767	15,163	28,930	31,511	2,581	27,335	28,105

Inflation and Stretch factors used:

Sales of Electricity, Other Income, Energy Purchase, and Depreciation– 2021 – 2.2%, 2022 – 3.3%, 2023 – 1.8%

Distribution Revenue and Operating Expenses - Inflation as above less stretch factor – KWHI - 0.15%, WNHI - 0.30%

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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.

Response

Variances are due to ignoring customer growth in distribution revenue and ignoring the synergies in operating expenses.

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.

Response

Confirmed.

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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.

Response

The Applicants did not consider a stub period for the ESM mechanism. In the recent Decision for Brantford Power and Energy+ (EB-2021-0280), no stub period was contemplated, considered or offered.

KWHI and WNHI will be filing two separate RRRs for the year 2022, and combined RRRs for the year 2023.

KWHI and WNHI take the position that a full year of earnings is easier to calculate and more transparent.

In order to calculate an ESM for a stub period, an ROE would have to be calculated for the before and after stub period. During a financial year many estimates, such as taxes and depreciation are made, that are trued up at year-end during the year end audit. In addition, construction season would continue over the stub period resulting in lower rate base than would be calculated at year-end. This could lead to an ESM that is not accurate.

Both Applicants to this Application both have January 1 effective dates for rates, which is different than the Applicants in the North Bay Decision (EB-2021-0312). The stub period would only be for four months as opposed to North Bay which is 7 months.

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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.

Response

Confirmed. The Applicants are not considering a stub period. The Applicants intend to calculate an ESM for the period January 1, 2028 to December 31, 2032 (5 years or 60 months).

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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.

Response

Not confirmed. The ESM will be in place for 5 years starting January 1, 2028.

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.

Response

Confirmed.

---

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.

Response

Confirmed. Values from the OEB's RRR 2.1.7 are generally used in the calculation of rate base.

---

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.

Response

Confirmed.

---

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.

Response

The consolidated deemed/approved ROE will be the same as per 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.

Response

LDC MergeCo would report its balances in the ESM account at the end of Years 6-10. LDC MergeCo would propose to dispose of the ESM account as part of its first rebasing application following the deferred rebasing period.

---

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.

Response

Yes, the Applicants would be amenable to filing the results of the ESM annually, 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 10-year Deferred Rebasing Period.

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.

Response

KWHI and WNHI do not adjust its regulatory net income to reflect LRAM related revenues in the year in which it relates.

---

b) If this is not confirmed, please explain what that statement means.

Response

LRAM is a factor in determining over- or under-earning drivers when calculating ROE. Therefore, LDC MergeCo proposes to ignore LRAM when calculating ROE. At this time, neither Applicant expects material LRAM revenue beyond 2022.

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.

Response

See Attachment C.

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.

Response

Confirmed. Refer to SEC-11 for detailed calculations of forecasted balances.

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.

Response

Confirmed. KWHI recorded an amount in 2019 for CCA changes in Account 1592. This amount will be disposed at the next Cost of Service Application. KWHI, in its last Cost of Service proceeding (EB-2019-0049), agreed to incorporate the accelerated CCA in its PILs calculations.

Account 1592 should be continue to be available to KWHI. This account can be used to record the differences between PILs in rates and PILs with the AIIP winddown.

---

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.

Response

Confirmed. The balance is $554,594 and is expected to be returned to KWHI's customers at the next Cost of Service Application.

---

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).

Response

LDC MergeCo proposes to report a combined Account 1592 with the following sub accounts:

a) Sub Account 1 – New balances arising for future PILs differences that will affect LDC MergeCo and are not specific to historical LDCs

b) Sub Account 2 – WNHI 1592 balances relating to the wind-down of the AIIP as described in response to SEC-11 and Staff-30.

c) Sub Account 3 – Historical 1592 balances relating to historical KWHI balances as described in response to Staff-31(b) above.

Given the nature of the balances in sub accounts 2 and 3, LDC MergeCo proposes that these sub accounts may be requested for disposition in future annual IRM Applications as per response to Staff-32. Sub Account 1 will not be requested for disposition until LDC MergeCo's next Cost of Service Application.

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.

Response

LDC MergeCo confirms that this applies to both Group 1 and Group 2 accounts. LDC MergeCo would be amenable to combining their Group 1 accounts sooner, if required.

---

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.

Response

LDC MergeCo would be amenable to combining their Group 1 accounts before the end of the Deferred Rate Rebasing Period, after consideration is given to the different grid connections and settlement practices..

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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.

Response

With the exception of Account 1592, that is discussed in Staff 31, neither KWHI nor WNHI have material Group 2 balances. During the 10-year Deferred Rebasing Period both KWHI and WNHI expect to accrue material balances in the Pole Revenue Deferral account. KWHI and WNHI would be receptive to disposing of this balance after year five of the Deferred Rebasing Period if the balance is material.

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).

Response

The expectation is that Group 1 accounts may be merged during the 10-year Deferred Rebasing Period (see Staff-32(b)). Group 2 balances that relate to the former customers of KWHI and WNHI would be disposed at the end of the 10-year Deferred Rebasing Period to the respective customers of the legacy territory. Whether LDC MergeCo will continue to track Group 2 account balances separately during the Rate Harmonization Period will be determined as part of a future rate harmonization plan. At this time, the Applicants anticipate that Group 2 account balances arising during the 10-year Rate Harmonization Period would be combined.

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.

Response

Confirmed.

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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.

Response

The Applicants have compared the policies in the table below:

Significant Accounting Policy	2020 FS Note Reference KWHI	2020 FS Note Reference WNHI	Status	Comments
Financial instruments	3.(a)	3.(a)	No differences	WNHI has derivative liabilities where KWHI does not. Regardless, the accounting policies are the same.
Revenue recognition	3.(b)	3.(b)	No differences	
Inventory	3.(c)	3.(c)	No differences	
Property, Plant and Equipment	3.(d)	3.(d)	No differences	Please refer to response to SEC-14 for a comparison of depreciation rates.
Intangible Assets	3.(e)	3.(e)	No differences	
Impairment	3.(f)	3.(f)	No differences	
Provisions	3.(g)	3.(g)	No differences	
Regulatory deferral accounts	3.(h)	3.(h)	No differences	
Employee post-employment benefits	3.(i)	3.(i)	No differences	
Deferred revenue and assets transferred from customers	3.(j)	N/A	No differences	
Leased assets	3.(k)	N/A	No differences	
Finance (Interest) income and finance (interest) costs	3.(l)	3.(j)	No differences	
Corporate income taxes	3.(m)	3.(k)	No differences	

---

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.

Response

Refer to Staff-34(b) above. No material policy differences have been identified. As part of IFRS, depreciation rates are estimates that are reviewed by management each year. LDC MergeCo will review depreciation rates in 2022 and will apply any changes in estimate, if necessary, on a prospective basis.

---

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.

Response

If so ordered, the Applicants would be willing to track the differences. A draft accounting order is included in Attachment C.

The Applicants believe that it is not appropriate to track the differences as this could result in a duplication of results between the ESM mechanism and the 1576 mechanism. The Applicants have already agreed to an ESM to compensate stakeholders as necessary.

ATTACHMENT A

SEC-1
Grant Thornton Business Case

Proposed Merger

between

Kitchener Power Corp

and

Waterloo North Hydro Holding Corporation

Summary Comments

Prepared by: **Grant Thornton LLP**

Date: **September 16, 2021**

Project Background and Summary

Kitchener Power Corporation (KPC) and Waterloo North Hydro Holding Corporation (WNHHC) (collectively, the Participants) have jointly retained Grant Thornton LLP (GT) to act as independent financial advisor for evaluating a potential merger between the two entities, which operate as holding companies for Kitchener-Wilmot Hydro Inc., and Waterloo North Hydro Inc. (the Proposed Merger).

The senior management of both entities have been working together with GT to evaluate the financial as well as the business case benefits of merging the two utilities. These findings have been presented to the Boards and Shareholders who have separately retained financial and legal advisors to undertake a financial Peer Review of the work performed by GT and legal due diligence of the Proposed Merger.

Peer Review

The PEER Review and financial due diligence activities began in early 2021 and were substantially completed in June 2021. The legal due diligence has significant work completed and is expected to be substantially complete by the end of 2021. The following is some of the key work undertaken during the PEER review and due diligence processes:

- Develop a twenty-year model to assess valuation and shareholder cash flows taking into account growth rates in each respective region.
- Model and study customer rate harmonization.
- The independent financial advisors:
    - Reviewed and scrutinized the financial business model;
    - Checked assumptions for reasonableness, and tested the model for technical accuracy.
- The independent legal advisors:
    - Reviewed legal documents including: minute books, contracts, agreements, insurances, litigation and environmental obligations to determine any potential liabilities.

Efficiencies and Synergies

Management identified several opportunities across different functional areas of the business, which we would reasonably expect to generate significant efficiencies and cost savings. For the first 10 years (sit-out period), the merged utility would be able to pass on the cost savings to its shareholders. Beyond the 10 years, the cost savings will be passed on to customers.

Cost savings are expected to be realized primarily through voluntary employee retirement and attrition over the first three years, as well as the elimination of duplicate work and systems such as administrative, financial, and billing and collection systems. Further synergies are expected in the consolidation of Control Rooms, IT Networks, and Call Centres and the adoption of best practices of each utility. Management was able to identify approximately $2.9 million of potential annual cost savings.

NewCo

The table below provides key metrics for each standalone entity, as well as what would be the combined LDC ("NewCo").

$CAD (000s)	KWH	WNH	NewCo
Distribution Revenue[1]	42,982	34,940	**77,922**
# of customers[1]	99,026	58,438	**157,464**
kWH sold (000s)[1]	1,836,454	1,439,103	**3,275,557**
KM of lines[1]	1,993	1,654	**3,647**
Service area (sq. km)[1]	425	683	**1,108**

[1]*Source: 2020 OEB Yearbook*

Utility Size

A merger between the Participants would currently result in the seventh largest electricity distribution utility in Ontario by customer count and make it almost as large as Elexicon and London Hydro who rank fifth and sixth largest, respectively. An overview of Ontario LDCs, ranked by customer count, is presented in the chart below. (Source 2020 statistics from OEB Yearbook)

Rank	Entity	Number of Customers	Distribution Revenue ($CAD)
1	Hydro One[1]	1,361,102	$1,571,292
2	Alectra Utilities[1]	1,062,040	567,145
3	Toronto Hydro- Electric[1]	779,176	711,740
4	Hydro Ottawa Limited[1]	346,347	183,817
5	Elexicon Energy[1]	169,489	78,645
6	London Hydro Inc.	162,140	70,124
7	**NewCo**	**157,464**	**77,922**
8	Energy+ Inc. & Brantford Power Inc.[2]	107,965	53,394
9	EnWin Utilities Ltd.	90,104	43,338
10	Oakville Hydro	74,001	42,017
	All Other LDCs combined	992,735	497,640

[1] *Denotes entities who have previously undergone consolidation*
[2] *Assumes that a MAAD application for the proposed merger of Energy+ Inc. and Brantford Power Inc. is filed and approved by the OEB*

Customer Benefits

The Proposed Merger would result in the following benefits for customers:

1) **Retaining Local Ownership**

   By merging the two utilities, a strong local solution, with municipal ownership, will ensure local workers are employed and the company is well positioned to meet the challenges and opportunities of the future.

2) **Cost Effectiveness**

   Savings from reduced operating costs and an increased customer base can be used to ensure the local distribution system remains reliable, efficient and up-to-date.

3) **Ten-year rate stability**
   During the first ten-years (Sit-out Period), each utility would continue with its current rate zones which will grow at an annual inflationary rate established by the Ontario Energy Board (OEB). This provides rate stability to all customers.

4) **Gradual phase-in to rate harmonization after Sit-out Period**
   It is a key commitment that customer rates will be carefully harmonized to ensure that all customers benefit from a merger as compared to where they would have otherwise been had the LDCs utilities operated in the status quo.

Innovation and Technology Developments

By leveraging a stronger balance sheet, the merged utility will have the ability to dedicate significant resources, leadership, and focus towards innovation and future growth. This will allow the new utility to become a stronger energy and infrastructure partner for local businesses and communities.

Shareholder Outcomes

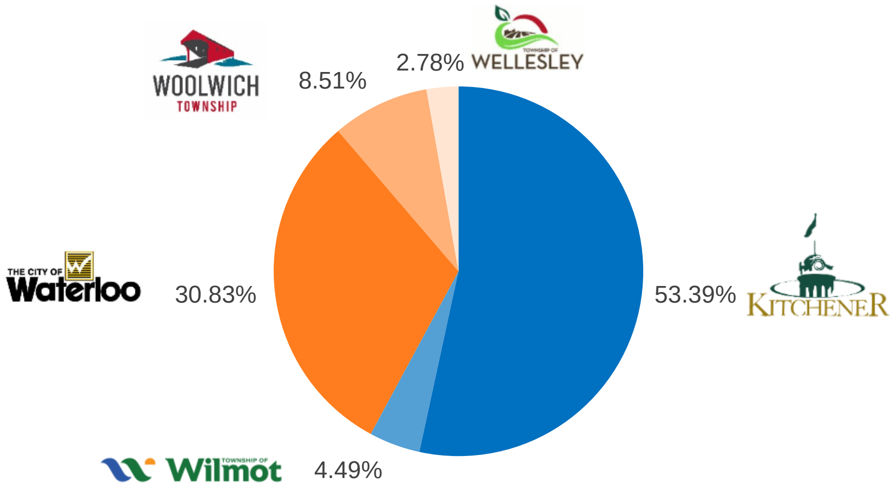
Our work looked at total Shareholder cash flows, and not just dividends. Shareholder cash flows are generated in the form of both interest income (received from shareholder loans) and dividends. Total Shareholder cash flows for all Shareholders are expected to increase under the Proposed Merger.

Based on our model developed in collaboration with Management and subsequently reviewed by the financial advisors, the Proposed Merger shows increased cash flows to each shareholder which in turn are reinvested into each municipality. The estimated increase in cash flows to each Shareholder over the first 20 years post-merger are presented below:

City of Kitchener	$9,600,000
City of Waterloo	$3,100,000
Township of Woolwich	$1,200,000
Township of Wellesley	$279,000
Township of Wilmot	$806,000

Valuations - Ownership

The below chart shows the ownership for each shareholder based on relative valuations of the utilities and their respective holding companies.



Conclusion

Based on the work undertaken by GT and the due diligence done by independent advisors, the business case outlines that merging the two utilities gains considerable benefits (both qualitative and quantitative) for customers and shareholders.

ATTACHMENT B

Proposed Electricity Distributor Application

Ontario Energy Board
Commission de l'Énergie de l'Ontario

Application for Electricity Distribution Licence

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'Énergie de l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656

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Application Instructions

1. Purpose of this form

The purpose of this form is to collect information to determine whether the Applicant will be granted a licence to distribute electricity.

2. Structure of the Application Form

This form contains the following sections:
A General Information;
B Distribution Facilities Information;
C Supporting Information
D Notice and Consent and
E Acknowledgement

Note: The information in section C16 shall be kept confidential, with the exception of names and positions held of key individuals. All other information filed as part of this application will be considered public. Where the applicant objects to public disclosure of the information, the applicant must follow the Ontario Energy Board's approved Guidelines for Treatment of Filing made in Confidence, effective March19, 2001.

3. Completion Instructions

PRINT CLEARLY or TYPE all information in BLACK. Please send two copies of the completed form and all attachments to:

Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319, 26th Floor
Toronto, ON M4P 1E4

4. Licence Fees:

A non-refundable application fee is required to process your application. Please enclose a cheque or money order made payable to the **ONTARIO ENERGY BOARD**.

Note: If a licence is issued, the Licensee will be required to pay an annual fee of $800.00.

5. Important Information:

As a licenced Electricity Distributor, the licencee may be subject to additional obligations as required by the Independent Electricity System Operator (IESO) and as established under section 70 or section 78 of the *Ontario Energy Board Act, 1998.*

REMARQUE:
Ce document est disponible en français.

OEB App05A - July/05

Ontario Energy Board
Commission de l'Énergie de l'Ontario
Application for Electricity Distribution Licence

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
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Commission de l'Énergie de l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656

For Office Use Only	
Application Number	
Date Received	

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A. General information

1. Type of Application

- New licence ☑
- Renewal ☐
- Amendment to an existing Licence ☐

2. Ownership/Operation

Please indicate whether the Application is for:

☑ Ownership and Operation of a distribution system

This application is being made in conjunction with a "MAADs" application to the OEB under s.86 of the Ontario Energy Board Act, 1998, is amended for the relief necessary to effect the amalgamation of Kitchener Wilmot Hydro Inc. (ED-2002-0573) and Waterloo North Hydro Inc. (ED-2002-0575) into a single, licenced, rate regulated electricity distirbutor that will serve over 157,000 customers. As part of the MAADs application, the two consolidating utilities are requesting that the OEB transfer their existing Distirbutor Licences, to the new, consolidated distributor (LDC MergeCo).

☐ Ownership of a distribution system only. Please provide the name and licence no., if any, of the operator of the distribution system?

☐ Operation of a distribution system only. Please provide the name and licence no., if any, of the owner of the distribution system?

3. Applicant

Please provide the following information about the Applicant:			
Full Legal Name of Applicant LDC MergeCo (Legal name to be determined)	Ontario Corporation Number, Canadian Corporation Number or Business Registration Number Will be available within thirty days following receipt of OEB approval for the proposed amalgamation		Date of Formation or Incorporation Within thirty days following receipt of OEB approval for the proposed amalgamation
Business Address: 301 Victoria St S, Kitchener, N2G 4L2			
City see Business Address above	Province Ontario	Country Canada	Postal/Zip Code see Business Address above
Phone Number	FAX Number	E-Mail Address (if applicable)	

4. Primary Contact for this Application

Please provide the following information about the Primary Contact for this Application:			**See Section 4 Attachment**
Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other: ________	Last Name:	Full First Name:	Initial:
	Position Held:		
Contact Address (if R.R., give Lot, Concession No. and Township)			
City	Province	Country	Postal/Zip Code
Phone Number	FAX Number	E-mail Address (if applicable)	

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5. Service Area

Please indicate the location (name of municipality or unorganized territory) of the Applicant's distribution facilities and provide a description of the extent (size, length, coverage) of the distribution facilities involved in this Application. This description will be used for the purpose of stating a service area in which the licensee would be authorized to distribute electricity:

LDC MergeCo's service area will consist of the current service areas of Kitchener-Wilmot Hydro Inc. (ED-2002-0573) and Waterloo North Hydro Inc. (ED-2002-0575). These service areas are described in detail in Section 5 Attachment. A map providing an overview of the service area resulting from the proposed amalgamation is provided in the MAADs application, Attachment B.

6. Facilities Use

	Yes	No
Please indicate whether the distribution facilities are for exclusive use by the Applicant.	☑	☐

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B. Distribution Facilities Information

7. Facilities Type

Please indicate whether the Applicant's distribution facilities are:

☐ New assets to be constructed? Proposed In-service date: ______________________________

If Applicant is to be the owner, please attach a statement explaining the financing arrangements.

☑ Existing assets presently owned and/or operated by the Applicant?

LDC MergeCo's distribution facilities will be comprised of the existing assets of Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.

☐ Existing assets not presently owned and/or operated by the Applicant (ie to be purchased)?

If Applicant is to be the owner please indicate:

a) from whom assets will be purchased:

b) when application for sale has/will be filed with the Board?

☐ Other (please describe):

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8. Facilities Purpose

Please indicate the intended purpose(s) of the Applicant's distribution facilities:

- ☑ To provide a connection between a generator and a transmission/distribution system.
- ☑ To provide a connection between a transmission/distribution system and a load customer or customers.
- ☑ To provide a connection between a generator and a load customer or customers.
- ☑ To provide distribution services to the general public.
- ☐ Other (please describe):

9. Description of Facilities

Please describe the Applicant's distribution facilities indicating operating voltage(s) (kV), length of distribution line (km), number of substations and approximate total supply capacity (MW):

KWHI owns and operates 8 transformer stations and 6 distribution stations with a combined capacity of 584 MVA of which 500.7 MVA is provided at 13.8 kV, 83.3 MVA is provided at 27.6 kV and 30 MVA is provided at 8.32 kV from the distribution stations fed from the above 27.6 kV system. KWHI distribution system is supplied by 102 distribution feeders: 5 at 27.6 kV, 80 at 13.8 kV and 17 at 8.32 kV. Power is distributed across 1,993 circuit-length-km of line (3,625 conductor-length-km); 987 circuit-length-km (1,337 conductor-length-km) which are installed underground with the remaining 1,006 circuit-length-km (2,288 conductor-length-km) carried on 23,256 KWHI poles.

WNH is serviced by 2 Hydro One-owned transformer stations and 1 Kitchener Wilmot Hydro-owned transformer station. WNH is supplied from 10 transmission, sub-transmission and distribution feeders: 2 at 230kV, 2 at 115kV, 1 at 44kV, and 5 at 27.6kV. WNH owns and operates 4 transformer stations, and 5 distribution stations with a combined transformation capacity of 366.8 MVA of which 27.8 MVA is at 8.32kV, 254 MVA is at 13.8kV and 85 MVA is at 27.6kV. Power is distributed across 1,657 circuit-length-km of line (3,183 conductor-length-km); 586 circuit-length-km of line (719 conductor-length-km) which are installed underground with the remainder 1,071 circuit-length-km of line (2,463 conductor-length-km) carried on 21,739 WNH owned poles.

10. Location of Facilities

Please indicate whether the distribution facilities will be located on, over or under public streets or highways.	Yes	No
	☑	☐

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C. Supporting Information Organizational Information

11. Business Classification

Sole Proprietor	☐
Partnership	☐
Corporation	☑
Other	☐

12. Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant (attach a copy of 12(a) for each affiliate).

Full Legal Name of Affiliate Company:

MergeCo Holdco (to be named later) (Merged Holdco will be the holding company of the Applicant),Kitchener Energy Solutions Inc, Alliance Metering Solutions, Grand River Energy Solutions Corporation and Eyedro Green Solutions Inc.

Business Address:

City	Province	Country	Postal/Zip Code

Tel. Number	FAX Number	E-Mail Address (if applicable)

Description of Business Activities:

Please refer to Section 2.5 - Corporate Relationships of the Applicant's MAADs application for descriptions of the Affiliates of the Applicant.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

A corporate organization chart is provided as part of the Applicant's MAADs Application, as referenced in Section 4.1.4 - Change of Control Attachment .

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13. Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? If yes, please provide the following information for each:	Yes ☑ No ☐
Full Legal Name of Company: Please see Section 13 Attachment	Licence/Registration Number:
Jurisdiction: Ontario	Type of Business Activity (e.g. Generation, Transmission, Distribution):

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Technical Capability and Experience Information

14. Business Activities

Please provide a description of the Applicant's business activities:

Electricity distribution, as detailed in the Applicant's MAADs application.

15. Technical Ability

a) Please describe the applicant's technical ability to carry out the activities applied for including the Applicant's specific experience in Ontario and in other jurisdictions.

The Applicant is the distributor that will be created by the consolidation of Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc. These predecessor LDCs of LDC MergeCo have operated as electricity distributors in Ontario for many years, and both hold OEB licences in good standings. LDC MergeCo intends to continue providing reliable and high quality distribution services with employees transferred from its predecessor companies. In respect of the functions identified below, the Applicant will continue to use its own staffing resources to undertake most of these functions. Where a decision is made to engage an outside vendor or contractor to undertake all or any part of these functions, LDC MergeCo will apply its policy of only engaging duly qualified and experienced vendors and contractors pursuant to its procurement policy.

b) If the Applicant intends to utilize the capability of others by contracting distribution activities, please indicate below which activities and to whom they will be contracted:

☑ Design	Contracted to:
☑ Construction	Contracted to:
☑ Inspection & Maintenance	Contracted to:
☑ Operation	Contracted to:
☑ Customer Connection	Contracted to:
☐ Standard Supply Service	Contracted to:
☑ Metering & Metering Services	Contracted to:
☑ Settlement & Billing	Contracted to:
☐ Other (describe):	Contracted to:

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16. Information About Each Key Individual

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other: ________	Last Name:	Full First Name:	Initial:
	Position Held:		

Please explain the person's experience in the electrical distribution business and in the energy field in general.

Kitchener-Wilmot Hydro Inc. - Officers:
Jerry Van Ooteghem, President & CEO; Margaret Nanninga, VP Finance & CFO

Waterloo North Hydro Inc, - Officers:
Rene Gatien, President & CEO; Albert Singh, VP Finance & CFO

a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the *Ontario Energy Board Act, 1998.* Yes ☐ No ☐

If yes, provide business names and licence number(s) and describe the individuals specific related experience.

Please see Section 16 Attachment

b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☐ No ☐

If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.

Please see Section 16 Attachment

c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☐

If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.

Please see Section 16 Attachment

Note:
Attach a copy of Item 16 for each Key Individual: Officer and Director, Partner or sole Proprietor.

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Financial Information
17. Financial Statements

Please attach financial statements of the Applicant for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information.

The Applicant has provided the predecessor distributors' financial statements for 2019 and 2020 as referenced in the MAADs application.

Other Information
18. Delivery

Please indicate whether the Applicant's distribution facilities are to be used to deliver electricity to one or more parties other than the Applicant. If yes, please provide the following information:

Yes ☑ No ☐

a) if the purpose of the Applicant's distribution facilities is to provide distribution services to specific generators or load customers rather than the general public (see question #8) please indicate the names of these participants:

Not Applicable

b) a summary of the business plans relating to the Applicant's proposed distribution business for the next five years. This should include the following:

- a forecast of annual growth in terms of factors such as the amount of electricity distributed (MW and/or MWH), number of customers served, amount of distribution facilities (lines and/or stations), etc.

- annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based.

c) estimates of net annual cash flows for subsequent periods to demonstrate financial feasibility and security.

Please see MAADs Application for details of the Applicant's proposed business plan.

d) indication of the Applicant's plans to seek Ontario Energy Board approval for electricity distribution rates.

In the MAADs application, the Applicants have indicated that they will be deferring rebasing for a period of 10 years from the completion of the consolidation. During the rebasing deferral period, LDC MergeCo will be applying for approval of rates in a manner applicable to each of the predecessor distributors. More particularly:

- Kitchener-Wilmot Hydro Inc. service areas will be the subject of Price Cap Incentive Rate-Setting rate applications through the rebasing deferral period.
- Waterloo North Hydro Inc. service areas will be the subject of Price Cap Incentive Rate-Setting rate applications through the rebasing deferral period.

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19. Proposed Business Transactions

Please provide a brief summary of the expected impact of the proposed business transactions on the Ontario electricity market under the following headings:

a) Facilitate competition and enhance access to transmission/distribution services:

The proposed transaction related to this Application is the consolidation of two existing licensed electricity distributors. The proposed transaction will have no adverse impact on competition, nor will it have an adverse impact on access to distribution services.

b) Improve reliability and quality of supply:

The proposed transaction will have no adverse impact on reliability and quality of supply. Moreover, the consolidation proposed in the MAADs application will create opportunities for the improvement of existing reliability and quality of supply.

c) Promote economic and energy efficiency:

The consolidation of the two existing distributors will create opportunities for improved economic and energy efficiency in the distribution of electricity in the predecessor distributors' service areas.

20. Electricity Sector Activities

Please indicate whether the Applicant intends to be involved with electricity sector activities in the Ontario market other than distribution and provision of Standard Supply Service?

	Yes	No
Buy or Sell (Wholesale) electricity	☐	☐
Transmit electricity	☐	☐
Retail electricity	☑	☐
Generate electricity	☐	☐

If yes to any of the above:

a) If affiliates have not yet been established, please indicate when this is planned: Affiliate established for sub-metering

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b) Has the Applicant or an affiliate applied for Ontario Energy Board Licences? If no, when planned? ____	Yes ☑ No ☐ Unit-Submetering - Alliance Metering Solutions Inc.- ES-2020-0298

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D. Notice and Consent for Ontario Board to Collect Additional Information

AS REQUIRED BY THE FREEDOM OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY ACT

In order to complete or verify the information provided on this form, it may be necessary for the Ontario Energy Board to collect additional information from some or all of the following sources: federal, provincial/state and municipal governments; licensing bodies; banks; professional and industry associations; and former and current employers. **Only information relevant to your application will be collected.**

The public official who can answer questions about the collection of information is:

Board Secretary
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto, Ontario M4P 1E4

Note: The issuance of an electricity distribution licence does not guarantee accreditation by the IESO, or connection to a transmission or distribution system.

NOTE: This application must be signed by the proprietor or by at least one partner, officer or director of the organization.

WARNING: It is an offence to knowingly provide false information on this application.

I/We consent to the collection of this information as authorized under the *Ontario Energy Board Act, 1998*. — Yes ☑

I/We understand that this information will be used to determine whether I am/we are and remain qualified for the licence for which I am/we are applying. — Yes ☑

Print Name and Title	Signature of Applicant(s)	Date Signed
Jerry Van Ooteghem, President & CEO Kitchener-Wilmot Hydro Inc. Rene Gatien, President & CEO Waterloo North Hydro Inc.	J. Van Ooteghem Rene W. Gatien	April 14, 2022 April 14, 2022

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E. Acknowledgement of Market Rules, Codes and Conditions

NOTE: This acknowledgement must be signed by the proprietor or by at least one partner, officer or director of the organization.

I understand and acknowledge that, as a licenced electricity distributor, I will be required, unless otherwise exempted:

- To provide non-discriminatory access to all persons wishing to connect to the distribution system.
- To comply with all licence conditions including the provisions of:
  - Affiliate Relationships Code for Electricity Distributors and Transmitters
  - Distribution System Code
  - Retail Settlement Code
  - Standard Supply Service Code
  - Retail Metering Code
  - Market Rules made under section 32 of the *Electricity Act, 1998*.

Print Name and Title	Signature of Applicant(s)	Date Signed
Jerry Van Ooteghem, President & CEO Kitchener-Wilmot Hydro Inc.	J. Van Ooteghem	April 14, 2022
Rene Gatien, President & CEO Waterloo North Hydro Inc.	Rene W. Gatien	April 14, 2022

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SECTION 4 ATTACHMENT

Primary Contacts for this Application:

Margaret Nanninga, MBA, CPA, CGA
VP of Finance & CFO
Kitchener-Wilmot Hydro Inc.
301 Victoria St. S.
Kitchener, ON, N2G 4L2
Ph: 519-729-6177
Email: mnanninga@kwhydro.ca

Albert Singh, MBA, CPA, CGA
VP of Finance & CFO
Waterloo North Hydro Inc.
526 Country Squire Rd.
Waterloo, ON, N2J 4G8
Ph: 519-888-5542
Email: asingh@wnhydro.com

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SECTION 5 ATTACHMENT

Please indicate the location (name of municipality or unorganized territory) of the Applicant's distribution facilities and provide a description of the extent (size, length, coverage) of the distribution facilities involved in this Application.

1. The City of Kitchener and the Township of Wilmot as of January 1, 1991.

2. The customers in the Township of Blandford-Blenheim located at:

   - 965880, 966070, 966104, 966178, 966182, 966248, 966426, 966484, 966558, 966568, 966584, 966608, 966616, 966654, 966750, 966780, 966800, 966858, 966956, 966980 (three customers), 967022, 967092, 967192, 967244, 967268, 967324, 967372, 967376 (two customers), 967418, 967470, 967520, 967530, 967590, 967610, 967638 (two customers), 967672, and 967720 Oxford-Waterloo Road
   - 3033 and 3063 Trussler Road
   - 776928 and 776949 Blandford Road
   - 816911 Oxford Road 22
   - 856910 River Road
   - 896941 Washington Road

3. The customers in the Township of North Easthope located at:

   - 1466 and 1478 (two customers) Line 34
   - 4104, 4184 (two customers) and 4426 Wilmot-Easthope Road
   - 4010, 4086, 4526 (two customers), 4576, 4582, 4596 Perth Road 99
   - 4264 Perth Road 101
   - 4714 (two customers), 4888, 4906, 4920, 4930, 4994, 5076 (two customers) Perth Road 103
   - 1481 Perth Line 43

4. The customers in the Township of South Easthope located at:

   - 1481, 1483 and 1559 Line 34
   - 3976 Perth Road 100
   - 3880 and 3976 Perth Road 101
   - 3940 Perth Road

5. The customers in the Township of Zorra East located at:

   - 756795, 756819, 756871, 756907, 756893, 756995, 757119, 757161 and 757165 (two customers) Oxford Road 5

6. The City of Waterloo, the Township of Wellesley and the Township of Woolwich as of January 1, 1991.

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7. The customers in the Township of Guelph located at:

   - 5283, 5285, 5291, 5395, 5419, 5423, 5427, 5427A, 5431, 5443, 5469 and 5485 Guelph Woolwich Townline
   - 7015, 7015A and 7017 Pine Creek Rd
   - 6870 Speedvale Ave W
   - 5651 Township Rd 3

8. The customers in the Township of Peel located at:

   - 7165, 7167, 7171, 7173, 7175, 7177, 7179, 7185, 7185A, 7203, 7226, 7226A, 7236, 7252 and 7253 Blind Line
   - 7018, 7022 and 7032 Floradale Rd
   - 7119, 7121, 7123, 7123A, 7125, 7155, 7201, 7213A, 7213B, 7213C, 7215, 7217, 7219, 7221, 7223, 7225, 7231, 7243, 7245, 7247, 7249, 7251, 7263, 7269, 7271, 7273, 7275, 7277, 7293, 7595, 7603, 7605, 7607, 7609, 7613, 7621 and 7621A Regional Rd 86
   - 6508 Reid Woods Rd
   - 6672 Ruggle's Rd
   - 6362, 6363, 6364, 6365, 6366, 6367, 6368, 6369, 6370, 6464 and 6970 Yatton Sideroad

9. The customers in the Township of Perth East located at:

   - 6154, 6194, 6292, 6334, 6476, 6574, 6878, 7688, 7766, 7766A and 7796 116th Rd

10. The customers in the Township of Pilkington East located at:

    - 7092, 7100 and 7104 Crowsfoot Rd
    - 5778 Elm Pathway Pvt
    - 7098, 7098A, 7106, 7110, 7119 and 7120 Sideroad 18
    - 5879, 5883, and 5887 Splint Rd
    - 6023, 6033, 6053, 6097, 6287, 6307 and 6367 Weisenberg Rd

11. The customers in the Township of Pilkington West located at:

    - 7111, 7111A, 7112 and 7112A Noah Rd
    - 6929, 6953, 6961, 6979, 6983 and 6985 Wellington Rd 17
    - 7093 Wellington Rd 18
    - 7106 Wellington Rd 21

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SECTION 13 – ATTACHMENT

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? **If yes, please provide the following information for each:** *The Applicant represents the consolidation of Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc. Those consolidating entities and their affiliates are identified below.*	**Yes**
Full Legal Name of Company: *Kitchener-Wilmot Hydro Inc.*	**Licence/Registration Number:** *ED-2002-0573*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Distribution*
Full Legal Name of Company: *Kitchener Energy Solutions Inc.*	**Licence/Registration Number:** *Not applicable*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Energy Services*
Full Legal Name of Company: *Waterloo North Hydro Inc.*	**Licence/Registration Number:** *ED-2002-0575*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Distribution*
Full Legal Name of Company:	**Licence/Registration Number:**

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Alliance Metering Solutions	*ES-2020-0298*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Unit Sub-metering*
Full Legal Name of Company: *Grand River Energy Solutions Corporation*	**Licence/Registration Number:** *Not applicable*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Energy Services*
Full Legal Name of Company: *Eyedro Green Solutions Inc.*	**Licence/Registration Number:** *Not applicable*
Jurisdiction: *Ontario*	**Type of Business Activity (e.g. Distribution, Generation):** *Energy Management Products*

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SECTION 16 - ATTACHMENT

Key Individuals	a) Proprietor, partner, officer or director of business that was granted a licence under Part IV or V of the Ontario Energy Board Act, 1998	b) Proprietor, partner, officer or director of a business that was registered or licenced under this or any other acts of legislation	c) Proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled
Mr. Jerry Van Ooteghem President & CEO Kitchener-Wilmot Hydro Inc. Professional Engineer Years of Service in Energy Sector: 40 Jerry Van Ooteghem is the President and CEO since April 2007. A Professional Engineer, Mr. Van Ooteghem was previously the Vice-President of Operations and Chief Engineer for the Corporation. He also holds an ICD.D from the Institute of Corporate Directors	*Current Officer, Kitchener-Wilmot Hydro Inc.*	*Current Officer, Kitchener Power Corporation*	*No*
Ms. Margaret Nanninga VP Finance & CFO Kitchener-Wilmot Hydro Inc. CPA Years of Service in Energy Sector: 25 Margaret Nanninga is the Vice-President, Finance and Chief Financial Officer. Ms. Nanninga holds a MBA degree from Laurentian University, a BaccS from the University of Calgary and is a	*Current Officer, Kitchener-Wilmot Hydro Inc.*	*Current Officer, Kitchener Power Corporation*	*No*

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Chartered Professional Accountant. Margaret has worked in the LDC industry for 25 years, having joined the utility in May 1996.			
Mr. Rene Gatien President & CEO Waterloo North Hydro Inc. Professional Engineer Years of Service in Energy Sector: 40 Rene Gatien is the President and CEO since July 2002. Mr. Gatien was previously the Vice-President of Operations for Guelph Hydro for eleven years. Mr. Gatien holds a B.A.Sc in Electrical Engineering and is registered as a Professional Engineer As well he holds an MBA from the Richard Ivey School of Business and an ICD.D from the Institute of Corporate Directors.	*Current Officer, Waterloo North Hydro Inc. Past Officer, Guelph Hydro*	*Current Officer, Waterloo North Hydro Holding Corporation Current Officer, Alliance Metering Solutions*	*No*
Mr. Albert Singh VP Finance & CFO Waterloo North Hydro Inc. CPA Years of Service in Energy Sector: 30 Albert Singh is the Vice-President, Finance and Chief Financial Officer. Mr. Singh holds an MBA degree and is a Chartered Professional Accountant. He joined the utility in January of 2003 and was previously the Director of Finance for Hydro Vaughan Distribution Inc. for six years. Mr. Singh has over 30 years of experience in the electrical industry.	*Current Officer, Waterloo North Hydro Inc. Past Officer, Hydro Vaughan Distribution Inc.*	*Current Officer, Waterloo North Hydro Holding Corporation Current Officer, Alliance Metering Solutions*	*No*

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ATTACHMENT C

LDC Merge Co Draft Accounting Order

Draft Accounting Order – 2435 – Accrued Rate-Payer Benefit

In accordance with the Handbook to Electricity Distributor and Transmitter Consolidations, LDC MergeCo proposes the establishment of a new variance account “2435 Accrued Rate-Payer Benefit” to record the 50% sharing with customers of the amount, if any, of the achieved regulated earnings of LDC MergeCo that are greater than 300 basis points above the allowed regulated rate of return for Years 6 to 10 of the rebasing deferral period.

The assessment of earnings will commence with the availability of the Year 6 audited financial results and will continue to be reviewed and computed on an annual basis. Excess earnings beyond 300 basis points of the consolidated entity’s allowed regulated rate of return (“allowed ROE”) will be shared 50:50 with all customers annually.

At the end of year 6 (December 31, 2028) and annually thereafter, LDC MergeCo will report the balance of the ESM account. The amount accrued in the account will be reviewed and disposed at the applicants next Cost of Service proceeding.

The regulatory net income and regulated return on equity (“ROE”) would 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 Board’s current established regulated ROE model under the Board’s Reporting and Record Keeping requirements. Under this methodology, the actual regulated ROE is calculated by dividing adjusted regulatory net income by the deemed equity component of rate base.

LDC MergeCo’s allowed ROE would be computed based on the approved ROE percentages weighted by the deemed equity component of rate base for Kitchener-Wilmot Hydro Inc and Waterloo North Hydro Inc. The ROE percentages and equity component of rate base would be based on figures from the last cost of service (2020 for Kitchener-Wilmot Hydro Inc., 2021 for Waterloo North Hydro Inc.).

With this approach the approved ROE on which to base the ESM would be 8.43%.

The following outlines the proposed accounting entries for this deferral account:

Debit	Account 4395 Rate-Payer Benefit Including Interest
Credit	Account 2435 Accrued Rate-Payer Benefit

To record the 50% sharing with customers of the amount, if any, of the achieved regulated earnings of LDC MergeCo that are greater than 300 basis points above the allowed regulated rate of return for Years 6 to 10 of the rebasing deferral period.

Debit	Account 4395 Rate-Payer Benefit Including Interest
Credit	Account 2435 Accrued Rate-Payer Benefit

To record interest accrued on the principal balance of the Earnings Sharing Variance Account.

Draft Accounting Order – 1508 – Other Regulatory Assets, Sub Account Impact of Post-Merger Accounting Policy Changes

LDC MergeCo shall establish and use Account 1508 Other Regulatory Assets, sub account Impact of Post-Merger Accounting Policy Changes to record the cumulative difference between Kitchener-Wilmot Hydro Inc. ("KWHI") net property, plant and equipment ("PP&E") under the pre-merger capitalization policy and its net PP&E under the post-merger capitalization policy plus or minus the cumulative difference between Waterloo North Hydro Inc. ("WNHI") net property, plant and equipment ("PP&E") under the pre-merger capitalization policy and its net PP&E under the post-merger capitalization policy. The determination of differences will be consistent with the Account 1576 approach.

The cumulative difference recorded in this account will be reviewed at LDC MergeCo's 2024 IRM Application for materiality. Should the balance be below the materiality of $465,000, the account will be closed without disposition and no further entries will be required.

If the account balance meets the materiality threshold, a journal entry to record the variance will be recorded each year, until the next cost of service rebasing year at which time the cumulative variance will be recovered from, or refunded to, customers in both of LDC MergeCo's rate zones. Upon disposition of the balance in the deferral account, a rate of return component will be applied to the balance based on the disposition period to determine the amount to be used to calculate rate riders. The weighted average cost of capital to be used and rate of return component will be determined at the time the accounts are disposed. Interest carrying charges will not be applied to this account.

The net change in PP&E will be recorded to Account 1508 - Other Regulatory Assets, Sub Account Impact of Post- Merger Accounting Policy Changes, and the offsetting entry will be recorded to Account 4305 – Regulatory Debit or Account 4310 – Regulatory Credit depending on the direction of the net PP&E change. Utilizing Account 1508 instead of Account 1576 will provide a delineation between existing balances in Account 1576 related to IFRS/CGAAP transition amounts and allow for simplified tracking in annual record keeping submissions.

The following outlines an illustrative example of the proposed accounting entries for this deferral account:

Sub Account - Accounting Policy changes

	2022		2023		2024	
	KWHI	**WNHI**	**KWHI**	**WNHI**	**KWHI**	**WNHI**
PP&E Values Under Pre Merger Policies						
Opening Net PP&E	1,000	1,000	1,450	1,350	1,900	1,700
Additions	500	400	500	400	400	400
Depreciation	50	50	50	50	40	50
Closing Net PP&E	1,450	1,350	1,900	1,700	2,260	2,050
PP&E Values Under Post Merger Policies						
Opening Net PP&E	1,000	1,000	1,450	1,350	1,955	1,655
Additions	500	400	550	360	440	360
Depreciation	50	50	45	55	36	55
Closing Net PP&E	1,450	1,350	1,955	1,655	2,359	1,960
Differences in Closing Net PP&E	-	-	(55)	45	(99)	90

Illustrative Example - Account 1508 - Other Regulatory Assets

Sub Account - Accounting Policy changes

	2022	2023	2024
Opening Balance	-	-	(10)
Annual Additions	-	(10)	(9)
Closing DVA Balance	-	(10)	(19)

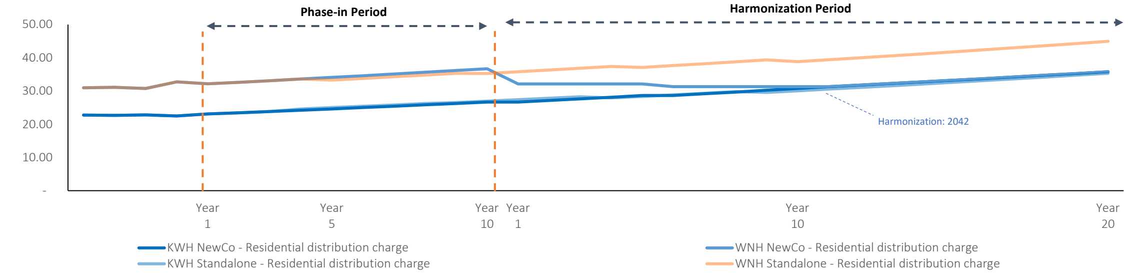
		Debit	Credit
2023			
Debit	1508 Other Regulatory Assets - Accounting Policy Changes	10	
Credit	4310 Regulatory Credits		10
- to record differences arising from capitalization policies			
2024			
Debit	1508 Other Regulatory Assets - Accounting Policy Changes	9	
Credit	4310 Regulatory Credits		9
- to record differences arising from capitalization policies			

ATTACHMENT D

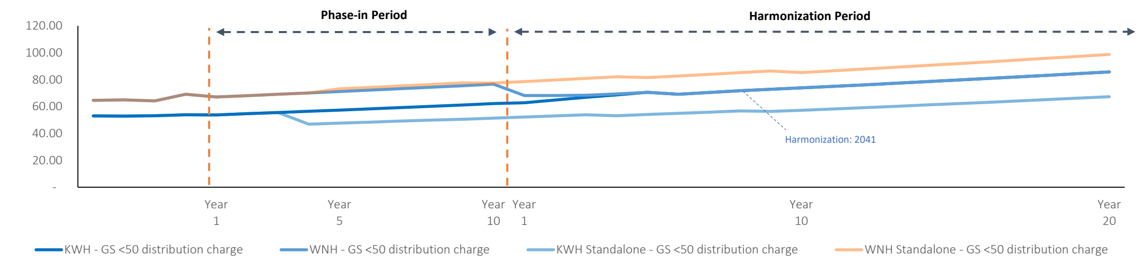
Staff-2
Rate Harmonization

Rate harmonization:

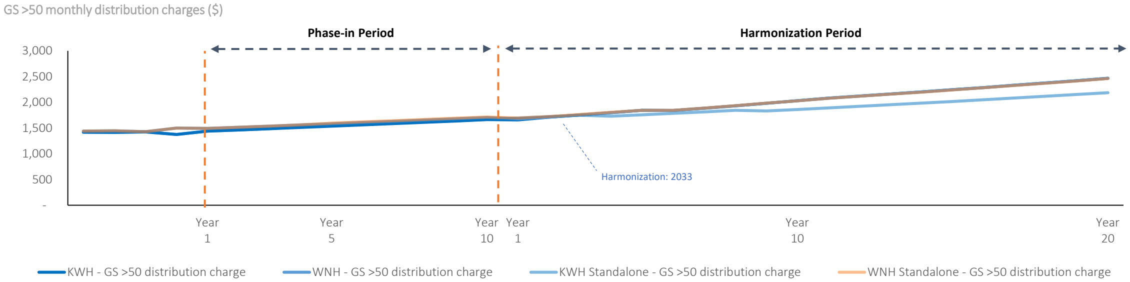
Residential monthly distribution charges ($)



GS <50 monthly distribution charges ($)



GS >50 monthly distribution charges ($)



Harmonization strategy:

Rate class	Harmonization Strategy
Residential	- year 1 of post sit out KWHI rates remain flat - year 1 of post sit out WNHI allocated a percentage of the rate reduction - KWHI rates increase by no more than 1.8% - the rate of inflation - In 2037 KWHI remains flat, WNHI rates decreae by 2.5% - post harmonization rates grow at 1.5%
GS<50	- in year 1 post sit out KWHI rates remain flat while variable rate increase by 2% - a decrease is allocated to WNHI amounting to -11.0% in fixed and variable rates - WNHI rates remain flat, KWHI rates increase by 2.5% - 3.5% until harmonzation (Fixed in 2033 and variable in 2041) - KWHI rate increase between 1.5% and 1.75% thereafter
GS>50	- KWH fixed rates decrease by 33% to equal WNH rates in year 1 post sit out. - KWHI variable component increase 5% toaccount for the fixed savings - WNHI remain flat, with variable rates decreasing by 1.5%.in year 2 - In year 2 WNHI variable increases 1.69% KWHI increases 3.25% - Rates increase between 1.75% - 2.75% depending on remaining revenue requirement
Large Users	Set equal to standalone.