

BY E-MAIL

February 20, 2024

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

Dear Ms. Marconi:

**Re: Hydro One Networks Inc. and Chapleau Public Utilities Corporation
Application made under s.86(1) of the Ontario Energy Board Act, 1998 to
sell and purchase the electricity distribution assets of Chapleau Public
Utilities Corporation
OEB Staff Interrogatories
Ontario Energy Board File Number: EB-2023-0328**

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

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

Yours truly,

On behalf of:
Amber Goher
Advisor, Electricity Distribution Rates I

Attach.

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

**Hydro One Networks Inc. (Hydro One Networks) and
Chapleau Public Utilities Corporation (Chapleau Public Utilities) (the Applicants)**

**Application for approval for Hydro One Networks to acquire Chapleau Public
Utilities**

**OEB Staff Interrogatories
EB-2023-0328**

**Staff-1
Forecast Capital Expenditure
Ref 1: Exhibit A, Tab 2, Schedule 1, p. 7**

Preamble:

Hydro One Networks indicates that it expects to spend more on capital relative to historic expenditures due to the current status of Chapleau Public Utilities distribution system.

Hydro One Networks further states,

"Once some deficiencies noted in the Observation Report are addressed, capital cost levels will thereafter taper off to a steady state value adjusted for Hydro One's growth forecast for the acquired service territory."

Hydro One Networks provides the following capital forecast for 2025-2027 as shown in the table below,

Future Hydro One Forecast for CPUC	Year 2024 (\$000's)	Year 2025 (\$000's)	Year 2026 (\$000's)	Year 2027 (\$000's)
Sustainment Capital	34	180	150	117
Growth Capital	30	92	93	93
Total	64	272	243	209

Question(s):

- a) Please provide a forecast for the steady state level of capital expenditures expected after the investments in 2025-2027.

**Staff-2
Bill Impact
Ref 1: Exhibit A, Tab 2, Schedule 1, p. 10**

Preamble

Hydro One Networks states,

“Both CPUC (EB-2023-0011, for rates effective May 1, 2024) and Hydro One (EB-2023-0030, for rates effective January 1, 2024) currently have an application for approval of 2024 delivery rates before the OEB. The proposed rates in these applications are used to calculate the bill impacts in Tables 4 and 5 below.”

OEB Staff has produced table 4 and 5 at reference 1 below:

	Residential/R1* (750 kWh/month)	GS<50 kW/Gse (2,000kWh/month)	GS 50-4,999kW/GSd (93 kW)
Total Bill (CPUC)	\$136.53	\$356.95	\$6,482.98
Total Bill (Hydro One)	\$142.88	\$446.51	\$7,931.25
Difference (\$)	\$6.35	\$89.57	\$1,448.27
Difference (%)	5%	25%	22%

	GS<50 kW/Gse (2,000kWh/month)	GS 50-4,999kW/GSd (93 kW)
Total Bill (CPUC)	\$356.95	\$6,482.98
Total Bill (Hydro One)	\$373.41	\$6,506.74
Difference (\$)	\$16.46	\$23.76
Difference (%)	4.60%	0.40%

Hydro One Networks proposes to freeze distribution charges for all non-residential customers at the OEB-approved 2024 values between September and December 2024. Starting January 2025, Hydro One Networks has proposed to limit annual bill impacts to no more than 10% for all non-residential customers.

Question(s):

- Please provide the OEB Tariff Schedule and Bill Impacts model supporting the calculation of total bill for Chapleau Public Utilities and Hydro One Networks shown in table 4 at reference 1. If applicable, please provide a revised version of Table 4 and 5 at reference 1 confirming bill impacts for all Chapleau Public Utilities customers post transition (effective September 1, 2024).

- b) Please provide the distribution charges underpinning the total bill that will be in effect from September to December 2024 for residential and non-residential customers.
- c) Please explain how Hydro One Networks is proposing to limit bill impacts to no more than 10% for non-residential customers between 2025-2027.
- d) Please provide the rationale for Hydro One Networks' proposal to transition Chapleau Public Utilities customers as new customers instead of maintaining a separate rate zone for former Chapleau Public Utilities customers (assuming OEB approval of this proposed transaction) until Hydro One Networks' next rebasing application.
- e) Hydro One Networks proposes to maintain Chapleau Public Utilities' existing OEB-approved deferral and variance accounts separate from Hydro One Networks' deferral and variance accounts through to disposition. Please confirm that Hydro One Networks' existing rate riders as per its current Tariff of Rates and Charges (i.e., those effective until December 31, 2025) will not be applicable to former Chapleau Public Utilities customers.

Staff-3

Capital Expenditure

Ref 1: Observation Report

Ref 2: Exhibit A, Tab 2, Schedule 1, p. 7

Preamble:

In reference 1, Hydro One Networks has identified several concerns with station assets that pose a risk to supply of power in Chapleau and require a large-scale investment to address the station assets' age and safety related deficiencies within the next few years.

At reference 2, Hydro One Networks has provided the 2025-2027 capital forecast which includes both growth and sustainment capital.

Question(s):

- a) Please note whether the capital costs provided in Reference 2 are on a gross or net of capital contributions basis. Please provide both the gross and net capital costs from 2019 to 2027.
- b) Please describe the station investments in more detail over the 2025-2027 period:
 - i. Will Hydro One Networks be utilizing its station located beside the Chapleau Public Utilities station to pick up the load while decommissioning the Chapleau Public Utilities stations, or will it be replacing/upgrading the current Chapleau stations? If it is the former, please describe any

upgrades required and costs associated with the current Hydro One Networks station per year as well as any voltage conversion requirements to the rest of the distribution system.

If it is the latter (the Chapleau Public Utilities stations are being replaced), please answer the following questions:

- ii. Please provide the cost associated with station replacements for each year.
 - iii. Please include details on the current capacity of the stations and the replacement capacity. If the capacity is increasing, please explain on what basis.
 - iv. Please explain if and how electric vehicle and heat pump adoption were included in sizing the replacement stations.
 - v. Will the replacement stations be 115kV-25kV? If so, what other voltage conversion projects are required, and what are their associated annual costs (i.e., conductor replacement)?
 - vi. Will the new stations use reclosers instead of fuses as identified in the Observation report as a known issue?
 - vii. What safety precautions are being taken to avoid oil leaks into the surrounding body of water near the stations as identified in the Observation Report as a potential issue?
 - viii. Is Hydro One Networks able to forecast the reliability impacts from scheduled outages during the construction of the stations? Is Hydro One Networks able to forecast the reliability benefits once the new stations are operational?
- c) Does the 2025-2027 capital forecast include investments related to the replacement of pole-mounted transformers due to PCB oil and submarine cable?
- i. If yes, please explain the methodology used to forecast the length/number of replacements for submarine cable and pole-mounted transformers given that testing is still required for these asset types.
 - ii. What is the cost associated with the replacement of each of these asset types from 2019 to 2027?
- d) Hydro One Networks notes that an obsolete billing system is currently being used:
- i. What are the costs associated with the billing system integration to Hydro One Networks' system per year?
 - ii. Please confirm that Chapleau Public Utilities' billing system will be retired, and that customer data will be transferred to Hydro One Networks' billing system as a simple data transfer.

Staff-4**Growth Capital****Ref 1: Exhibit A, Tab 2, Schedule 1, p. 8**

Preamble:

Growth capital makes up approximately 38% of the total capital budget over the 2025-2027 forecast period. At reference 1, Hydro One Networks has stated that growth capital investments such as customer connections/upgrades are contemplated in the forecast.

Question(s):

- a) What customer/connection forecast or external studies has Hydro One Networks relied on for the 2025-2027 period to determine the investments related to growth capital? Please provide the details of this forecast.

Staff-5**Compliance****Ref 1: Exhibit A, Tab 2, Schedule 1, p. 17**

Preamble:

Hydro One Networks states,

“It is substantially compliant with its regulatory requirements, subject to any approved regulatory exemptions. CPUC has experienced difficulties with continued compliance with regulatory and government agencies due to staffing shortages. Under the management recently instated in the OEB Decision and Order, Hydro One has taken steps to rectify various non-compliance issues.”

Question(s):

- a) What are the specific non-compliance issues that Hydro One Networks has taken steps to rectify?

Staff-6**Conditions of Service**

- a) Please identify and describe any material differences in the current Conditions of Service of Hydro One Networks and Chapleau Public Utilities.
- b) Please identify what steps Hydro One Networks intends to take to consolidate the Conditions of Service post-merger, and the timing for when consolidation will occur.

Staff-7**Transition and Other Costs****Ref 1: Exhibit A, Tab 2, Schedule 1, p. 17****Ref 2: [MAADs Handbook, Schedule 2 – Filing Requirements for Consolidation Applications p. 6](#)****Ref 3: [Attachment 3, Agreement of Purchase and Sale, 4.17, Page 19 of 74](#)**

Preamble:

As per the MAADs handbook,

“Identify all incremental costs that the parties to the proposed transaction expect to incur which may include incremental transaction costs (e.g. legal, regulatory), incremental merged costs (e.g. employee severances), and incremental on-going costs (e.g. purchase and maintenance of new IT systems). Explain how the consolidated entity intends to finance these costs.”

Question(s):

- a) Please provide forecasts for all transaction costs associated with the proposed transaction broken down by category (e.g., legal, regulatory).
 - i. Section 4.17 of the Agreement of Purchase and Sale states “all costs and expenses incurred by the parties in connection with the application for OEB approval shall be borne equally by each party”. Please confirm if all noted incremental transaction costs will not be included in Hydro One’s revenue requirement at the time of rebasing, and thus will not be funded by ratepayers.
- b) Please break down the expected incremental transition costs into applicable categories. Please also describe the nature of these costs.
- c) Please explain how Hydro One Networks intends to finance the expected transition costs.

Staff-8**Compliance Matters****Ref 1: Exhibit A, Tab 1, Schedule 1, p. 6****Ref 2: Exhibit A, Tab 2, Schedule 1, p. 14**

Preamble:

Hydro One Networks has requested an exemption from section 3.5.11 of the Standard Supply Service Code (SSSC) and sections 2.6 and 10.6.3 of the Retail Settlement Code as it intends to migrate the existing customers of Chapleau Public Utilities into Hydro One Networks billing system as “new” customers without prior billing history. The exemption has been requested for two years from the date Chapleau Public Utilities electricity distribution business is integrated into Hydro One Networks operations. Hydro One Networks has identified a number of challenges in maintaining historical customer-

specific information, prior to the date of integration of Chapleau Public Utilities existing customers into Hydro One Networks billing system, including Chapleau Public Utilities currently uses an “obsolete billing system”, and its operations and programming is dependent on one person.

Question(s):

- a) Please confirm that by classifying the existing Chapleau Public Utilities customers as “new” customers, Hydro One Networks will not use this as a reason for requiring a security deposit from Chapleau Public Utilities customers. If Hydro One Networks intends to request a security deposit from the existing Chapleau Public Utilities customers, please elaborate on the reason(s).

Staff-9

Accounting Standards

Ref 1: Exhibit A, Tab 2, Schedule 1, p. 14

Preamble:

Reference 1 states that “CPUC’s financial results will be incorporated into Hydro One Distribution’s results using United States Generally Accepted Accounting Principles, which is the OEB-approved framework for rate-setting, regulatory accounting and regulatory reporting for Hydro One.”

OEB staff notes that Chapleau Public Utilities currently uses IFRS for financial accounting purposes and Modified IFRS (MIFRS) for regulatory accounting purposes.

Question(s):

- a) Please explain whether Hydro One Networks has undertaken any studies or reviews of the types of transactions that will be impacted by the accounting standard transition from IFRS to US GAAP
 - i. If such a review has been undertaken, please identify and explain whether there are any material accounting policy differences between Chapleau Public Utilities and Hydro One Networks, as well as any impacts for regulatory and ratemaking purposes.
- b) Please explain whether Hydro One Networks intends to establish a new “Accounting Policy Changes” Deferral Account to record the impact of any applicable accounting changes to depreciation expense and capitalization policies on property, plant, and equipment (PPE) resulting from Chapleau Public Utilities transition from IFRS to US GAAP for financial and regulatory accounting purposes.
 - i. If so, please provide the corresponding draft accounting order.
 - ii. If not, please explain why not.

Staff-10

DVAs

Ref 1: Appendix A, p. 3 & 4

Ref 2: [Accounting Procedures Handbook Electricity Distributors 20120101 \(oeb.ca\)](http://oeb.ca), p. 16-17

Ref 3: Appendix C

Preamble:

Reference 1 states that “Hydro One proposes to provide rate mitigation to those customers and record those costs in a new account called Bill Impact Mitigation Deferral Account. The mitigation costs expected to be incurred are outside the base of which revenue requirement was set” and “The proposed use of this account, to track mitigation costs, is consistent with bill impact mitigation variance accounts, proposed and approved by the Board in proceedings EB-2007-0681, EB-2009-0096, and EB-2013-0416.”

Reference 2 states that “Carrying charges shall apply to this account” and “... shall be recorded monthly in a separate carrying charges sub-account of this account.”

Page 3 of Reference 1 states that “Hydro One, once aware of non-existent land rights, will negotiate with the landowner using market rates in the area. These costs are expected to be material (i.e., exceed \$50,000) given the intention of the disposition of the account is to customers of the former CPUC service territory and the costs expected to be incurred are outside the base of which CPUC’s revenue requirement was set.”

Question(s):

- a) Please explain in detail how the proposed new bill mitigation account is similar to the accounts that have already been approved, as mentioned in Reference 1.
- b) Please explain how the proposed Bill Impact Mitigation Deferral account meets the criteria of materiality (one of the criteria for a new deferral and variance account).
- c) Please explain if Hydro One Networks has specific information related to the expected land rights costs as noted in Reference 1.
 - i. If so, please provide details.
- d) Please explain why carrying charges have not been applied to the "Bill Impact Mitigation Deferral Account" in a carrying charges subaccount, as Reference 2 indicates they should be.

Staff-11

DVAs

Ref 1: Exhibit A, Tab 2, Schedule 1, p.11

Preamble:

Reference 1 states that “CPUC’s existing OEB-approved deferral and variance accounts will be ringfenced and maintained separate from Hydro One’s deferral and variance accounts through to disposition” and “Hydro One will comply with this policy during the period up until the point when CPUC is included in the rebasing with Hydro One’s distribution customers and will propose disposition of the former CPUC Group 1 balances, to be recovered or refunded to CPUC customers only.”

Question(s):

- a) Please confirm that the above statement refers to both Group 1 and Group 2 accounts. If this is not the case, please explain.
- b) Please explain whether Hydro One Networks has an anticipated timeline in mind for the merger of the IESO settlement processes and when Hydro One Networks will receive a single, consolidated monthly IESO invoice that includes Chapeau Public Utilities’ costs.
- c) Please explain how Hydro One Networks or Chapeau Public Utilities intends to settle with the IESO during:
 - i. The period prior to IESO invoice harmonization.
 - ii. The period subsequent to IESO invoice harmonization
- d) Would Hydro One Networks consider consolidating the Group 1 accounts after they start receiving one consolidated IESO invoice, rather than performing allocations and maintaining separate rate zone-level accounts? If not, please explain how Hydro One Networks is going to allocate the IESO charges between the two rate-zones.
- e) Please discuss whether Chapeau Public Utilities has any material Group 2 balances at this or expect to have material Group 2 balances. Please provide the details if Chapeau Public Utilities has any material Group 2 balances.
- f) Please explain Hydro One Networks’ planned disposition approach for Chapeau Public Utilities Group 2 accounts, including discussion on when disposition will be requested and impacts to intergenerational inequity.
- g) Does Hydro One networks intend to request the alignment of the rate year of the Chapeau Public Utilities rate zone with that of Hydro One Networks prior to rebasing? If so, when does it expect to do so? If not, why not?

Staff-12

OM&A Savings

Ref 1: Exhibit A, Tab 2, Schedule 1, p.7

Preamble:

Forecast OM&A spending in 2024-2027 is less than historical levels. Hydro One Networks states that OM&A savings exceed 50% per annum as a result of the acquisition.

Question(s):

- a) Please provide a breakdown of the OM&A cost savings indicating which are attributable to the following categories (as listed at reference 1): administrative, governance, information technology, regulatory, finance, legal or other (please specify).