

BY EMAIL

March 14, 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
Ontario Energy Board File Number: EB-2023-0328**

In accordance with Procedural Order No. 1, please find attached OEB staff's submission in this proceeding. Hydro One Networks Inc., Chapleau Public Utilities Corporation and all intervenors have been copied on this filing.

Yours truly,

Amber Goher
Advisor – Electricity Distribution Rates I

Attach.

ONTARIO ENERGY BOARD

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

EB-2023-0328

OEB Staff Submission

March 14, 2024

1 INTRODUCTION

Hydro One Networks Inc. (Hydro One Networks) and Chapleau Public Utilities Corporation (Chapleau Public Utilities) (collectively, the Applicants) filed an application with the Ontario Energy Board (OEB) on November 20, 2023,¹ for approval of the following:²

- Sell Chapleau Public Utilities' distribution system assets to Hydro One Networks
- Cancel Chapleau Public Utilities' distribution licence³ and Hydro One Networks' interim distribution licence⁴
- Amend Hydro One Networks' electricity distribution licence⁵ to include the township of Chapleau⁶ and exclude⁷ the township of Chapleau as defined in the Municipality of Chapleau Boundaries Act⁸
- Transition of Chapleau Public Utilities customers to Hydro One Networks' existing OEB approved distribution rates, including specific service charges
- Continue to track costs to Chapleau Public Utilities' previously established regulatory accounts and seek disposition of their balances at a future date. All rate riders to continue per existing schedules until expiry
- Continue to use the deferral account established in EB-2023-0144 to record costs of operation and maintenance of Chapleau Public Utilities
- Establish two new deferral accounts:
 - Bill Impact Mitigation Deferral account to implement bill mitigation for Chapleau Public Utilities customers
 - Chapleau Historical Land Rights Deferral Account to track all costs needed to secure land rights for distribution facilities not obtained by Chapleau Public Utilities prior to closing

¹ Pursuant to sections 21, 74(1)(b), 77(5), 78 and 86(1)(a) of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, Schedule B

² EB-2023-0328, Exhibit A, Tab 1, Schedule 1 pp. 4-5, November 20, 2023

³ ED-2002-0528

⁴ ED-2023-0144

⁵ ED-2003-0043

⁶ As an authorized Municipality to distribute and sell electricity. The details of the Municipality to be included are as follows:

Name of Municipality: Township of Chapleau, as defined in the Municipality of Chapleau Boundaries Act, 1927, as of December 31, 1997; Formerly Known As: Same.

⁷ As pursuant to the proposed acquisition, the Township of Chapleau will be served by Hydro One Networks.

⁸ ED-2003-0043, Appendix B, Tab 4 (as of December 31, 1997)

- Seek relief from section 3.5.11 of the Standard Supply Service Code and sections 2.6 and 10.6.3 of the Retail Settlement Code to migrate customers into Hydro One Networks' customer billing systems as “new” customers
- Such other relief as Hydro One Networks and Chapleau Public Utilities may request and the OEB determines to be just and reasonable

The application states that the proposed transaction will have a positive or neutral effect in the context of the OEB's statutory objectives:⁹

- There will be no material impact on the price, adequacy, reliability, and quality of electricity service provided by Chapleau Public Utilities or Hydro One Networks;
- It promotes economic efficiency and cost effectiveness in the distribution of electricity and the maintenance of a financially viable electricity industry;
- There will be no adverse impact on the promotion of electricity conservation and demand management and the use and generation of electricity from renewable energy sources;
- It eliminates redundancies between Hydro One Networks and Chapleau Public Utilities service territory in the township of Chapleau; and
- Hydro One Networks is well-positioned to facilitate innovation and support IESO-planned decarbonization of the electricity grid¹⁰ and related initiatives for Ontario's 'grid of the future'

2 “NO HARM” TEST

The OEB applies the “no harm” test when assessing applications that seek approval for regulated entities to consolidate. As described in the *Handbook to Electricity Distributor and Transmitter Consolidations* (MAADs Handbook),¹¹ the “no harm” test considers whether the proposed transaction will have an adverse effect on the attainment of the OEB's statutory objectives.¹²

If the proposed transaction has a positive or neutral effect on the attainment of these objectives, the OEB will approve the consolidation.¹³

⁹ EB-2023-0328, Application, p.3

¹⁰ The IESO's Pathways to Decarbonization Report, December 15, 2022.

¹¹ [OEB Handbook to Electricity Distributor and Transmitter Consolidations](#) (MAADs Handbook), pp. 3-4, January 19, 2016

¹² *OEB Act, 1998*, Section 1

¹³ MAADs Handbook, pp. 3-4

3 OEB STAFF SUBMISSIONS

In its review of the application, OEB staff has considered the requirements described in the MAADs Handbook and other applicable OEB policies¹⁴ as described herein.

OEB staff supports the proposed acquisition of Chapleau Public Utilities by Hydro One Networks. OEB staff submits that, for the elements in which the “no harm” test can be applied, Hydro One Networks’ acquisition of Chapleau Public Utilities meets the “no harm” test. OEB staff notes that the Applicants have demonstrated, where applicable given the unique considerations of the Application, that the proposed transaction will not negatively affect customers with respect to service quality and reliability. Further, OEB staff supports the assertion that the proposed transaction will not have a negative impact on Hydro One Networks’ financial viability based on the price to be paid to acquire Chapleau Public Utilities. OEB staff accepts that the transaction will be cost effective and efficient based on the information provided by Hydro One Networks in the application.

OEB staff supports the immediate customer integration of Chapleau Public Utilities to Hydro One Networks’ customer classes given the challenges associated with maintaining a separate rate zone for a small group of customers if Hydro One Networks elected for deferred rebasing.

3.1.1 Impact on Price, Economic Efficiency and Cost Effectiveness

The MAADs handbook states that in order to assess the “no harm” test, applicants are to provide year-over-year comparative cost structure analysis for the proposed transaction, comparing the costs of the utilities post-transaction and in absence of the transaction.¹⁵ In the Application, Hydro One Networks stated that a focus on previous cost structures with regards to the “no harm” test would be inappropriate given the OEB’s determination that Chapleau Public Utilities is likely to fail to meet its obligations relating to the supply of electricity in the township of Chapleau.¹⁶ Hydro One Networks further stated that existing expenditure levels were inadequate, and customers could be facing loss of supply, safety, and environmental risks.¹⁷

¹⁴ [Handbook for Utility Rate Applications](#) (Rate Handbook) and [Accounting Procedures Handbook](#)

¹⁵ MAADs Handbook, Filing Requirements for consolidation applications, p. 5

¹⁶ EB-2023-0144, Decision and Order

¹⁷ EB-2023-0328, Application, Exhibit A, Tab 2, Schedule 1, p. 5

In the application, Hydro One Networks has provided the preceding four years as a proxy for the OM&A and capital expenditures necessary to operate the utility but claims they are not appropriate to adjudicate the “no harm” test. Table 1 below shows the historical and forecast OM&A costs from 2019 to 2027. The forecasted spending in Chapleau Public Utilities only extends to 2027 because after that the costs to serve Chapleau Public Utilities customers will be integrated into Hydro One Networks’ next rebasing application’s revenue requirement request.

Table 1: Chapleau Public Utilities Historic and Hydro One Networks Forecast Costs

Prior Actual Chapleau Public Utilities Expenditures	Year 2019 (\$000’s)	Year 2020 (\$000’s)	Year 2021 (\$000’s)	Year 2022 (\$000’s)
OM&A	832	839	732	755
Capital	124	98	150	95
Future Hydro One Networks Forecast for Chapleau Public Utilities	Year 2024¹⁸ (\$000’s)	Year 2025 (\$000’s)	Year 2026 (\$000’s)	Year 2027 (\$000’s)
OM&A	108	351	350	362
Capital	64	272	243	209

Table 2 shows a summary of the expected OM&A savings provided in Hydro One Networks’ interrogatory response.¹⁹

¹⁸ September-December 2024

¹⁹ EB-2023-0328, Interrogatory Response, Staff-12

Table 2: OM&A Savings

In \$000's	Chapleau Public Utilities ²⁰	Hydro One Networks				Implied Savings			
		2022	2024	2025	2026	2027	2024	2025	2026
Operation and Maintenance	183	38	132	124	129	23	51	59	54
General and Admin	449	48	150	154	158	102	299	295	291
Billing and Collection	122	22	69	72	74	18	53	50	48
Total OM&A	754	108	351	350	362	143	403	404	392

Annual implied savings are calculated as the difference between Chapleau Public Utilities' 2022 actual OM&A against Hydro One Networks' forecast OM&A from 2024 to 2027.²¹ Hydro One Networks clarified in an interrogatory response²², that the primary cost reductions in administrative and back-office functions such as finance, regulatory, legal, information technology, and board of directors are grouped under General and Admin in the table above.

Hydro One Networks confirmed that the total transaction and integration costs related to the acquisition will be financed primarily through productivity gains.²³ These costs are described in Table 3 below and Hydro One Networks does not expect to incur any ongoing transition costs.

Table 3: Transaction and Integration Costs

Hydro One Networks Forecast (\$000's)	2024
Incremental Transaction and Integration Costs	
Regulatory Approval / Land Transfer Tax	18
Total Transaction Costs	18
Total Integration (Customers, Assets, Employees)	350

²⁰ Stub year 2024 includes 4 months of costs estimated from integration date Sept 1st, 2024. 2024 implied savings are generated by taking four-twelfths of 2022 Chapleau Public Utilities actuals and comparing them to the stub year 2024.

²¹ The 2022 actuals are not adjusted for inflation in each year hence the implied savings would be even higher once these adjustments are accounted for.

²² EB-2023-0328, Interrogatory Response, Staff-12

²³ EB-2023-0328, Interrogatory Response, Staff-7

Hydro One Networks stated that capital costs will increase over the forecast period (2024-2027) as per Table 1. Hydro One Networks believes that additional expenditures are necessary to sustain reliable service and meet regulatory requirements. These additional expenditures include the replacement of submarine cable and PCB-contaminated transformers which were identified as potential reliability and safety concerns within Hydro One Networks' Observation Report on the operations of Chapeau Public Utilities. After these measures are completed, the Applicants expect capital costs to level at a steady state of approximately \$209k per year.²⁴

Table 4 – Capital Forecast

Future Hydro One Networks Forecast for Chapeau Public Utilities	Year 2024 (\$000's)	Year 2025 (\$000's)	Year 2026 (\$000's)	Year 2027 (\$000's)
Steady-state (general sustainment)	34	107	112	117
PCB (Observation Report)		73		
Submarine Cable (Observation Report)			38	
Sustainment Capital	34	180	150	117
Growth Capital	30	92	93	93
Total	64	272	243	209

Hydro One Networks has stated that if the utility were to continue operations in line with historical capital expenditure levels, customers could face loss of supply, safety, and environmental issues. Because of this, Hydro One Networks has not provided a status quo forecast, nor do they believe that comparing the capital forecast to historical spending levels to be an appropriate gauge for the 'no harm' test.²⁵ These sentiments are reflected in the letter filed by Chapeau Public Utilities to the OEB on May 9, 2023. In that letter, Chapeau Public Utilities stated that it was struggling to manage day-to-day operations and would not be able to continue providing reliable service due to financial and staffing issues.

Submission

As part of its review of consolidation proposals, the OEB examines the underlying cost structures of the consolidating utilities. As distribution rates are based on a distributor's

²⁴ Responses to OEB Staff Interrogatories, Exhibit 1, Tab 1, Schedule 1, pp.1-2

²⁵ Exhibit A, Tab 2, Schedule 1, p.5

current and projected costs, it is important for the OEB to consider the impact of a transaction on the cost structure of consolidating entities both now and in the future, particularly if there appear to be significant differences in the size or demographics of consolidating distributors.²⁶

OEB staff submits that the acquisition will generate OM&A savings resulting from the consolidation of redundant functions such as general and administration costs related to governance, information technology, regulatory, finance and legal as shown in Table 2 above. As described in Table 4 above, capital costs are expected to increase beyond the steady state level in 2025 and 2026 due to the replacement of submarine cable and PCB-contaminated transformers. OEB staff recognizes that these measures directly impact the reliability and safety of the service area. In fact, depending on the concentration of PCBs, these transformers must be removed from service by December 31, 2025, according to PCB Regulations (SOR/2008-273).

OEB staff submits that given the existing deficiencies in Chapleau Public Utilities' distribution system, an increase in capital costs is reasonable. While no capital savings have been forecasted at this time, OEB staff expects there to be opportunities for long-term capital efficiencies stemming from this transaction because of the commonality of business conditions, operations, and proximity of the two utilities. As identified by Hydro One Networks, long-term capital savings could also be realized due to the stronger purchasing power of Hydro One Networks and through the incorporation of a single customer service and billing system.

OEB staff anticipates that, in Hydro One Networks' first rebasing application following the sale of the Chapleau Public Utilities distribution system, Hydro One Networks will demonstrate, where possible, any savings and efficiencies that have resulted from the acquisition. In its next rebasing application, Hydro One Networks should try to identify savings and efficiencies that are material and specifically resulting from this acquisition. Further, OEB staff accepts the business case set out by Hydro One Networks that the transaction will be cost effective and efficient overall.

3.1.2 Adequacy, Reliability and Quality of Electricity Service

The MAADs Handbook requires utilities to indicate the impact that the proposed transaction will have on customers with respect to reliability and quality of electricity

²⁶ MAADs Handbook, pp. 6-7

service. The MAADs Handbook also provides that in considering the impact of a proposed transaction on the quality and reliability of electricity service, and whether the “no harm” test has been met, the OEB will be informed by the metrics provided by the distributor in its annual reporting to the OEB and published in its annual scorecard.²⁷

According to the MAADs Handbook, continuous improvement will be demonstrated by a distributor’s ability to deliver improved reliability performance without an increase in costs or to maintain the same level of performance at a reduced cost.²⁸

Hydro One Networks stated that there is no reason to expect any degradation to reliability or quality of service as a result of this transaction. In fact, customers can expect to experience positive improvements in these areas.

Hydro One Networks noted the following examples of expected customer service benefits for Chapeau Public Utilities customers as a result of integrating with Hydro One Networks’ larger distribution system:²⁹

- Hydro One Networks’ contact centres and interactive voice response system
- Hydro One Networks’ online outage system details, including estimated restoration times
- Initiatives to help customers manage their bills
- New services such as Green Button and Ultra Low Overnight rates³⁰

The Applicants believe that by consolidating distribution system plans between the local Hydro One Networks and Chapeau Public Utilities service areas, Hydro One Networks will be able to effectively assess the operating and capital needs associated with customers across the broader local area.

A key objective resulting from the forecasted capital plan is to address deficiencies that affect reliability and safety identified in the Observation Report developed by Hydro One Networks. The forecasted capital plan addresses deficiencies and assets that are in poor condition through line maintenance and refurbishment, wood pole replacement, station investment, the replacement of submarine feeder, and the replacement of oil-filled equipment contaminated with PCBs. Hydro One Networks believes these steps

²⁷ MAADs Handbook, p. 7

²⁸ *Ibid.*

²⁹ Exhibit A, Tab 2, Schedule 1, pp.2-3

³⁰ Hydro One Networks had previously received an exception to not implement these programs in the Chapeau Public Utilities service area until November 1, 2023 (EB-2023-0323 and EB-2023-0314)

will enhance Chapleau Public Utilities' electrical system resiliency and minimize outages due to deteriorating equipment.³¹

The Application also noted that Hydro One Networks is well-resourced to focus on policy advocacy on behalf of customers. As such, the Applicants believe that the transaction will provide Chapleau Public Utilities customers with access to recent emerging technologies, such as electric vehicle charging networks, broadband internet, and distributed energy resources, thereby increasing the quality of the electricity service.³²

The current staffing of Chapleau Public Utilities consists of two linesmen and one office-based staff member. Hydro One Networks intends to absorb the office position within its own vacancies and employ Chapleau Public Utilities linesmen allowing them to leverage their local knowledge to address immediate customer service quality and reliability needs in the overall area. Hydro One Networks will also enter into a 5-year lease of Chapleau Public Utilities' existing Service Centre to have a local presence in the community.

Submission

Adequacy and Quality of Service

Based on the evidence provided by the Applicants, OEB staff agrees that Hydro One Networks can reasonably be expected to maintain the service quality standards currently provided by Chapleau Public Utilities. By having access to Hydro One Networks' customer service benefits and staff, OEB staff believes that customers in the Chapleau Public Utilities territory will see either status quo or improved quality of service. OEB staff also agrees that through Hydro One Networks' resources, Chapleau Public Utilities customers could benefit from access to emerging technologies.

Reliability

Chapleau Public Utilities' historical reliability metrics reflect its sentiments in the letter it wrote to the OEB on May 9, 2023, noting that it could no longer reliably operate the utility. Chapleau Public Utilities has been unable to meet its reliability target of less than 4.06 hours on average that power to a customer is interrupted from 2018 to 2020 and 2022.³³

³¹ Exhibit A, Tab 2, Schedule 1, pp.7-8

³² Exhibit A, Tab 2, Schedule 1, p.13

³³ OEB 2022 Scorecard – Chapleau Public Utilities Corporation

**Table 5 - Average Number of Hours that Power to a Customer is Interrupted
(Excluding Loss of Supply and Major Event Days)**

2018	2019	2020	2021	2022
12.51	6.91	5.87	2.68	9.78

Hydro One Networks has acted as the host distributor to Chapleau Public Utilities and has a long history of serving residential and business customers on the outskirts of the Chapleau Public Utilities territory. As such, OEB staff believes that Hydro One Networks is in an advantageous position to not only maintain the current reliability performance but improve upon the existing standards of Chapleau Public Utilities. In fact, Hydro One Networks has identified several renewal measures to reduce outage times and increase safety as per the Observation Report. OEB staff submits that while there is an increase in capital cost that accompanies the increased reliability, it still benefits Chapleau Public Utilities customers overall.

Further, Hydro One Networks also stated that Hydro One Networks' existing customers on the outskirts of the Township of Chapleau will also benefit from faster response times as they will now be serviced by the Chapleau Service Centre instead of Hydro One Networks' Timmins Operation Centre (approximately 200 km away).

3.1.3 Impact on Financial Viability

The MAADs Handbook provides that the impact of a proposed transaction on the acquiring utility's financial viability for an acquisition, or on the financial viability of the consolidated entity in the case of a merger, will be assessed. The OEB's primary considerations in this regard are:

- The effect of the purchase price, including any premium paid above the historic (book) value of the assets involved
- The financing of incremental costs (transaction and integration costs) to implement the consolidation transaction³⁴

Submission

Hydro One Networks indicated that the proposed transaction will initially be financed through cash or its commercial paper program. Long-term financing will be through its Medium-Term Note program. The premium paid over the assets' book value will not

³⁴ MAADs Handbook, p. 8

have a material impact on Hydro One Networks' financial viability nor will it be included in the revenue requirement and thus will not be funded by ratepayers. The transaction price accounts for less than 0.1% of Hydro One Networks' distribution net fixed assets.

With respect to the financing of transaction and integration costs to implement the proposed transaction, Hydro One Networks stated that total incremental costs will be financed through the anticipated productivity gains associated with the transaction.³⁵ Hydro One Networks noted that incremental transaction costs are estimated to be \$18k and incremental integration costs are expected to be \$350k.³⁶ Integration costs include the up-front costs of integrating Chapleau Public Utilities customers into Hydro One Networks customer and outage management system. Hydro One Networks does not expect to incur any ongoing transition costs.

The average annual 2025-2027 implied savings estimated by Hydro One Networks are approximately \$400k³⁷, exceeding the total incremental costs of the merger.

Considering the above, OEB staff submits that the acquisition will not negatively impact the financial viability of Hydro One Networks.

3.2 Other Matters

3.2.1 Customer Integration Proposal

The MAADs Handbook allows for an acquiring or merging utility to elect to defer rebasing for up to a maximum of ten years.³⁸ The deferral period allows the acquiring or merging utility an opportunity to recover transaction costs, which are not normally allowed to be recovered directly from customers, through operational and capital efficiencies resulting from the transaction over a reasonable period of time.

Hydro One Networks has not proposed a deferred rebasing period in the application. Instead, it proposed to immediately integrate³⁹ Chapleau Public Utilities customers into its existing rate classes. Chapleau Public Utilities residential customers will be included in Hydro One Networks' R1 residential class and the General Service (GS) customers

³⁵ EB-2023-0328, Interrogatory Response, Staff-7

³⁶ *Ibid*

³⁷ EB-2023-0328, Interrogatory Response, Staff-12

³⁸ MAADs Handbook, p. 12

³⁹ Planned integration date is September 1, 2024

will be included in either General Service energy-billed (GSe) or GS demand-billed (GSd) customer classes.⁴⁰

The Applicants requested that the OEB, pursuant to Section 78 of the OEB Act, approve the transition of Chapleau Public Utilities customers to Hydro One Networks’ existing OEB-approved distribution rates, including specific charges, at the time of integration⁴¹.

The proposed mapping between Chapleau Public Utilities’ existing rate classes and Hydro One Networks’ rate classes is shown below in Table 6.

Table 6: Chapleau Public Utilities Customers Proposed Mapping

Chapleau Public Utilities Current Rate Classes	Proposed Move to Hydro One Rate Classes	Number of Customers (per 2022 RRR)
Residential	Residential Medium Density - R1	1,061
General Service < 50kW	General Service Energy-billed - GSe	151
General Service 50-4,999 kW	General Service Demand-billed - GSd	12
USL	USL	4
Sentinel Lighting	Sentinel Lighting	23
Street Lighting ⁴²	Street Lighting	1

2024 Rate Plan

Hydro One Networks stated that post-integration, former Chapleau Public Utilities residential customers will have bill impacts less than 10% due to the applicable Distribution Rate Protection (DRP)⁴³ credit. For all non-residential customers, Hydro One Networks proposed to freeze distribution charges at the proposed Chapleau Public Utilities May 1, 2024⁴⁴ rates for the period between September to December 31, 2024. As a result of the frozen distribution charges for non-residential customers, the total bill impact for all will be below 10%.

⁴⁰ EB-2023-0328, Application, Exhibit A, Tab2, Schedule 1, p.9

⁴¹ Expected Integration date: September 1, 2024

⁴² Chapleau Public Utilities currently has 324 street light devices under 1 customer account

⁴³ Chapleau Public Utilities is one of eight electricity distributors in Ontario to which this tax-funded program applies. The program has been in effect since July 2017, and currently caps monthly distribution charges at \$39.49 effective July 1, 2023 (EB-2023-0119)

⁴⁴ EB-2023-0011

Sample bill impacts have been calculated based on the Chapleau Public Utilities proposed and Hydro One Networks approved 2024 rates as shown in the table below.⁴⁵ The bill impact for residential customers under DRP is 5% and primarily stems from the difference in Hydro One Networks' RTSRs and loss factor being higher than Chapleau Public Utilities'. The bill impacts for GS<50kW and GS 50 to 4,999kW customers are 25% and 22% respectively prior to any mitigation.

Table 7: Bill Impacts Before Mitigation

	Residential/R1 (750kWh/month)	GS<50 kW/GSe (2,000kWh/ month)	GS 50- 4,999kW/GSd (93 kW)
Total Bill (Chapleau Public Utilities)	\$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%

Following the proposed mitigation for GS classes by freezing distribution charges at the Chapleau Public Utilities proposed May 1, 2024 rates, the bill impacts are shown in Table 8.

Table 8: Bill Impacts Following Mitigation

	GS<50 kW/GSe (2,000 kWh/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 (%)	4.6%	0.4%

2025-2027 Plan

In response to an Interrogatory⁴⁶, Hydro One Networks clarified its approach to mitigation for the former Chapleau Public Utilities' customers starting January 1, 2025 until 2027. The applicable Hydro One Networks distribution charges will be in effect for all former Chapleau Public Utilities customers starting January 1, 2025. 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

⁴⁵ EB-2023-0030

⁴⁶ EB-2023-0328, Interrogatory Response, Staff-2

Utilities customers.⁴⁷ For the residential rate classes, due to DRP, bill impacts will remain below 10%. Hydro One Networks proposes to calculate the bill impacts for each non-residential customer using their average monthly consumption based on the latest 12 months of data available at the time. Monthly credit amounts will then be calculated to limit the total bill impacts to less than or equal to 10%. The same monthly credit will be applied throughout the year. The bill credit calculation will be an annual exercise (before January 1 of each year, commencing in 2025), until the total bill impact is less than 10%. This is the same approach Hydro One Networks proposed and the OEB approved in its 2023-2027 Joint Transmission and Distribution Rate Application for unmetered customers in the former Norfolk, Haldimand, and Woodstock service areas.⁴⁸ The costs to provide this mitigation will be tracked in a Bill Impact Mitigation Deferral Account. The outstanding balance will be submitted for approval to the OEB as part of a future rate filing and will be collected from Hydro One Networks' customers.

Hydro One Networks further stated in the interrogatory response⁴⁹ that maintaining a separate rate zone and electing for deferred rebasing is not a viable option given the small number of customers of Chappleau Public Utilities and the unique circumstances challenging the current operations of the utility. They stated that establishing a separate rate class for such a small group of customers in Hydro One Networks' billing systems would be cost prohibitive and it could take several years to recuperate these costs.

Submission

In this case, OEB staff does not take issue with the request to immediately integrate Chappleau Public Utilities customers into Hydro One Networks' existing rate classes.

The MAADs Handbook states that:

A rate harmonization plan can propose the approach and timeline for harmonizing rate classes or provide rationale for why certain rate classes should not be harmonized based on underlying differences in cost structures and drivers. For acquisitions, distributors can propose plans that place acquired customers into an existing rate class or into a new rate class. However, the OEB expects that whichever option is adopted, rates will reflect the cost to serve the

⁴⁷ EB-2023-0328, Interrogatory Response, Staff-2e

⁴⁸ EB-2021-0110, Exhibit L, Tab 6, Schedule 1, Section 2.2 and EB-2021-0110 Decision on Settlement Proposal and Order on Rates, Revenue Requirement, and Charge Determinants, Schedule A, Settlement Proposal, Issue 38, Pg 102 of 117

⁴⁹ EB-2023-0328, Interrogatory Response, Staff-2d

acquired customers, including the anticipated productivity gains resulting from consolidation.⁵⁰

However, OEB staff believes that Hydro One Networks should clarify its proposal with respect to the bill impact mitigation proposed for non-residential classes starting January 1, 2025 and track them in a Bill Impact Mitigation Deferral Account. While OEB staff understands the premise for proposing immediate integration, OEB staff submits that the recoverability of the tracked costs arising from the bill impact mitigation should be determined at the time of Hydro One Networks' next rebasing. In its Reply Submission, Hydro One Networks should clarify how these costs are expected to be material. Hydro One Networks should also explain why it needs to recover these costs when it is expecting \$400k annual implied savings and productivity gains and not expecting any ongoing transaction and integration costs beyond the \$368k noted in the Interrogatory response⁵¹. Subject to that clarification, OEB staff takes no issue with the proposed customer class integration and bill impact mitigation approach.

3.2.2 Distribution Licence

The application requests that the OEB pursuant to section 77(5) of the Act, cancel Chapeau Public Utilities' electricity distribution licence⁵² and cancel Hydro One Networks' interim licence.⁵³

The application also requests, pursuant to subsection 74(1)(b) of the Act, that the OEB amend Hydro One Networks' electricity distribution license⁵⁴ to:

- Include the Township of Chapeau⁵⁵, under Appendix B – Tab 1.
- Exclude the Township of Chapeau (as defined in the Municipality of Chapeau Boundaries Act 1927, as of December 31, 1997)⁵⁶, from Appendix B – Tab 4.

⁵⁰ MAADs Handbook, pp. 17-18

⁵¹ EB-2023-0328, Interrogatory Response, Staff-7

⁵² ED-2002-0528

⁵³ ED-2023-0144

⁵⁴ ED-2003-0043

⁵⁵ Name of Municipality: Township of Chapeau, as defined in the Municipality of Chapeau Boundaries Act, 1927, as of December 31, 1997

Formerly Known As: Same

⁵⁶ ED-2003-0043, Appendix B, Tab 4

Submission

In conjunction with the request to amend⁵⁷ Hydro One Networks' electricity distribution licence⁵⁸, the Applicants have also requested that the existing electricity distribution licence⁵⁹ of Chapleau Public Utilities and the interim electricity distribution licence⁶⁰ of Hydro One Networks be cancelled. OEB staff supports the Applicants' requests in this regard as they are required to facilitate the proposed acquisition, and complementary to the Applicants' request for an amended distribution licence for Hydro One Networks. However, as the proposed acquisition has not yet been completed, the OEB's approval of the requested amendments to Hydro One Networks' electricity distribution licence⁶¹ and the cancellation of Chapleau Public Utilities' electricity distribution licence⁶² and the interim electricity distribution licence⁶³ of Hydro One Networks shall not take effect until the Applicants file written evidence with the OEB confirming completion of the proposed acquisition.

3.2.3 Compliance Matters

Hydro One Networks has requested distribution licence exemptions under Section 74 of the Act, for two years from the date⁶⁴ that Chapleau Public Utilities' electricity distribution business is integrated into Hydro One Networks' operations. It has requested relief from section 3.5.11 of the Standard Supply Service Code and sections 2.6 and 10.6.3 of the Retail Settlement Code as Hydro One Networks intends to integrate Chapleau Public Utilities' customers into its system as 'new' customers without prior billing history.

The Observation Report mentions challenges with respect to Chapleau Public Utilities' obsolete billing system. Hydro One Networks has indicated that it intends to acquire Chapleau Public Utilities' customer data in the form of an offline database prior to integration. This would limit their ability to respond to requests for historical Chapleau Public Utilities' customer-specific information on time and with accuracy. Thus, Hydro One Networks has proposed that it intends to integrate Chapleau Public Utilities'

⁵⁷ Appendix B – Tab 1 and Appendix B – Tab 4

⁵⁸ ED-2003-0043

⁵⁹ ED-2002-0528

⁶⁰ ED-2023-0144

⁶¹ ED-2003-0043

⁶² ED-2002-0528

⁶³ ED-2023-0144

⁶⁴ Expected September 1, 2024

customers into its system as ‘new’ customers and their history with Hydro One Networks will begin on the date of the integration.

Hydro One Networks acknowledges the occasional need of the OEB, customers and/or designated third parties for certain customer-specific historical information that may pre-date Hydro One Networks’ acquisition of the utility. Hydro One Networks will maintain Chapleau Public Utilities’ billing database and will attempt to fulfill its obligations on a best effort basis. However, Hydro One Networks stated that it cannot guarantee the quality and availability of the information and whether manually extracting/formatting can be completed in the 5-business day timeline specified in the Retail Settlement Code.

In response to an Interrogatory, Hydro One Networks confirmed that classifying Chapleau Public Utilities customers as “new customers” will not trigger the requirement for security deposits.⁶⁵ However, Hydro One Networks may request security deposits from any new/existing customers based on go-forward payment/arrears management performance.

Submission

OEB staff takes no issue with the requested exemptions from section 3.5.11 of the Standard Supply Service Code and sections 2.6 and 10.6.3 of the Retail Settlement Code to, in effect, migrate Chapleau Public Utilities customers into Hydro One Networks’ billing systems as “new customers”. OEB staff is satisfied that by classifying Chapleau Public Utilities customers as “new” customers, Hydro One Networks will not use this as a reason to require security deposits from these customers. However, as the proposed acquisition has not yet been completed, the OEB’s approval of exempting Hydro One Networks from the Standard Supply Service Code and the Retail Settlement Code, in respect to the historical Chapleau Public Utilities’ customer-specific information, should not take effect until the Applicants file written evidence with the OEB confirming completion of the proposed acquisition.

3.2.4 New Deferral Accounts

In this application, Hydro One Networks sought approval to establish two new deferral accounts: the Bill Impact Mitigation Deferral Account and the Chapleau Historical Land Rights Deferral Account.⁶⁶

⁶⁵ EB-2023-0328, Interrogatory Responses, Staff-8

⁶⁶ EB-2023-0328, Application, p.5

In its interrogatory response,⁶⁷ Hydro One Networks also noted its intention to create a new sub-account to track the differences resulting from accounting policy changes regarding the incorporation of Chapleau Public Utilities' financial results into Hydro One Networks. Chapleau Public Utilities uses International Financial Reporting Standards (IFRS) for financial accounting purposes and Modified IFRS (MIFRS) for regulatory accounting purposes, while Hydro One Networks uses United States Generally Accepted Accounting Principles (USGAAP) for both financial accounting and regulatory accounting purposes. This new sub-account would be specifically tailored to Chapleau Public Utilities within the already established account created for Orillia Power Distribution Corporation (OPDC) and Peterborough Distribution Inc (PDI).⁶⁸

Bill Impact Mitigation Deferral Account

Hydro One Networks requested the establishment of this account to track all costs related to bill mitigation incurred for Chapleau Public Utilities' non-residential customers whose bill impacts exceed 10% from the time of integration into Hydro One Networks' rates, starting in January 2025, until the expiry of Hydro One Networks' current Custom IR period on December 31, 2027.⁶⁹ The anticipated mitigation costs are expected to be incurred outside the revenue requirement. The proposed mitigation has been described in section 3.2.1 of this submission.

Chapleau Historical Land Rights Deferral Account.

Hydro One Networks requested the establishment of this account to track all costs required to secure land rights for distribution facilities that remain outstanding and were not obtained by Chapleau Public Utilities before closing. In its interrogatory response,⁷⁰ Hydro One Networks confirmed that several assets, including pad mount transformers, poles, and anchors, are currently trespassing on private property. Both Chapleau Public Utilities and Hydro One Networks are legally required to obtain appropriate land rights from owners where assets are situated.⁷¹

Hydro One Networks noted that once the missing land rights have been verified, further costs are expected to be incurred, including surveys necessary to delineate property boundaries, administrative costs associated with negotiations, as well as the registration and conveyancing of the rights. Independent legal advice for the review of any proposed agreements will also be made available to the affected property owners. Hydro One

⁶⁷ EB-2023-0328, Interrogatory Responses, Staff-9

⁶⁸ EB-2018-0270, Decision and Rate Order; EB-2018-0242, Decision and Order

⁶⁹ EB-2023-0328, Interrogatory Responses, Staff-10

⁷⁰ EB-2023-0328, Interrogatory Responses, Staff-10

⁷¹ [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A \(ontario.ca\)](#)

Networks' forecasted cost for the above is currently between \$0.1M - \$1.5 M. The costs expected to be incurred are outside Chapleau Public Utilities' revenue requirement. Hydro One Networks noted that the balances of this account would be collected from Chapleau Public Utilities customers.⁷²

Accounting Policy Changes Account

In this application, Hydro One Networks noted that Chapleau Public Utilities' financial results would be incorporated into Hydro One Networks' results using USGAAP. OEB staff notes that Chapleau Public Utilities currently uses IFRS for financial accounting purposes and MIFRS for regulatory accounting purposes. In its interrogatory response, Hydro One Networks mentioned its intention to create a new sub-account to track the differences resulting from accounting policy changes specific to Chapleau Public Utilities within the already established account for the same purpose, which was created for PDI and OPDC in Hydro One Networks' 2019 application.⁷³ Alternatively, Hydro One Networks expressed willingness to accept the OEB's decision to establish a new accounting policy changes deferral account, similar to that previously approved by the OEB.⁷⁴ This account would record the impact of any applicable accounting changes to depreciation expense and capitalization policies on property, plant, and equipment resulting from the transition of Chapleau Public Utilities from IFRS to USGAAP for regulatory accounting purposes.

Submission

The OEB Chapter 2 Filing Requirements for Electricity Distribution Rate Applications sets out a three-part test for the establishment of new deferral and variance accounts: Causation, Materiality, and Prudence.⁷⁵

- Causation: the forecasted expense must lie outside of the base upon which rates were derived.
- Materiality: the forecasted amounts must exceed the OEB-defined materiality threshold to establish an account.
- Prudence: the nature of the amounts and forecast quantum to be recorded in the proposed account must be based on a plan that outlines how the amounts will be reasonably incurred. However, the final determination of prudence will be made at the time of disposition.

⁷² EB-2023-0328, Application, p. 4

⁷³ EB-2018-0270, Decision and Rate Order; EB-2018-0242, Decision and Order

⁷⁴ EB-2018-0242, Decision and Rate Order

⁷⁵ [OEB Chapter 2 Filing Requirements](#), p.66

The analysis below outlines OEB staff's view on whether Hydro One Networks' request for the establishment of these accounts should be approved.

Bill Impact Mitigation Deferral Account

OEB staff supports Hydro One Networks' request to establish a Bill Impact Mitigation Deferral Account to track costs incurred by Hydro One Networks to provide bill mitigation measures to Chapleau Public Utilities non-residential customers between the start of the integration plan until the expiry of Hydro One Networks' current custom IR ending December 31, 2027.

In OEB staff's view, the draft accounting order with respect to this Account should be subject to the following modifications.

- The draft accounting order states that “the account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Deferral Account” effective the date of CPUC customer integration”.⁷⁶ OEB staff submits the accounting order should be revised to “the account will be established as Account 1508, Other Regulatory Assets – Sub-Account “Bill Impact Mitigation Deferral Account” effective the date of Chapleau Public Utilities customer integration until the effective date of Hydro One Networks' next cost based Rate Order”.
- OEB staff submits that a reference to the recovery or refund of account balances for Hydro One Networks customers should be included.
- The draft accounting order states that the account will record “mitigation costs resulting from integrating customers from CPUC into Hydro One's existing rate classes”.⁷⁷ OEB staff submits the accounting order should be revised to include references to “non-residential customers” and not “customers”.

1. Causation

In this application,⁷⁸ Hydro One Networks noted that they propose to migrate Chapleau Public Utilities' customers into Hydro One Networks' current rate classes upon integration. Additionally, Hydro One Networks noted the bill impact is expected to affect non-residential customers. Therefore, these anticipated bill mitigation costs could not have been included in Chapleau Public Utilities' revenue requirement.

OEB staff submits that the anticipated bill mitigation costs meet the requirement of causation.

⁷⁶ EB-2023-0328, Application, Appendix C

⁷⁷ EB-2023-0328, Application, Appendix C

⁷⁸ EB-2023-0328, Application, pp.9-10

2. Materiality

Hydro One Networks outlined the bill impact mitigation measures it will undertake. However, Hydro One Networks did not address how the anticipated mitigation cost would meet the criteria of materiality.⁷⁹

OEB staff acknowledges that the forecasted costs could reasonably be expected to meet the criteria of materiality and that it is reasonable to use Chapleau Public Utilities' current materiality threshold of \$50,000. As noted earlier in section 3.2.1, OEB staff submits that materiality can be confirmed at the time of reviewing the amounts for disposition.

3. Prudence

In its interrogatory response,⁸⁰ Hydro One Networks outlined its approach to limit bill impacts to no more than 10% for non-residential customers between 2025-2027.

OEB staff submits that the plan to provide mitigation appears reasonable but as noted earlier, the recoverability of the costs should be determined at the time of Hydro One Networks' next cost-based application.

Chapleau Historical Land Rights Deferral Account.

OEB staff supports Hydro One Networks' request to establish a Chapleau Historical Land Rights Deferral Account to track costs incurred by Hydro One Networks to acquire any outstanding Chapleau Public Utilities historical land rights that could not be documented or located before closing.

In OEB staff's view, the draft accounting order with respect to this Account should be subject to the following modification:

- the draft accounting order should be revised to state that the cumulative variance will be recovered from, or refunded to, customers in Chapleau Public Utilities.

1. Causation

In its interrogatory response,⁸¹ Hydro One Networks stated that the missing land rights in the existing Chapleau Public Utilities service territory are still under investigation.

⁷⁹ EB-2023-0328, Interrogatory Responses, Staff-10

⁸⁰ EB-2023-0328, Interrogatory Responses, Staff-2

⁸¹ EB-2023-0328, Interrogatory Responses, Staff-10

Therefore, these costs could not have been included in Chapleau Public Utilities' revenue requirement.

OEB staff submits that the anticipated land right costs, driven by Hydro One Networks' need to operate Chapleau Public Utilities' existing distribution system assets, are outside Chapleau Public Utilities' rate base and meet the requirement of causation.

2. Materiality

In its interrogatory response,⁸² Hydro One Networks noted that the forecasted land right costs, including survey costs, administration costs associated with negotiations, registration costs, conveyancing costs, and legal advice for the affected property owners, range from \$0.1M to \$1.5M, exceeding the \$50,000 materiality threshold⁸³ for Chapleau Public Utilities.

OEB staff submits that the forecasted land right costs meet the requirement of materiality.

3. Prudence

In its interrogatory response,⁸⁴ Hydro One Networks noted that they have already identified the types of assets currently trespassing on private property. They also outlined the process they would follow once they identified a missing required right. OEB staff commends Hydro One Networks' efforts and notes that distributors should endeavor to control costs to the fullest extent possible.

OEB staff submits that the plan to incur these costs seems reasonable. The prudence of any recorded costs will be determined at the time of disposition.

Accounting Policy Changes Account

OEB staff has no concern with Hydro One Networks' request to create a new sub-account to track the differences resulting from accounting policy changes from IFRS to US GAAP within the already established account created for OPDC and PDI. This is because the accounting standards transition for both OPDC and PDI to Hydro One Networks also involves transitioning from IFRS to US GAAP.⁸⁵ OEB staff submits that Hydro One Networks should submit a draft accounting order in its reply submission.

⁸² EB-2023-0328, Interrogatory Responses, Staff-10

⁸³ EB-2018-0087, Chapleau PUC, Cost of Service, Exhibit 1 – Administrative Documents, p.105

⁸⁴ EB-2023-0328, Interrogatory Responses, Staff-10

⁸⁵ EB-2018-0270, Decision and Rate Order; EB-2018-0242, Decision and Order

1. Causation

OEB staff notes that Chapleau Public Utilities currently uses IFRS for financial accounting purposes and MIFRS for regulatory accounting purposes. These accounting policy change costs are driven by the transition from IFRS to US GAAP, particularly affecting depreciation expenses and capitalization policies on property, plant, and equipment. These expected costs are evidently outside of Chapleau Public Utilities' revenue requirement.

OEB staff submits that anticipated accounting policy changes costs meet the requirement of causation.

2. Materiality

In its interrogatory response,⁸⁶ Hydro One Networks acknowledged that it conducted a review to evaluate the impact resulting from the accounting standard transition from IFRS to US GAAP. Hydro One Networks anticipated that similar accounting policy differences would exist between Chapleau Public Utilities and Hydro One Networks, similar to those encountered during the acquisition of other local distribution companies under the IFRS framework. However, Hydro One Networks noted that they would quantify these differences only after the acquisition.

OEB staff submits that anticipated accounting policy changes meet the requirement of materiality. Although Hydro One Networks did not quantify the accounting difference in this application, OEB staff notes that these costs should exceed Chapleau Public Utilities' \$50,000 materiality level.

3. Prudence

In its interrogatory response,⁸⁷ Hydro One Networks stated that it analyzed the transactions impacted by the accounting standards transition from IFRS to US GAAP. Additionally, Hydro One Networks anticipated that Chapleau Public Utilities and Hydro One Networks would have comparable accounting policy differences similar to those encountered during the acquisition of other local distribution companies under the IFRS framework.

OEB staff submits that the forecasted costs meet the requirement of prudence. However, ultimately, the prudence of any recorded costs will need to be determined at the time of disposition.

⁸⁶ EB-2023-0328, Interrogatory Responses, Staff-9

⁸⁷ EB-2023-0328, Interrogatory Responses, Staff-9

All of which is respectfully submitted