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BY COURIER

October 11, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700
2300 Yonge Street
Toronto, ON
M4P 1E4

Dear Ms. Walli:

EB-2016-0276 – Hydro One Networks Inc. MAAD S86 to Purchase all of the issued and outstanding shares of Orillia Power Distribution Corporation – Amended Prefiled Evidence

Please find attached two (2) hard copies of Hydro One Networks Inc.'s amended prefiled evidence on Orillia Power Distribution Corporation, which was filed with the Ontario Energy Board ("OEB") on September 27, 2016.

An electronic copy of the cover letter and amended prefiled evidence has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS).

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON ON BEHALF OF ODED HUBERT

Oded Hubert

APPLICATION

1.0 INTRODUCTION

Hydro One Inc. (“HOI”) is a corporation incorporated under the laws of the Province of Ontario and is the parent company of Hydro One Networks Inc. (“Hydro One”). Hydro One is a licensed distributor regulated by the Ontario Energy Board in accordance with the *Ontario Energy Board Act, 1998* (the “Act”). A corporate organizational chart of Hydro One, both before and after the transaction, is provided as **Attachment 1**.

Hydro One’s distribution system serves approximately 1.3 million customers in its service territory (see **Attachment 2** for further customer details).

Orillia Power Distribution Corporation (“OPDC”) is, at the date of this Application, a wholly owned subsidiary of Orillia Power Corporation (“OPC”). OPC is a holding company, currently wholly owned by The Corporation of the City of Orillia (the “City”). A corporate organizational chart of OPC is provided as **Attachment 3**.

OPDC’s distribution system serves approximately 13,445 Residential and General Service customers in the OPDC service territory (see **Attachment 4** for further customer details).

2.0 OVERVIEW OF APPLICATION

On August 15, 2016, the City and Orillia Power Corporation (the “Vendor”) and HOI (the “Purchaser”) entered into a Share Purchase Agreement (the “Agreement”), the effect of which is that the Vendor and the City have agreed to sell, and the Purchaser has agreed to purchase, all of the issued and outstanding shares of OPDC. The purchase price is \$41.3 million, comprising a cash payment of approximately \$26.4 million for the shares and the assumption of OPDC’s

1 short- and long-term debt (including regulatory deferral account balances) of approximately
2 \$14.9 million. The Agreement contemplates the closing of the transaction on the first business
3 day of a month and at least 90 days following the Parties' receipt of all required approvals,
4 including Ontario Energy Board ("the Board" or "OEB") approval of this Application.

5
6 The Agreement (see **Attachment 5**) contemplates the following items in addition to the sale of
7 the shares:

- 8
- 9 (a) OPDC will apply to the OEB for approval to include a negative rate rider to OPDC's
10 electricity rates¹ to reduce base distribution delivery rates by one per cent across residential
11 and general service rate classes, and to have such reduced rates apply for the next five years
12 (see **Exhibit A, Tab 2, Schedule 1 Section 2.0** for further detail);
 - 13 (b) The Purchaser or its affiliates shall offer all active employees of OPDC continued
14 employment in the City of Orillia for a period of at least one year;
 - 15 (c) The Purchaser shall establish an advisory committee (the "Advisory Committee") to provide
16 a forum for communication between the Purchaser and the community;
 - 17 (d) After closing, the community will be eligible for Hydro One's community programs;
 - 18 (e) The purchase price is subject to adjustment, within 90 days following closing, for working
19 capital, net fixed assets, regulatory accounts and long term debt, as defined in the Agreement.

20
21 The resolutions that give way for the execution of the Agreement are provided as **Attachment 6**.

22
23 This Application adheres to the principles of the "*Report of the Board on Rate-Making*
24 *Associated with Distributor Consolidation*" issued on March 26, 2015 ("Amended Report"). The
25 Amended Report provides Board policy pronouncements pertaining to rate-making for
26 associated distributor consolidation transactions. These include: (1) an extension to the rate

¹ The rider will be applied OPDC's 2016 Rates as approved by the Board in EB-2015-0024

1 rebasing deferral period, to a duration of up to ten years after the close of the transaction; (2) a
2 requirement for use of an earning sharing mechanism (“ESM”) where an applicant seeks a
3 deferral period greater than five years and up to ten years; (3) utilization of the incremental
4 capital investment module (“ICM”) by the consolidating entity during the rate rebasing period;
5 and (4) clarifications as to which incentive plan would apply to distributors who are party to a
6 merger, amalgamation, acquisition, and divestiture (“MAAD”) transaction during any deferred
7 rebasing period. Further guidance was provided by the Board with the release of the “*Handbook*
8 *to Distributor and Transmitter Consolidations and Filing Requirements for Consolidation*
9 *Applications*” (the “Handbook”) released on January 19, 2016. Hydro One has considered the
10 intent of these reports in developing this Application.

11
12 The proposed Transaction will both benefit and protect ratepayers:

- 13 • Ratepayers will receive the benefit of: (i) a reduction of 1% in their base distribution
14 delivery rates in Years 1 to 5; (ii) a rate increase of less than inflation in years 6 to 10
15 (inflation less productivity stretch factor); and (iii) a further sharing of \$3.4 million, a
16 result of the guaranteed ESM, in Years 11 forward. In addition, customers will benefit in
17 the longer term from the lower ongoing cost structures.
- 18 • The implementation of a guaranteed ESM protects OPDC ratepayers from the risk of
19 Hydro One failing to achieve the forecast level of synergy

20 •

21 **3.0 OEB APPROVAL REQUESTS**

22
23 The following OEB approvals are requested under Sections 86(2)(b), (86(1)(a), 77(5) and 74 of
24 the Act:

- 25 • Hydro One is applying to the Board pursuant to section 86(2)(b) of the Act, seeking leave to
26 acquire all the issued and outstanding shares of Orillia Power Distribution Corporation from
27 the City.

- 1 • OPDC is applying pursuant to section 86(1)(a) of the Act to dispose of its distribution
2 system to Hydro One.
- 3 • OPDC is applying pursuant to section 18 of the Act to transfer its rate order to Hydro One.
- 4 • If the Board grants leave for OPDC to dispose of its distribution system to Hydro One, after
5 closing and upon integration of the proposed transactions, OPDC requests, pursuant to
6 section 77(5) of the Act, that its electricity distribution licence be cancelled. Hydro One
7 requests, pursuant to section 74 of the Act, that Hydro One's distribution licence be
8 amended such that Appendix B, Tab 1 of Schedule 1 include *The City of Orillia, County of*
9 *Simcoe as at October 31, 1991*, as described in Schedule 1 of OPDC's licence.
- 10 • Upon completion of integration, HOI will transfer the assets and liabilities of the electricity
11 distribution business from OPDC to Hydro One.

12 •

13 **4.0 OTHER APPROVALS AND CONSIDERATIONS**

14

- 15 • Hydro One is applying for approval to defer the rate rebasing of OPDC for ten years from the
16 date of closing of the proposed transaction, consistent with the new Board policy set out in
17 the Amended Report.
- 18 • Hydro One is applying for approval to continue to track costs to the regulatory asset accounts
19 currently approved by the OEB for OPDC and to seek disposition of their balances at a future
20 date. See **Exhibit A, Tab 2, Schedule 1, Section 3** for further details.
- 21 • All OPDC rate riders will continue as per OPDC's existing rate schedules until expiry.
- 22 • Hydro One is applying for approval to utilize US GAAP for OPDC financial reporting.
- 23 • Hydro One is applying for approval to use an ESM to operate during the extended deferred
24 rebasing period (i.e., years six to ten), consistent with page 16 of the Handbook. Hydro
25 One's proposed ESM is described in **Exhibit A, Tab 3, Schedule 1**.
- 26 • Hydro One is applying to use an Incremental Capital Module ("ICM") during the extended
27 deferred rate rebasing period, as described on page 17 of the Handbook.

- 1 • During the extended deferred rebasing period, rates of customers of OPDC will be set using
2 the Price Cap Index adjustment mechanism as described in **Exhibit A, Tab 2, Schedule 1**.
3 • The net book value of OPDC's assets, as at December 31, 2015, is \$22.5 million.
4

5 This transaction was completed on a commercial basis between a willing seller and a willing
6 buyer. It is a demonstration of the types of benefits that can be realized from voluntary
7 consolidation, and it will deliver cost synergies and economy of scale savings contemplated by
8 the Ontario Distribution Sector Review Panel. Hydro One submits that the evidence supports
9 approval of the Application, as the transaction will have a positive or neutral effect on the
10 attainment of the OEB's statutory objectives, and the customers of both local distribution
11 companies will be held harmless. This is achieved as result of the following:

- 12 • The application has no adverse impact on the price, adequacy, reliability and quality of
13 electricity service of OPDC or Hydro One;
- 14 • The application has no adverse impact on the promotion of electricity conservation and
15 demand management, the use and generation of electricity from renewable energy sources,
16 and it facilitates the implementation of a smart grid in Ontario;
- 17 • Hydro One is committed to promoting the education of consumers through community
18 involvement and customer consultation for future rate-setting applications;
- 19 • The implementation of Hydro One's ESM benefits and protects OPDC customers during the
20 extended deferred rebasing period by guaranteeing a share of excess earning of \$3.4 million,
21 established on an aggressive estimate of savings from the transaction. The guaranteed
22 amount of \$3.4 million corresponds to approximately 45% of OPDC's current Board-
23 approved revenue requirement;
- 24 • The transaction eliminates the duplication of effort between Hydro One and OPDC and
25 results in a single electricity service provider for the Orillia area, the northeastern portion of
26 Simcoe County. This will ultimately create downward pressure on cost structures across
27 both Hydro One and OPDC service areas.

1 Hydro One respectfully requests a written hearing for this Application.

2
3 Hydro One requests that a copy of all documents filed with the Board be served on the Applicant
4 and the Applicant's counsel, as follows:

5
6 a) The Applicant:

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8 Sr. Regulatory Coordinator
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20 b) The Applicant's counsel:

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