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**BY E-MAIL**

January 6, 2017

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Ontario Energy Board File Number: EB-2016-0276**

**Share Purchase Application and related approvals - Hydro One Inc., Orillia Power Distribution Corporation, and Hydro One Networks Inc.**

In accordance with Procedural Order No. 2, please find attached OEB Staff Interrogatories in the above proceeding. The attached document has been forwarded to the applicants and to all other registered parties to this proceeding.

Yours truly,

*Original Signed By*

Judith Fernandes  
Project Advisor

Encl.



## **OEB Staff Interrogatories**

**Hydro One Inc.  
Orillia Power Distribution Corporation  
Hydro One Networks Inc.**

**Share Purchase Application and related approvals**

**EB-2016-0276**

**January 6, 2017**

**1-Staff-1**

**Ref: Exh A/T1/Sch1/p.2  
Attachments 1 and 3**

A corporate organizational chart of Hydro One Inc. (Hydro One), before and after the transaction, is provided as Attachment 1 and a similar corporate organizational chart of Orillia Power Distribution Corporation (Orillia Power) is provided as Attachment 3.

- a) Please confirm that the Hydro One post-acquisition chart represents the organizational structure immediately after the closing of the transaction and prior to the integration of Orillia Power into Hydro One Networks Inc.
- b) Please provide a copy of By Law 2000-144 setting out the conveyance of the distribution system from Orillia Water, Light and Power Commission to Orillia Power.

**1-Staff-2**

**Ref: Exh A/T2/Sch1/p.2**

The proposed transaction is expected to result in reductions in operating, maintenance and administration (OM&A) and capital costs. Table 1 sets out the applicants' projected cost savings on a yearly basis for ten years following the closing of the transaction. The projected savings are shown as the difference in costs between the status quo forecast, i.e., in the absence of the transaction and Hydro One's forecast, post transaction.

- a) Please confirm whether Year 1 in the table represents the year 2016 or 2017.
- b) Please identify the specific areas of the distribution business where the projected cost savings are expected to be generated as a result of the proposed transaction.
- c) Please provide a breakdown of the costs by the identified business areas in b) which explains the difference between the status quo forecast and Hydro One's forecast.
- d) Please confirm whether the projected savings include or exclude the incremental transaction and integration costs identified in the application. If the projected savings do not include the transaction and integration costs, please provide an updated forecast that includes these costs.
- e) Please explain what assumptions have been made by the applicants with respect to the expected cost savings.

- f) Please identify risks that could negatively impact the projected cost savings, setting out the projected savings if those risks materialize.

**1-Staff-3**

**Ref: Exh A/T2/Sch1/pp.15-16**

The application states that Hydro One's incremental transaction costs are estimated to be \$3 million and integration costs are estimated to be between \$5-6 million. According to the evidence, the premium that Hydro One is paying for this acquisition is approximately \$18.8 million. The application indicates that incremental transaction costs and the premium will not be included in Hydro One's revenue requirement, and thus will not be funded by ratepayers.

- a) Please provide a breakdown of the incremental transaction and integration costs referred to in the application, indicating the year/s in which these costs are expected to be incurred.
- b) Please state how Hydro One will ensure that these costs will not be included in its ratepayer funded revenue requirement.
- c) Please identify any factors that may affect the recovery of costs associated with the proposed transaction.

**1- Staff-4**

**Ref: Exh A/T1/Sch1/p.1**

**Exh A/T2/Sch1/p.4**

Orillia Power is requesting that its existing rate order, approved in the OEB's Decision and Order EB-2015-0024 be transferred to Hydro One Networks Inc. (Hydro One Networks) following the completion of the transaction. The application states that all Orillia Power tariffs will remain as approved in Orillia Power's existing rate order, with the exception of Specific Service Charges where Orillia Power customers using these services will be charged the rates approved for Hydro One Networks in rate order EB-2015-0079.

- a) Please confirm whether Hydro One is seeking approval through this application for the proposed amendment to Orillia Power's Specific Service Charges as outlined in the application. If so:
- i. Please provide reasons for this proposed amendment, including why this change is being requested as part of this consolidation application.
  - ii. Please describe the impact of this change on the Orillia Power customers using these services.
  - iii. Please comment on whether the proposal to charge customers of Orillia Power using Hydro One Networks approved Specific Service Charges is considered an integral aspect of the consolidation, as referenced on page 11 of the *OEB's Handbook to Electricity Distributor and Transmitter Consolidations*.
- b) For the rate riders in Orillia Power's existing rate order approved by the OEB which have an expiry date within the requested deferred rebasing period, please confirm whether any extension or amendment is being sought through this application and if so, provide details for each rate rider.

**1-Staff-5**

**Ref: Exh AT1/Sch1**

<http://www.fin.gov.on.ca/en/guides/drc/101.html>

Currently, except for Residential Class customers who are exempt from paying the Debt Retirement Charge(DRC), Orillia Power's customers pay a reduced DRC of \$0.0049/kWh. Hydro One Network's customer classes excluding Residential Class customers pay the standard DRC, currently \$0.007/kWh.

- a) Please explain what DRC Hydro One is proposing to charge the former customers of Orillia Power, if the OEB approves this application. As necessary, please explain your response.

**1-Staff-6**

**Ref: Attachment 9 - Tariff of Rates and Charges, p.13**

Attachment 9  
Page 13 of 13

**Hydro One Orillia**  
**TARIFF OF RATES AND CHARGES**  
Effective and Implementation Date **XXX X, 2016**  
This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

**EB-2016-XXXX**

**RETAIL SERVICE CHARGES (if applicable)**

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Ontario Energy Board, and amendments thereto as approved by the Ontario Energy Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Ontario Energy Board, and amendments thereto as approved by the Ontario Energy Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable.

It should be noted that this schedule does not list any charges, assessments, or credits that are required by law to be invoiced by a distributor and that are not subject to Ontario Energy Board approval, such as the Debt Retirement Charge, the Global Adjustment and the HST.

Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity.

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00
Monthly Fixed Charge, per retailer	\$	20.00
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50
Distributor-consolidated billing monthly charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing monthly credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year		
More than twice a year, per request (plus incremental delivery costs)		

A portion of Orillia Power's Tariff of Rates and Charges effective May 1, 2016 is reproduced below.

EB-2015-0024

**RETAIL SERVICE CHARGES (if applicable)**

The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Code or Order of the Ontario Energy Board, and amendments thereto as approved by the Ontario Energy Board, which may be applicable to the administration of this schedule.

No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code or Order of the Ontario Energy Board, and amendments thereto as approved by the Ontario Energy Board, or as specified herein.

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable.

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Distributor-consolidated billing monthly charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing monthly credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year	\$	no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00

OEB staff notes that charges for “Electronic Business Transaction (EBT) system, applied to the requesting party 1) Up to twice a year and 2) More than twice a year, per request (plus incremental delivery costs)” are missing from the proposed Tariff of Rates and Charges.

- a) If the omission of the charges for Electronic Business Transaction (EBT) system is an error, please correct.
- b) If the applicants are proposing to eliminate these charges:
  - i. Please provide reasons for this proposed change, including why this change is being requested as part of this consolidation application.
  - ii. Please comment on whether this proposed change is considered an integral aspect of the consolidation, as referenced on page 11 of the *OEB’s Handbook to Electricity Distributor and Transmitter Consolidations*.

**1-Staff-7**

**Ref: Exh AT2/Sch1/p.8**

The application states that the City of Orillia(City) will retain the current Orillia Power operating centre on West Street for future redevelopment. Hydro One has agreed to enter into a five-year lease agreement with the City to lease this centre. Conditional on the completion of the sale, Hydro One intends to commence construction, during the lease period, of a permanent operations and administration building within the City of Orillia. This new centre will consolidate operations between Hydro One’s pre-existing operating centre and the Orillia Power operating centre on West Street.

- a) Please confirm whether Hydro One will build the operating centre if the proposed sale is not completed.
- b) Please explain why Hydro One believes it is necessary to construct a new operations centre instead of expanding its existing centre or the Orillia Power operating centre and provide the anticipated cost of construction. Please confirm whether ratepayers will be expected to pay for this new centre.
- c) Please advise where the new operating centre is expected to be situated relative to the existing operating centres of Hydro One and Orillia Power.

- d) Please confirm whether this centre is expected to serve customers other than the Orillia Power customers and explain why the operating centre is considered the best option for all customers.
- e) Please comment on the anticipated effect of this change on service quality, reliability, and cost effectiveness/cost efficiency of electricity distribution for this acquired area.

**1-Staff-8**

**Ref: Exh A/T2/ Sch1/p.9**

The application states that Orillia Power's direct staff will be integrated into Hydro One's local operations and will become part of the area's pool of resources working within the larger Hydro One service area, which encompasses Orillia Power's current service territory. The application also states that although certain functions and positions will be eliminated as part of the integration process leading to efficiency gains, Hydro One, due to its size and current staff retirement profile, is able to offer continued employment to existing Orillia Power staff.

- a) Please confirm whether all of Orillia Power's 15 direct staff will be absorbed by Hydro One.
- b) Please provide an indication of the number of Orillia Power's indirect staff that are expected to move to positions within Hydro One.
- c) Please comment on the functions/positions that Hydro One asserts will be eliminated, identifying whether these are indirect or direct staff positions and providing the number of positions that are expected to be eliminated as a result of this transaction.

**1-Staff-9**

**Ref: Exh A/T2/Sch1/p.11**

The application states that sustained administrative efficiencies will result due to the elimination of redundant activities and efficiencies resulting from economies of scale and identifies certain Orillia Power activities as examples of what will be consolidated into Hydro One's portfolio of activities.

- a) Please provide the cost savings that arise from these identified sustained efficiencies.



**1-Staff-10**

**Ref: Exh A/T2/ Sch1/p.17**

The applicants are requesting approval to continue to track costs to the regulatory asset accounts currently approved by the OEB for Orillia Power and to seek disposition of their balances at a future date. Regarding the applicants' plans for deferral and variance accounts:

- a) *The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report* provides that under the Price Cap IR, the distributor's Group 1 audited account balances will be reviewed and disposed if the pre-set disposition threshold is met. In the letter *Update to EDDVAR Report, released July 2009*, dated July 25, 2014, distributors may seek to dispose Group 1 balances that do not exceed the threshold. Please confirm that the applicants' plan to request their deferral and variance accounts for disposition is consistent with this policy.
- b) Please confirm that Orillia Power's deferral and variance accounts will be tracked separately from Hydro One Network's deferral and variance accounts.

**1-Staff-11**

**Ref: Exh A/T1/Sch1/p.3**

The application states that the purchase price is subject to adjustment, within 90 days following closing.

- a) Based on the most current information available, please provide an estimate of the final purchase price after these adjustments.

**1-Staff-12**

**Ref: Exh A/T2/Sch1/pp.2,4,15  
Exh A/T3/Sch1/p.7**

The application states that the cost of providing a negative rate rider as well as incremental transaction and integration costs will be recovered from synergies generated from the consolidation.

- a) Please explain whether these costs have been included in Table 1 of Tab 2. If yes, what is the quantum included per year.
- b) Please confirm whether or not these costs have been included in the Earnings Sharing Mechanism (ESM) calculation pertaining to years 6 to 10.

**1-Staff-13**

**Ref: Exh A/T2/Sch1/p.12**

The application states that Orillia Power's current debt will be retired by Orillia Power on or prior to the closing of this acquisition. However, Hydro One is to assume Orillia Power's debt for \$14.9 million as a part of the acquisition cost.

- a) Please clarify whether Orillia Power is retiring the debt prior to the closing or the transaction or whether Hydro One is going to assume the debt as a part of the transaction.
- b) Please explain the flow of transactions to settle the debt, including where the funds to retire the debt are from and how the funds will flow through the relevant parties to settle the debt.
- c) If Orillia Power is to retire the debt, please explain how Orillia Power retain sufficient cash flows to retire the debt and maintain operations.

**1-Staff-14**

**Ref: Exh/T2/Sch1/p.16**

**Attachment 12, Orillia Power Audited Financial Statements**

According to the application, Hydro One will pay \$41.3 million for the acquisition of Orillia Power comprised of a cash payment of approximately \$26.4 million and the assumption of short term and long term debt of \$14.9 million (including regulatory deferral account balances). The 2015 net book value of Orillia Power's assets is \$22.5 million.

- a) Please provide a breakdown of the short term debt, long term debt and other components of the \$14.9 million. For each debt item, please provide the date, amounts and interest rates, totaling \$14.9 million.
- b) If the \$14.9 million is valued as at December 31, 2015, please reconcile the amount to Orillia Power's 2015 audited financial statements.

- c) Please show how the \$22.5 million net book value is calculated from Orillia Power's 2015 audited financial statements.
- d) Please show the calculation of the "premium" Hydro One is paying above the book value of Orillia Power's assets, factoring in Hydro One's debt assumption.

**1-Staff-15**

**Ref: Exh A/T2/Sch1/p.17  
Exh A/T3/Sch1/p. 8**

In Tab 2, Hydro One requests approval for a regulatory account to track costs associated with the ESM. However, in Tab 3, the footnote indicates that Hydro One will file a separate application to request the establishment of the account at a later date.

- a) Please clarify whether Hydro One is requesting for the OEB to establish this account as part of its determination of this application or whether Hydro One intends to apply for the establishment of this account at a future date.

**1-Staff-16**

**Ref: Exh A/T2/Sch1/pp.17-18**

Hydro One is requesting approval to use USGAAP for accounting purposes in relation to Orillia Power so as to be consistent with Hydro One's accounting.

- a) Please confirm that Orillia Power will retain sufficient records regarding any transition adjustments from IFRS to USGAAP to allow for testing of the transition adjustments in a future Orillia Power rate application.
- b) If there is a material accounting standard transition adjustment (debit or credit) that impacts revenue requirement, please indicate whether Hydro One plans on requesting for a deferral account in a future application.

**1-Staff-17**

**Ref: Exh A/T2/Sch1/p.15**

The application states that Hydro One intends to have one set of financial records after the

companies are fully integrated stating that providing separate financial statements for Orillia Power would decrease forecast synergies and add costs.

*The Handbook for Utility Rate Applications*, dated October 13, 2016 indicates that in the first cost of service or custom IR application following consolidation, the OEB will consider the savings that have been generated through the consolidation.

- a) Please confirm that Hydro One is not planning to track any costs or savings associated with the acquisition. If so, please explain how Hydro One will present information on the savings.
- b) Please explain how Hydro One will ensure that the transaction and integration costs are not included in Hydro One's revenue requirement as indicated in Tab 2.
- c) Please estimate what the reduction in savings would be if Hydro One tracked Orillia Power financial records separately.

**1-Staff-18**

**Ref: ExhA/T3/Sch 1/p.4  
Exh A/T2/Sch1/p.2, Table 1**

Page 4 of Tab 3 states that the OM&A forecast used in the proposed ESM reflects an aggressive estimate of savings. Forecast OM&A are about one third of Orillia Power's status quo OM&A forecast.

- a) What methodology did Hydro One use to derive the OM&A and capital forecasts?
- b) Please explain what is meant by the term "aggressive" estimate.
- c) Please explain whether the OM&A forecast used in the proposed ESM is the most aggressive estimate of savings. If not, please estimate the most aggressive OM&A savings that Hydro One believes is achievable.
- d) Please comment on how achievable the estimated savings in Table 1 are.

**1-Staff-19**

**Ref: ExhA/T3/Sch 1/p.5**

Page 5 of Tab 3 states that as a result of the risks assumed by Hydro One in committing to a guaranteed ESM, a 20% risk factor has been applied to the OM&A forecast.

- a) Please explain how 20% was selected.

- b) Please explain whether the 20% risk factor negates part of the aggressive forecast in OM&A as referenced above.

**1-Staff-20**

**Ref: Exh A/T3/Sch1/pp.7-9**

On page 9, it is indicated that Hydro One is guaranteeing \$3.4 million refund to former Orillia Power customers, which equates to 45% of Orillia Power's current OEB-approved revenue requirement.

- a) The \$3.4 million refund is cumulative over 5 years. The average annual refund is \$680k, which represents 9% of Orillia Power's annual revenue requirement. Please explain whether Hydro One still views this as a significant amount to be refunded.
- b) In the same format as the ESM calculation in Table 6, please show and indicate the nature of the reductions in each of the revenue requirement components from Orillia Power's current OEB-approved revenue requirement to the forecasted revenue requirement in years 6 to 10 in Table 6.

**1-Staff-21**

**Ref: ExhA/T3/Sch1/pp. 5-7, Tables 5-6  
ExhA/T2/Sch1/p.12**

In Table 5, the ESM is calculated based on the cost of debt embedded in Orillia Power's current approved rates. In Tab 2, it is indicated that Orillia Power's current cost of borrowing is higher than Hydro One's and Orillia Power's current debt will be retired prior to the closing of the acquisition. Savings will arise as a result of Hydro One's ability to refinance Orillia Power's debt at a lower rate.

- a) Please explain why Orillia Power's current approved cost of debt is used in the ESM calculation and not a lower debt rate upon refinancing.
- b) Please quantify the impact to the ESM calculation using the debt rate at which Hydro One believes it will be able to refinance the debt of Orillia Power.