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Our File No. 164119

October 4, 2016

VIA RESS, EMAIL AND COURIER

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attention: Kirsten Walli
Board Secretary

Dear Ms. Walli:

Re: EB-2016-0025: LDC Co.

Please find enclosed BOMA's Written Submissions.

Yours truly,

FOGLER, RUBINOFF LLP

Thomas Brett

Thomas Brett
TB/dd
Encls.
cc: All Parties

EB-2016-0025

Ontario Energy Board

Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, and PowerStream Inc.

Application for approval to amalgamate to form LDC Co. and for LDC Co. to purchase and amalgamate with Hydro One Brampton Networks Inc.

BUILDING OWNERS AND MANAGERS ASSOCIATION, GREATER TORONTO ("BOMA")

WRITTEN SUBMISSIONS

October 4, 2016

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Counsel for BOMA

I. Overview and Summary

BOMA is of the view that the Board ought not to approve the proposed merger and acquisition. However, if it does decide to approve it, it should do so only on the terms set out below.

1. The Board should not approve the merger because the applicants have not demonstrated that it meets the no-harm test, for the following reasons.

2. The transactions (the merger of Horizon, PowerStream, and Enersource), and the merged entity's subsequent purchase of Hydro One Brampton ("HOBNI") (the "merger") creates unnecessary risks and losses for ratepayers of the one, and perhaps all four existing utilities for the following reasons:

   (a) The governance structure proposed for the merged entity ("MergeCo") is deeply flawed, and will result in less effective management than is currently enjoyed by ratepayers of the four existing companies, which are reasonably well managed (see Section III.

   (b) At least some of the entities, certainly PowerStream, will face substantially increased costs due to the requirement that it raise its dividend payout ratio from fifty percent to sixty percent (see below). HOBNI will also need to increase its dividend payout rate, albeit by a lesser amount. HOBNI's costs, which are much lower than those of the three larger companies, will likely increase as part of a higher cost entity (see Section IV).

   The applicants' claim is that, during the ten year deferred rebasing period, each of the ratepayers' four existing companies will be better off financially as part of a merged entity, mainly because the four companies will be on price-cap regulation for the ten year period. This is not true for either Horizon or PowerStream, the two largest partners in the deal, as they will remain on custom IR for the first five years, and will go on price-cap only on the expiry of the custom IR plan. In any event, the applicants' comparison, which assumes that the four companies would remain on custom IR plans for ten years. relies on dubious assumptions, for example, that the Board would simply allow the individual companies to remain on custom IR for the full ten year period, without serious challenges to their proposals, especially their escalating OM&A costs. Over the first few years, where the visibility on savings and costs is greatest, the ratepayers' savings are very small, and are negative in year one. More important, the merger-standalone comparison argument represents a misuse, intentionally or otherwise, of the Board's merger policy, which requires the merged entity to go on price-cap regulation during the deferred rebasing period, to ensure the applicants' proposed savings, which belong to the shareholders during the deferred rebasing period, to ensure that the applicants were not, at the same time, seeking via another custom IR submission, increases in costs which would be paid by the ratepayers, either during the period or on rebasing. The applicants used this feature of the policy to "demonstrate" that ratepayers of the four companies would be better off during the rebasing period, notwithstanding the fact that they will receive none of the savings from the transaction. The case of Enersource is an egregious example of how the proposed "straw-man" regime works. Enersource, under price-cap regulation in 2015 and 2016, was to have rebased in 2017, under custom IR.

However, earlier this year, petitioned the Board to allow it to remain on price-cap IR for 2017 or longer, on the grounds that given the imminence of the merger, a rebasing hearing for 2017 would not be a good use of Board resources. The Board agreed. Enersource was then able to enter the merger on price-cap. As a result, under the Board's policy, it would remain on price-cap for the duration of the deferred rebasing period, thereby setting up the advantageous "straw-man" comparison in favour of MergeCo. Had Enersource rebased on custom IR, it would have remained on that regime for the first five years of the deferred rebasing period, weakening the straw-man comparison.

BOMA urges the Board to give little weight to the standalone merger comparison. The Board has made it clear in recent cases, including both the "Woodstock" and "Norfolk" cases, that provisions to freeze rates or reduce rates by one percent during the deferred rebasing period are not "determinative" of whether the merger meets the "no harm" test (EB-2014-0213; September 15, 2015, p9, "Woodstock"; EB-2013-0196/EB-2013-0187/EB-2013-0498; July 3, 2014 "Norfolk"). The critical issue is whether the merger will result in a lower cost structure for the merging parties over the long term than would have been the case had the merger not taken place, considering all of the circumstances of each of the parties to the transaction.

(c) The merger, which is subject to the strictures of the Unanimous Shareholders' Agreement, will prevent the efficient allocation of distribution system resources where they are most needed on company-wide basis, thereby removing one of the major traditional benefits of a merger. The witnesses made it crystal clear that the distribution infrastructure renewal and service capital expenditures would not change in any material fashion after the merger, and that the distribution system plan for the merged entities due to be filed in 2019-2020 would reflect the same distribution system capital expenditures patterns that are reflected in the current five year plans of the four utilities (see, for example, Tr. Vol. 4, pp 22-23). In other words, there would be no redistribution of distribution system renewal capital dollars to areas of greatest need across MergeCo. While this approach was doubtless driven by the strongly expressed views of its municipal shareholders, and the need to ensure that the merger would not violate the "no-harm" test by reducing the otherwise planned renewal expenditures in one of the "rate zones" and thereby depriving the ratepayers of that entity from key required asset renewal and expansion expenditures, they would otherwise have had, with the accompanying reliability benefits, it deprives the new utility of the ability to prioritize its capital distribution plan expenditure based on company-wide needs. Moreover, even the largest part of plant capital, real estate, is largely frozen for the next ten years.

(d) Finally, the applicants characterize the estimate of long-term savings, both capital and OM&A, as only preliminary estimates (TC, Vol. 1, p166). The applicants submitted only skeletal prefiled evidence to justify the amount of the savings over the medium to long term. They presented them as the output of the "model". It was not until well into the cross examinations did the parties attempt to explain the source of the proposed savings (the inputs to the model) on a cost center by cost center basis. They had some difficulty doing so, and did not address in any detail the impact of their proposed measures, for example, the reduction of four call centres to two, and the changes to the CIS, ERP, and GIS system, on customer service.

II. In the event the Board decides to approve the merger, it should condition its approval on several matters, including:

1. First, any savings generated by the merger should be shared on a "fifty-fifty" basis by the shareholders and the ratepayers from the first day on. Such a sharing should ensure that the ratepayers are not harmed by the merger, share in the benefits from any savings created by the merger, and are compensated from absorbing some of the risks and losses identified in this Argument. In the alternative, the Board should establish a deferred rebasing period of five years. Under either proposal, the shareholders recover their transition costs and then some. Such a division is consistent with the fact that PowerStream and Horizon have each undertaken mergers (several, in PowerStream's case) with a five year deferred rebasing period, or with no forward rebasing period (see Section IV below).

Second, that decision would be a sensible and realistic application of its merger policy to the circumstances of this case, and is consistent with more recent decisions of the Board on merger cases.

PowerStream has made several mergers in the past under a five year deferred rebasing period. Moreover, the Board staff noted in its March 7, 2007 Discussion Paper on the topic that the five year rebasing period was used in almost all American Utilities Commission rate review proceedings that dealt with the rebasing.

The applicants have characterized the merger as an opportunity, perhaps their only remaining opportunity to increase returns to shareholders beyond the OEB's allowed return (Business Plan, p95), and predict a higher return on equity following the merger (BOMA – 16(a)).

However, the applicants' proposed merger and acquisition of HOBNI is still attractive from a return on investment point of view, with a shared savings from year one, or a five year rebasing, as the shareholders of the merged entity benefit not only from its share of the savings but from additional revenue from the HOBNI income stream.

2. The Board should require the applicants to set reliability targets for each of the four utilities, with the possible exception of HOBNI which is better than the average of the other three (see below).

3. The Board should require the applicants to file an annual customer survey which deals separately with each of the four predecessor utilities, so as to measure their level of satisfaction with the MergeCo's services to each of the four ratepayer groups. <u>The summary and the detailed results</u> should be filed each year with the Board and intervenors, as part of the four divisions' annual rate adjustment applications. The MergeCo should consult with the intervenors and Board staff prior to starting the consultation process.

4. The Board should require that <u>coherent governance plan</u> be put in place and filed with the Board and intervenors prior to closing. The Board should approve the governance plan prior to the closing, and to the prior issuance of a licence for the new utility. The

organization structure should be made a public document. There is no reason for it to remain confidential.

5. The Board should require a detailed IT rationalization plan be filed with the Board prior to closing, which plan establishes the detailed timelines, costs, avoided costs, and risk management measures (eg. fixed price or capped price contracts with vendors and consultants), which will protect the divisions and its ratepayers from escalating IT costs, along with detailed savings forecasts built up from individual components of each part of the plan, eg. reduction of licensing fees in which contracts, in which systems. The MergeCo should be required to report annually to the Board and intervenors on the progress of the IT rationalization plan, including the recorded savings, including the source and nature of the savings, for each of the four utilities, and how the savings are allocated to each of the four "utilities".

III. Governance Structure

The proposed organization structure for the new organization is set out at B.T3.Sch 6 (p22). The list of responsibilities of each company and its CEO can be seen at Board Staff.31, Business Plan, p69.

The applicants' evidence on governance of the new entity(ies) is to the effect that the transition advisory committee, a proxy for the MergeCo Board of Directors, and a body representative of the MergeCo's shareholders have appointed three CEOs. The CEO of the Holding Company is Brian Bentz, the CEO of the LDC Co. is Max Cananzi, and the CEO of the third corporation, Services Company ("ServicesCo") (name to be clarified) is Mr. Gregg. The LDC Co. and ServicesCo. are subsidiaries of Holdco, however, Mr. Bentz did not appoint the two other CEOs.

The CEO of LDC Co., which will hold the OEB distribution licence, reports to the Board of Directors of the LDC Co. The Board of Directors have not been appointed, but the evidence is that the Holdco Board of Directors will be almost identical to the Transitional Advisory Committee. There is no evidence on the composition of the Board of Directors of LDC Co. or ServicesCo.

The applicants' evidence is there is to be twenty-four executive positions spread among the three companies, thirteen of which are already shown on the draft organization chart. The members of the executive team are appointed by the CEOs of the three companies to whom they report. In other words, the LDC Co CFO, who will work for Holdco, and report to Mr. Bentz, will be appointed by Mr. Bentz while the LDC Co VP Planning, VP Operations, VP Customer Services, or their equivalents, will be appointed by the CEO of LDC Co., Mr. Cananzi. The executives responsible for providing, among other things, corporate services, CDM and technology development will be appointed by Mr. Gregg. Put another way, unlike the typical corporate CEO, Mr. Bentz has not, and will not, appoint his executive team.

BOMA assumes that the "ServicesCo" Board will be a small Board subject to a unanimous shareholders' agreement with Holdco, but that is not clear. To the extent the LDC Co Board and the Holdco Board are different, LDC Co could be faced with conflating mandates and directives, and objectives. For example, it is clear from the business plan that the MergeCo wishes to grow quickly (B.Staff.31; Business Plan, p11). That is the primary reason the applicants would as soon as possible after closing and on receipt of enabling tax opinions, convert itself into a partnership. Its hope is to attract private sector entities as partners which would provide the equity for further aggressive growth (Ibid).

On the other hand, the Unanimous Shareholders' Agreement among the shareholders of Horizon, Enersource, and PowerStream, provide that there can be no further acquisition until seventy-five percent of the forecast savings are achieved, in the opinion of the Board. Leaving aside the issue of how the Board is to decide whether the savings have been achieved, the question which the Board will make the decision, PowerStream has been a serial acquirer, and the Holdco board, with Mr. Bentz, its CEO, might have a different view on the pace of expansion relative to the LDC Co board.

Moreover, key executives of the LDC Co are being appointed by, and will report to, different people. For example, the CFO of the LDC Co will report to the CEO of the Holdco, not the CEO of the LDC Co. This complicates the accountability of the CFO of the LDC Co, and could lead to considerable confusion of mandates. Executives appointed by Mr. Bentz and the executives appointed by Mr. Gregg and reporting to them will include parties responsible for key elements of the LDC Co's business, including regulatory, finance, audit, legal, information services, customer service, CDM and technology development. They provide services that are vital to the success of the new distributor, yet they do not report to Mr. Cananzi. This structure is flawed, and the applicants have provided no evidence to show how these issues will be addressed. For such a structure to work, there needs to be, at the very least, a very high degree of collaboration among the CEOs of the three companies. Such collaboration is not made any easier by the fact that these CEOs, officers, and their direct reports are in different offices many miles apart. Given the constraints in the unanimous shareholders' agreement that the three head offices may not be moved, closed, or made less important for the next ten years, the physical separation will need to endure for a long time. BOMA has never seen a structure of this nature, whether in a utility or any other large company, and it doubts that it can be made to work. The utilities testified that they did not ask for any professional management consulting advice in assembling this structure.

Moreover, the LDC Co utility services are housed in three different companies, which companies are affiliates of one another introduces additional substantial complexity into the management of the MergeCo., relative to the management of the predecessor utilities due to the need to comply with ARC rules. In addition, ServicesCo will house some of MergeCo's non-regulated business interests, which will receive services from Holdco and perhaps LDC Co. These arrangements will require several Services Agreements, none of which currently exist. In addition, the company's evidence is that revenue flowing to LDC Co from Holdco and from ServicesCo, will flow to the LDC Co shareholders during the deferred rebasing period. Conversely, payments made by LDC Co to either ServicesCo or Holdco, would constitute ongoing incremental costs which are not included to the ongoing additional OM&A expenses in the dashboard tables (see below).

Services Agreements will be required at the outset of MergeCo, or soon thereafter, as LDC Co will be acquiring a variety of utility services from each of Holdco and ServicesCo. There was no mention of this in the prefiled evidence or during the Technical Conference, other than a commitment to produce a services agreement between the regulated entity(ies) and the unregulated part of ServicesCo and other unregulated businesses, including LDC Co's solar affiliate by mid-1918.

LDC Co will rely heavily on the services from employees from Holdco and ServicesCo to carry out its business. These services will need to be available at costs which meet ARC Code rules.

It is not clear how these transactions can be made in a manner sufficiently seamless to run LDC Co properly.

It is clear from the evidence that the corporate organizational structure and physical configuration of "head offices" was a critical component of the three companies, Horizon, PowerStream, and Enersource, agreeing to merge.

It is also clear that there will be additional costs to ratepayers over the long run due to potential difficulties in management and additional complexity necessary to coordinate the work of the three companies, and that these additional complexities will likely harm ratepayers, all of whom are now customers of reasonably well run companies. These potential consequences need to be addressed by the Board in its evaluation.

IV. <u>The No-Harm Test</u>

The applicants' evidence is that each of the four ratepayer groups will be better off in financial terms with the merger when compared with the standalone case at least over the longer term. They do not say that in each and every year post-merger, they will be better off. In BOMA's view, at least one group of ratepayers will suffer harm as a result of the merger.

BOMA has a number of concerns with the applicants' position on the short, medium, and longer term effects of the merger.

As a preliminary matter, BOMA observes that it is very difficult to reliably forecast costs and savings beyond a few years out. The Board has, for example, limited the terms of the Distribution System Plan to five years, largely for this reason. Some distributors have noted in past cases the difficulties of accurately forecasting needs even in the last year or two of the five year plan. In BOMA's view, the Board should weigh the forecast savings in the first few years much more heavily than those further out, while allowing for the fact there will be a ramp-up period for most savings in years one and two.

Second, as alluded to earlier, the applicants have based their merger versus status quo comparisons on some questionable assumptions. They have assumed on the one hand that under the status quo option, the individual predecessor companies would continue for the ten year rebasing period (and thereafter) with successive custom IR applications, while, when as part of MergeCo, those companies will either continue on price-cap (Enersource and HOBNI) or switch to price-cap from custom IR once the current custom IR plan expires (Horizon and PowerStream).

The applicants assume that the Board would continue to accept the proposed custom IRs from the four standalone utilities that have simply projected forward past trends over the ten year rebasing period. But the Board may not accept a continuation of past trends, in successive custom IR applications, as illustrated by their recent PowerStream, Toronto Hydro, and Enbridge custom IR decisions.

Even if one accepts the validity of what BOMA believes is a straw-man comparison, BOMA is of the view that a close examination of the revenue requirements generated by the four utilities under the MergeCo scenario and the standalone scenario, is set out at B.BOMA.12 (Attachment), reveals the tenuous nature of the benefits and some losses, particularly when other financial consequences of the merger are taken into account. Undertaking JTC1.3, Attachment, p2 shows essentially the same information albeit for a longer period of time with additional information on the impacts of the merger relative to the status quo on a revenue requirement per customer basis.

The table in JTC1.3 shows that in year 1 (2016) the average ratepayer lost $4.00 under MergeCo rebate to the standalone scenario. In 2017, 2018, 2019, and 2020 (years 2, 3, 4, 5), the average ratepayer was ahead under MergeCo by annual amounts of $4.00, $3.00, $4.00, and $14.00, respectively (our emphasis). These are very small amounts.

BOMA 12(a), Attachment, p1 which contains the pre- and post-merger comparison for each of the four companies, shows that PowerStream, had no MergeCo-driven advantage for 2016, 2017, 2018, 2019, 2020, because it remained on custom IR for those years. PowerStream did show reduced costs under MergeCo relative to the status quo, of $9 million in 2021, $12 million in 2022, $14 million in 2023, $13 million in 2024, and $11 million in 2025, respectively, for a total amount of $59 million over the ten year period.

However, what is not shown in the tabular evidence is that when PowerStream becomes part of MergeCo, PowerStream's dividend payout rate will increase from fifty percent to sixty percent of earnings.

The impact of that increased payout on PowerStream ratepayers, set out at JTC1.15 (pp1-2), Table 1, shows the incremental dividend and interest payments made by PowerStream to its shareholders over the ten year deferred rebasing period. The number on line 9 is the incremental payout PowerStream must make to its shareholders, which is the increase in dividends less the decrease in interest paid (on existing shareholders notes) in each year. The incremental payout amount over the ten year period is $129.9 million, more than twice the size of the "savings" discussed above. The higher dividend continues for the long term. Given the prominence accorded the increase in dividends paid to shareholders as a result of the merger in the business plan, a decrease in the PowerStream dividend payout ratio is not likely anytime soon.

PowerStream shareholders will, therefore, see less retained earnings, and rates will have to rise. In fact, looking back at Table 1 of Attachment to BOMA.12(a), the increase in PowerStream dividends will more than offset the "savings" to all four companies for the first seven years post-merger. In any event, it is clear that PowerStream ratepayers will, on balance, be harmed.

Moreover, HOBNI's dividend over the last five years has averaged 58.5%. It will be increased to the MergeCo level of sixty percent. While the incremental amount that will be paid out is modest relative to PowerStream, it still represents a loss for ratepayers.

V. The Merger's Impact on Utility Cost Structures

The Board has made it clear in its 2015 Report that its focus in determining whether the no-harm test has been met, will focus on the longer term impact of the acquisition or merger on the cost structure of the acquired utility. This has been clear, for example, in the Board's recent analyses in the Woodstock, Norfolk, Haldimand, and Cambridge North Dumfries cases. And, reflecting its RRFE policy, the Board wishes to see plans for, and evidence of, continuous productivity improvement efforts as a follow-on to the merger, equal to or greater than such efforts that would have been made by the merging parties on their own. Otherwise, there would be harm done to those customers (Norfolk, p12). In this case, where the three large urban/suburban utilities that are merging, the test will be the impact of the merger on the cost structures of the three merging utilities and Brampton in which the three utilities have come together to acquire. The cost structures of Horizon, Enersource and PowerStream are broadly similar, although Hamilton has depreciated a larger part of its asset base, including much of its heavy industrial asset basis.

Brampton is different. As a newer medium to large, more homogenous and geographically contiguous utility, it has a lower cost structure than the other, older, larger utilities. For example, HOBNI, with 149,600 customers, had an OM&A/customer in 2014 of $178.92, about twenty-three percent lower than the lowest of the three merging utilities, PowerStream, at $242.92. Horizon and Enersource has OM&A per customer of $251.24 and $260.39, respectively (Exhibit B, Tab 5, Schedule 3, Page 1). The need to insulate HOBNI ratepayers from spillover effects from the higher cost utilities is obvious, but the applicants have not filed evidence on how they will do this.

Most analysts divide the savings achievable from utility mergers into three categories, contiguity savings, savings due to economies of scale, or savings arising from the elimination of duplicate facilities.

Contiguity savings are those that arise from a utility expanding its existing geographic boundaries to cover a larger contiguous area, and is what happens when a utility's footprint expands to match an expansion of its host municipality. Since Horizon is not contiguous with any of the other three companies, while Enersource and PowerStream are not for the most part contiguous to one another, the possible contiguity gains are between Enersource and Brampton, and PowerStream and Brampton, respectively. The applicants included no contiguity savings in their proposal. The discussion of contiguity benefits in the evidence is very brief, other than the statement in the Business Plan that the current six service centres would be reduced to five by closure of the Brampton service centre. However, in cross examination, the applicants repudiated that statement. The parties had agreed only to review the necessity for the six service centres in a few years' time. Whatever their real intent is, the point illustrates a potential trade-off between contiguity savings and customer service.

The applicant resided from the Business Plan evidence in more than one instance, which raises the question of to what extent the Business Plan, which appears to drive much of the evidence, can be relied on by the Board.

The second category is the avoidance of duplication, for example, the reduction of the number of call centres or control rooms or the replacement of four CEOs with three CEOs. The third category is "economies of scale" which broadly means a growing company can reduce the unit cost or cost per customer by spreading the cost of a function over a larger number of customers. The applicants seemed to confuse economies of scale with duplication and did not make the case for economies of scale. Some third party comments suggest that economies of scale in utility mergers are modest[1]. The evidence did not make clear what the ongoing cost of the IT would be relative to the ongoing costs of the progress of the companies' individual IT OM&A functions.

BOMA would made three general points about the applicants' presentation of their proposed savings. First, the forecast savings are subject to wide level of uncertainty. First, because, as noted above, the company confirmed that these estimates were preliminary. Second, the company did not present any detailed written evidence to justify many of the claimed savings. Third, with the best of intentions, projections of costs, savings, ongoing costs, and avoided costs beyond a few years, is extremely difficult. The Board recognizes this fact in setting the term of the distribution plan at five years, and in several decisions, notably the recent PowerStream decision has been skeptical of projections even within the later years of a five year custom IR plan. In part because of this reality, the applicants have refused to guarantee that these savings

[1] See, for example, Dr. Frank Cronin and Stephen Motluk, How Effective Are M&As in Distribution? Evaluating the Government's Policy of Using Mergers and Amalgamations to Drive Efficiencies into Ontario's LDCs; The Electricity Journal, Vol. 20, Issue 3, pp62-63.

will survive rebasing. Ratepayers, therefore, after having ceded one hundred percent of the savings to the shareholders for ten years, have no assurance that following the proposed deferred rebasing period of ten years, they will receive on an ongoing basis, all, some, or none of the savings outlined in this Submission. This is unacceptable. In addition, the idea of a rebasing only after ten years have elapsed raises practical questions. Personnel changes, records lost or destroyed, and the passage of time will diminish the "institutional memory" of the applicants, the Board, and the intervenors, and as a result, accuracy and accountability and fairness will be compromised. Based on BOMA's experience, it is hard enough to pursue an effective rebasing proceeding after only three years of IRM. It would be extremely difficult, if not impossible, to do it after ten years. The likely losers will be the ratepayers.

The business case dashboard, the proposed synergy savings, both OM&A and capital, avoided cost functions, one-time capital cost categories from Board Staff 31, shown in K3.4, pp21-25, is attached to this Argument for convenience. The tables show, along with the forecast OM&A and capital cost savings, the transition costs, the avoided costs, the ongoing OM&A cost increases due to the merger, and in respect of foregone capital costs in the IT function segment, a category called "one-time capital savings". This last category represents the applicants' estimate of the IT-related capital costs that each of the four utilities were estimated to have incurred over a five year period, had the merger not occurred. How the estimates were developed is not disclosed.

Generally speaking, the OM&A savings appear to be overestimated relative to findings of third party experts in other jurisdictions. For example, Mr. Hannity's analysis for Public Utilities Fortnightly, cited at p31 below, states that OM&A savings from mergers and acquisitions across US utilities, on which he has personally advised, have averaged eight percent, about half of the fifteen percent claimed by the applicants.

The savings are shown for a five year period for each function, but the company claimed that the savings shown in year five would carry on for the next five years.

Some of the savings appear to be overestimated. For example, payroll reduction savings accounts for approximately ninety percent of the proposed OM&A savings over the ten year proposed deferred rebasing period (Tr. Vol. 3, p143). The 272 number should be reduced by the fifty odd redundant persons who will be retrained to fill vacant positions (Tr. Vol. 4, p146), as well as by the FTE equivalent of the $11 million of IT personnel costs capitalized to the three year IT consolidation project (Tr. Vol. 3, pp148-149). The company's personnel would in the normal course return to the OM&A budget once the project was completed, so they should be reduced by that further amount.

In the asset planning and engineering design function, four additional positions will be added, which were forecast to add $1.1 million per year over ten years. No explanation for the per capital amount of $250,000.00, which seems high.

Importantly, the applicants did not provide sufficiently detailed information on the savings. For example, the applicants were unable to provide information on how the payroll dollar savings in the Tables were built up, starting from the number of FTEs in each functional division of the company and building up to the dollar amounts, using data on average salary plus benefits reductions, to the dollar amounts used in the Tables, for example, the $20.6 million savings, Finance and Regulatory.

There was no explanation other than the words "banking fees" for the approximate $11.6 million in Synergy Savings – Other, under Finance/Regulatory (Tr. Vol. 4, p154). The calculation behind the annual amount(s) should have been provided for this and each of the other savings lines in the Tables to enable the Board to judge whether each amount claimed was reasonable.

See, for example, the skeletal description offered (Tr. Vol. 4, p155) for about $25 million (over ten years) of savings attributed "to things like harmonizing our benefit plan, technology platform, consulting services, that sort of thing". Again, no detailed buildup. Intervenors are asked to take these numbers in faith. Each of the categories should have been detailed with a buildup from units, functions, and services to total costs.

In the HR/US/OE function table (K3.4, p22), the item entitled Ongoing Cost Increase, of $1.4 million per year for ten years ($11 million) reflects, we are told by Ms. Schact, "harmonization" of wage costs across the four utilities (V4, p158). The company did not make clear how the harmonization would not harm ratepayers in the lower cost utilities, eg. Brampton.

In the supply chain segment, there was no explanation for $26 million forecast in capital savings, and very little justification for where the FTE reductions would come from (functional areas), nor the choice of two percent and five percent for inventory reduction and bulk contracting for like contracts, and the build up to the dollar amount. These numbers were not supported in evidence by any internal or third party analysis.

Under Billing/Call Centre (K3.4, p23), the applicants claim a labour savings of approximately $60 million over ten years for consolidating four call centres into two. The explanation provided by Mr. Pastoric was "By centralizing to two locations, we do have a reduction in management staff" (V4, p160). But they didn't save $60 million in management staff. There is no explanation of how the $60 million was built up, starting from the budgets and FTE of call centres of the four companies, the number of FTEs at different levels which are made redundant, offsetting costs to include in closing the call centres, and the like. They did not present the basis for the amounts claimed.

With respect to IT, there is very little information provided to explain any of the very large savings claimed in this category, approximately $33 million over ten years in labour, $46 million in non-labour synergy, and $89.3 million (over five years) in the one-time capital savings. The very large number for one time capital savings was not supported by evidence, other than to state that these would be avoided upgrade costs for the system of the four merging companies. There is no buildup of what these upgrades would have been, over what periods of time, for each major system of each of the four companies. We are asked to take these numbers in faith, and they are very large numbers. The one-time capital savings constitutes the largest part of the claimed capital savings from the project, and we have no third party confirmation or audit of these numbers. In addition, the explanation for the $46 million (over ten years; $25.6 over five years) was "reduced maintenance and licence fees for software system". Again, no detail on existing amounts paid for licences and maintenance for each of the four companies, for what systems over what periods of time, any applicable cancellation charges in the contracts, and the like. If any detailed analysis was done, it was not presented.

Under the heading "Operations" (K3.4, p24), the company claims $42.6 million (approximately $93 million over ten years), of savings from the consolidation of four control rooms to two. We were not given the exact number, nor what the payroll savings other than those due to the call centre consolidation are included in the $10 million per year (Total Synergy Savings). If it is meant to be all control room reduction related, it seems extraordinarily inflated.

They claimed approximately $12.3 million in labour savings in 2016 and 2017, notwithstanding its evidence that the consolidation would not take place until 2018 (Tr. V4, p164). The applicant offered no coherent explanation for this discrepancy. If the whole $12.3 million in claimed savings in those two years came from the consolidation of the control room only, these numbers seem improbable, as they precede consolidation. There needs to be a detailed explanation of the buildup for these numbers, starting from the physical facts and ending with the numbers presented in the Table. That has not been done, or if it has been done, it has not been presented in the applicants' evidence in a clear, understandable manner.

VI. Reliability and Quality of Electricity Service and Efficiency and Cost Effectiveness of Electricity Distribution

In addition to price effects on consumers, the no-harm test addresses the impacts of the merger on the adequacy, reliability, and quality of electricity service and the promotion of economic efficiency and cost effectiveness in the distribution of electricity, and on the maintenance of a financially viable electricity industry, among other factors.

The applicants have steadfastly refused to set a target to increase SAIDI and SAIFI following the merger, or to guarantee a particular SAIDI and SAIFI level, either inclusive of, or exclusive of, major event days.

They have stated that the weighted average measure of the SAIDI and SAIFI of the four companies is lower than the provincial average, but they appear not to have promised to maintain the SAIDI and SAIFI performance at each of the four companies ("divisions", "rate zones"). If that is the case, some ratepayers will suffer harm.

The MergeCo must not be allowed to average the SAIDI and SAIFI for reporting, scorecard formulation or any other purpose, because that would ultimately lead to a degradation of Brampton's SAIDI results, which are much better (lower) than the three larger utilities. The Board, the intervenors, and the public need to see the results on a division by division basis.

Refusing to target higher SAIDI and SAIFI is a lost opportunity.

Quality of Electricity Services

BOMA interprets "quality" to mean power quality. Power quality has been a significant issue for many midsized to larger users. The summaries and workshop reports from the evidence in the recent PowerStream rate case is a good example of customer concerns, yet power quality is not reported in the RRR regime. The applicants have not filed evidence on this aspect of the no-harm test. However, they had indicated that because, in their view, increased power quality correlate with increased costs, they do not want to promise improvements (Tr. Vol 3, p110). This approach may harm ratepayers, relative to what the individual utilities may well have provided over the same period. Power quality needs to be improved in many cases. If the merger is approved, the applicants should report on a rate zone basis the results of their efforts to arrest the decline in power quality and the cost of the effort.

Economic Efficiency

The reconfiguration of the utility staff into three head offices will necessarily mean some loss of productive efficiency for the distributor relative to the status quo when most employees live in proximity to the place of work. The applicants did not provide evidence on the number of employees who would be moved from their existing place of employment or the average new commute time relative to the status quo, or the likely impact on staff retention, although they admitted some attrition of staff was possible due to longer commutes. In the aggregate, given the large scale shifts in employer location contemplated (see K3.4, p3 for the proposed location of utility functions), the lost efficiency could be substantial. At this point, the applicants simply do not know. Large scale commuting will inevitably eat into working hours and make for a less productive workforce, which will be a loss to ratepayers.

Cost Effectiveness

The data on OM&A per customer (Exhibit B, Tab 5, Schedule 3, Page 1) shows that Brampton operates on a much more cost-effective basis, twenty-three percent to twenty-five percent more, than the three merging utilities. Brampton is not protected by the Unanimous Shareholders' Agreement in terms of service level or presence of local personnel, or its call centre, some of which it will lose. For example, the service centre may be closed and Brampton would receive service from the Enersource service centre. If that happens, service levels in Brampton may well decline. Moreover, the alleged savings from the merger may result in an increase in Brampton's cost structure. The applicants have not said on what basis actual savings will be allocated to the four rate zones, other than that they will be done in an "equitable fashion".

Financial Viability

Finally, unlike some of the small utilities that have been the subject of most previous acquisitions, each of the four companies that are parties to this transaction are financially viable utilities, with high credit ratings and good prospects. The merger does not add any material benefits to their ability to finance organic growth. And, given the size of the merged entity, further acquisitions would appear to be counterproductive for ratepayers. The 2012 Report of the Ontario Distribution Sector Review Panel, Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First, recommended:

> "the consolidation of Ontario LDCs into 8 to 12 regional distributors that are large enough to deliver improved efficiency and enhanced customer focus, while at the same time maintaining connections with local communities" (Report, p29).

Each utility should have a minimum of about 400,000 customers. The Report envisaged shoulder-to-shoulder utilities across the province.

BOMA notes that PowerStream is already at that size. Horizon and Enersource could easily attain that size after consolidating smaller utilities in their respective regions.

However, the three utilities have chosen another path, very different from that outlined by the Advisory Committee, but one which assists the provincial government to monetize its energy assets.

VII. CDM Issue

The Board has noted in several recent cases that it is required by law to have regard to all five of its statutory objectives in determining whether the merger passes the no-harm test. The third objective is:

> "to promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances".

The merged company's CDM budget for the six year Conservation Plan is $414.8 million, which represents twenty-three percent of the provincial target, a contribution larger than that of Toronto

Hydro's (Business Plan, p78). MergeCo is a critically important player in the effort to achieve the Ontario Government's energy conservation goals.

The applicants themselves raised an issue in their evidence with respect to the impact on the merger on the implementation of the four companies' CDM plans, in the following terms (Business Plan, p78):

> "There is a potential timing issue related to transition and consolidation of CDM activities across the four LDCs. Specifically, if the transition is too slow, MergeCo may be prevented from reaping the synergistic benefits of the merger to help achieve the mid-term (2017) CDM target and performance incentive".

This company's evidence is that the four existing companies will continue with their own CDM program for the time being. However, the company is required by the IESO to submit a MergeCo combined CDM plan within 120 days of the merger. The company has not prepared the plan, nor applied for a waiver from the requirement. In order to avoid any disruptions to the company's CDM efforts, which are a key part of the province-wide effort, it should negotiate a reasonable timetable for providing a single plan, and in the meantime, retain the ability to file four separate plans, one for each predecessor company. Finally, to alleviate the risk highlighted by the company of losing CDM personnel, the contract positions should be converted into full time positions as soon as practical.

VIII. Deferred Rebasing Period

When applying the merger policy as set out in the 2015 and 2007 Reports and the Handbook to the proposed merger and acquisition, the Board needs to take a holistic, principled, yet flexible, approach to deal with the rather unique characteristics of the transaction. To paraphrase Mr. Quesnelle's comment during the hearing, the Handbook was not drafted with the four party merger in mind. The Board's most recent consideration of its policy was in the Woodstock case (EB-2014-0213), in which the Board denied Hydro One's application for a ten year deferred rebasing period. In that case, the Board made a number of key findings and observations with respect to the 2015 Report and its merger policy in general.

First, in discussing the 2015 Report, the Board stated that:

> "However, the 2015 Report indicated that the OEB would be open to extending the rate rebasing deferral for up to ten years, after the closing of the transaction. This potential extension is intended to encourage consolidation by providing additional time for distributors to recover transition costs, if appropriate, given the circumstances of their individual transitions" (p15) (our emphasis),

and that:

> "The purpose of the 2015 Report in allowing for a potential ten year rebasing period is to incent parties to enter into consolidation transactions in situations where a five year deferred rebasing period would be unlikely to provide time to recover transition costs through productivity gains" (Ibid).

It went on to state that:

> "The expectation is that the applicants will provide the OEB with specific evidence as to why the deferral is necessary in the specific transaction" (p15)

and concluded that:

> "The OEB finds that while the relief outlined in the 2015 Report is available, applicants must justify a ten year deferral period".

They also noted that they were unable to find any such evidence in the case before them.

A close reading of the 2015 Report supports this interpretation. The Report states that an applicant may apply for a ten year rebasing period. It does not say that it must be given one.

The applicants' evidence filed in this case makes it abundantly clear that the applicants do not require ten years to recover their transition and implementation costs.

Board Staff.31, Business Plan p77 shows total savings over the ten year proposed rebasing period of $436 million, versus $97 million in transition costs.

The table demonstrates that by sometime in 2019, assuming a 2017 start, that is within three years, the forecast savings generated would have been sufficient to repay the shareholders' transition costs. This fact was confirmed by the applicants at TC, p7, lines 14-17. In addition, the applicants agreed that the most it would be out of pocket on a cash-in – cash-out basis over the ten year period would be in year three and for an amount of about $30 million (Ibid, lines 24-26).

Later in the proceeding, the applicants claimed that the investment of the parent companies of PowerStream and Enersource of approximately $182 million, in the merged company in order to allow it to purchase HOBNI without unacceptable use of debt should be "repaid" through the savings. The claim was not made in the prefiled evidence nor in the technical conference, but was dropped into the hearing in an effort to buttress the applicants' claim for ten years of savings.

BOMA believes the $185 million injection of equity into the company is not a transition cost or implementation cost. It is an investment on which Horizon, PowerStream, and Enersource will earn a return, in the form of a long term earnings stream. The internal rate of return on that investment was stated to be about nine percent, and was characterized as "pretty good" by the applicants. So it was an investment which need not be repaid twice, once by PowerStream, and once out of savings.

Moreover, the acquisition of HOBNI is part two of a two part transaction, which will not close until a month after the merger among PowerStream, Horizon, and Enersource. While completion of the HOBNI acquisition is a condition precedent or subsequent to completing the merger and vice versa, such conditions can be waived by mutual consent.

The company has not filed evidence in the form of a comprehensive written or verbal explanation, to justify treating the $185 million investment as a transition cost, or to demonstrate why the applicants could appropriately claim the savings from the merger to justify all or part of that investment. When questioned about this matter, the company stated that the model demonstrated that the $185 million was a cost of implementing the merger. To BOMA, it appears to be, in economic terms, a separate standalone transaction.

However, even if the Board were to accept the claim that all or part of the $185 million investment should be set against, and justify the allocation of more of the forecast savings to the applicants' shareholders, the payout would still be complete sometime during the fifth or sixth year, depending on whether all or part of the investment were refunded. So, there remains no justification for any more than five to six years of savings.

As stated elsewhere in this submission, BOMA urges the Board not to rely on the model in making its findings and decisions in this hearing.

The model is opaque, overly complicated, incomplete insofar as it dealt at all with cost allocation and rate matters. Most important, the company did not file written evidence which fully explained the purpose of the model, the inputs to the model, and how they were derived, the outputs from the model and how they were used in its submissions.

Moreover, PowerStream, born of a merger with Markham Hydro and Vaughan Hydro and their joint of Richmond Hill in 2004(5), has been a serial acquirer, having purchased Aurora, Alliston, Barrie, Colby partnership, and Horizon is the product of a merger between Hamilton Utilities and St. Catharines. These transactions were all accomplished without the benefit of a ten year deferred rebasing period.

The companies filed no evidence on the savings that they achieved through these previous mergers.

The evidence is that the company's proposal to share fifty percent of the savings over a three hundred basis point deadband.

The ESM proposal filed by the applicants that the ratepayers share fifty percent of the savings over a three hundred basis point (three percent or approximately thirty-three percent above the allowed rate of return) deadband in years five to ten, is of no assistance to ratepayers since it is highly unlikely, given the past experience of these utilities, that they will earn in excess of three hundred basis points over the allowed rate. The utilities' own evidence did not show them doing that.

BOMA also notes that the Board stated in the Woodstock case (p17) that:

> "An ESM that has virtually no chance of being actualized does not in the OEB's view, constitute a satisfactory ESM. There must be a workable ESM in place that will achieve the purpose of protecting ratepayer interests".

BOMA wishes to propose an alternative to the deferred rebasing period and ESM proposal.

The 2015 Report (p16) notes:

> "There are numerous types and structures of consolidation transactions, and there can be significant differences between the utilities involved in a transaction. The ESM as set out in the 2015 Report may not achieve the intended objective of consumer protection for all types of consolidation proposals".

BOMA proposes that whatever savings, both OM&A and capital, that are achieved, be shared on a fifty-fifty basis between the ratepayers and the shareholders, over the ten year rebasing period. Since the forecast annual savings are smaller in the very early years, perhaps even negative for some of the parties, and increase somewhat in the latter years of the deferred rebasing period, an equal sharing throughout the proposed ten year period would seem fair. The savings would include OM&A savings, and the capital savings, "one-time" and "ongoing", and avoided costs, all categories as shown on the "dashboard" tables at K3.4, pp21-25. That sharing would, based on the applicants' forecast, allow the applicants to receive an amount far above its transition costs, and would ensure that ratepayers receive a reasonable share of whatever savings occur.

It is BOMA's view, developed more fully elsewhere in this Argument, the savings to be derived from the proposed transaction are very uncertain. In such circumstances, an even sharing of whatever savings occur is the fairest way to proceed. This approach is also consistent with the approach in other jurisdictions, where a fifty-fifty sharing of synergy savings is most common.[2]

Mr. Cass, in his argument-in-chief, quoted a section from the Guidelines that stated that the applicants did not need to file evidence to support the request for the ten year deferred rebasing period. However, the company has, in fact, filed evidence in this case which demonstrates that it does not require anything close to a ten year deferred rebasing period to recover its transition costs.

Second, the Handbook should be read as a procedural manual, rather than requiring a substantive change to Board policy. The Handbook states at p10:

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[2] See, for example, Lessons for Tomorrow's Deals, Tom Flaherty, in Public Utilities Fortnightly, September 2016, Volume 154, No. 9, at p12.

"The OEB's policies on rate-making matters associated with consolidation in the electricity distribution sector are set out in two reports of the OEB. The first report titled "Rate-making Associated with Distributor Consolidation" issued on July 23, 2007 (2007 Report) was supplemented by the 2015 Report, issued under the same name, as previously indicated.

This section of the Handbook consolidates information that is provided in these two reports and identifies the key rate-making considerations expected to arise in consolidation transactions. Applicants are, however, encouraged to review both reports in preparing their applications for both the consolidation transaction and subsequent rate application."

All of which is respectfully submitted, this 4th day of October, 2016.

Thomas Brett

Tom Brett,
Counsel for BOMA

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ATTACHMENT

Asset Planning/Eng. Design Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 2,117,325	$ 2,944,655	$ 3,095,908	$ 3,315,141	$ 3,315,141	$ 14,788,169
Total Synergy Savings - Other	$ 200,000	$ 426,649	$ 430,049	$ 433,500	$ 437,002	$ 1,927,201
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	**$ 2,317,325**	**$ 3,371,305**	**$ 3,525,957**	**$ 3,748,640**	**$ 3,752,143**	**$ 16,715,370**
Total Avoided Costs - Labour	$ -	$ 300,000	$ -	$ -	$ -	$ 300,000
Total Avoided Costs - Other	$ -	$ -	$ -	$ -	$ -	$ -
One-Time Avoided Costs	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL AVOIDED COSTS	**$ -**	**$ 300,000**	**$ -**	**$ -**	**$ -**	**$ 300,000**
Total Operating Savings (Synergy/Avoided)	$ 2,317,325	$ 3,671,305	$ 3,525,957	$ 3,748,640	$ 3,752,143	$ 17,015,370
LESS: Total On-Going Cost Increases	$ 1,064,627	$ 1,064,627	$ 1,064,627	$ 1,064,627	$ 1,064,627	$ 5,323,133
TOTAL NET OPERATING SAVINGS	**$ 1,252,699**	**$ 2,606,678**	**$ 2,461,330**	**$ 2,684,014**	**$ 2,687,516**	**$ 11,692,237**
Total Transition Costs - (OM&A)	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 1,000,000
Total Transition Costs - (Capital)	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL TRANSITION COSTS	**$ 200,000**	**$ 200,000**	**$ 200,000**	**$ 200,000**	**$ 200,000**	**$ 1,000,000**
Total Annual Capital Savings	$ 375,000	$ 200,000	$ 250,000	$ 200,000	$ -	$ 1,025,001
Total One-Time Capital Savings	$ 1,000,000	$ 1,000,000	$ -	$ -	$ -	$ 2,000,000
TOTAL CAPITAL SAVINGS	**$ 1,375,000**	**$ 1,200,000**	**$ 250,000**	**$ 200,000**	**$ -**	**$ 3,025,001**

Finance/Regulatory Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 1,445,720	$ 2,358,629	$ 4,779,043	$ 5,336,254	$ 6,655,320	$ 20,574,965
Total Synergy Savings - Other	$ 931,000	$ 1,176,000	$ 1,176,000	$ 1,176,000	$ 1,176,000	$ 5,635,000
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	**$ 2,376,720**	**$ 3,534,629**	**$ 5,955,043**	**$ 6,512,254**	**$ 7,831,320**	**$ 26,209,965**
Total Avoided Costs - Labour	$ -	$ -	$ -	$ -	$ -	$ -
Total Avoided Costs - Other	$ -	$ -	$ -	$ -	$ -	$ -
One-Time Avoided Costs	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL AVOIDED COSTS	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Operating Savings (Synergy/Avoided)	$ 2,376,720	$ 3,534,629	$ 5,955,043	$ 6,512,254	$ 7,831,320	$ 26,209,965
LESS: Total On-Going Cost Increases	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL NET OPERATING SAVINGS	**$ 2,376,720**	**$ 3,534,629**	**$ 5,955,043**	**$ 6,512,254**	**$ 7,831,320**	**$ 26,209,965**
Total Transition Costs - (OM&A)	$ -	$ -	$ -	$ -	$ -	$ -
Total Transition Costs - (Capital)	$ 400,000	$ 400,000	$ -	$ -	$ -	$ 800,000
TOTAL TRANSITION COSTS	**$ 400,000**	**$ 400,000**	**$ -**	**$ -**	**$ -**	**$ 800,000**
Total Annual Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
Total One-Time Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL CAPITAL SAVINGS	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

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HR/HSE/OE Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 124,334	$ 1,112,566	$ 1,333,136	$ 1,333,136	$ 1,333,136	$ 5,236,308
Total Synergy Savings - Other	$ 2,509,893	$ 2,777,893	$ 2,692,893	$ 2,777,893	$ 2,692,893	$ 13,451,465
One-Time Synergy Savings	$ 100,000	$ 100,000	$ -	$ -	$ -	$ 200,000
TOTAL SYNERGY SAVINGS	**$ 2,734,227**	**$ 3,990,459**	**$ 4,026,029**	**$ 4,111,029**	**$ 4,026,029**	**$ 18,887,773**
Total Avoided Costs - Labour	$ 1,144,801	$ 2,000,548	$ 2,380,918	$ 2,850,433	$ 2,871,348	$ 11,248,048
Total Avoided Costs - Other	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 150,000
One-Time Avoided Costs	$ 180,000	$ 48,000	$ 36,000	$ 36,000	$ 12,000	$ 312,000
TOTAL AVOIDED COSTS	**$ 1,354,801**	**$ 2,078,548**	**$ 2,446,918**	**$ 2,916,433**	**$ 2,913,348**	**$ 11,710,048**
Total Operating Savings (Synergy/Avoided)	$ 4,089,028	$ 6,069,007	$ 6,472,947	$ 7,027,462	$ 6,939,377	$ 30,597,821
LESS: Total On-Going Cost Increases	$ 2,400,000	$ 2,400,000	$ 2,400,000	$ 2,400,000	$ 2,400,000	$ 12,000,000
TOTAL NET OPERATING SAVINGS	**$ 1,689,028**	**$ 3,669,007**	**$ 4,072,947**	**$ 4,627,462**	**$ 4,539,377**	**$ 18,597,821**
Total Transition Costs - (OM&A)	$ 15,822,957	$ 9,103,240	$ 7,600,241	$ 2,097,385	$ 316,740	$ 34,940,563
Total Transition Costs - (Capital)	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL TRANSITION COSTS	**$ 15,822,957**	**$ 9,103,240**	**$ 7,600,241**	**$ 2,097,385**	**$ 316,740**	**$ 34,940,563**
Total Annual Capital Savings	$ 941,248	$ 1,763,421	$ 2,026,111	$ 2,237,846	$ 2,305,504	$ 9,274,130
Total One-Time Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL CAPITAL SAVINGS	**$ 941,248**	**$ 1,763,421**	**$ 2,026,111**	**$ 2,237,846**	**$ 2,305,504**	**$ 9,274,130**

Supply Chain Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 1,167,500	$ 2,557,105	$ 3,045,649	$ 3,045,649	$ 3,045,649	$ 12,861,552
Total Synergy Savings - Other	$ 690,000	$ 2,392,000	$ 2,392,000	$ 2,392,000	$ 2,392,000	$ 10,258,000
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	**$ 1,857,500**	**$ 4,949,105**	**$ 5,437,649**	**$ 5,437,649**	**$ 5,437,649**	**$ 23,119,552**
Total Avoided Costs - Labour	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 80,000	$ 400,000
Total Avoided Costs - Other	$ 176,000	$ 176,000	$ 176,000	$ 176,000	$ 176,000	$ 880,000
One-Time Avoided Costs	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL AVOIDED COSTS	**$ 256,000**	**$ 256,000**	**$ 256,000**	**$ 256,000**	**$ 256,000**	**$ 1,280,000**
Total Operating Savings (Synergy/Avoided)	$ 2,113,500	$ 5,205,105	$ 5,693,649	$ 5,693,649	$ 5,693,649	$ 24,399,552
LESS: Total On-Going Cost Increases	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL NET OPERATING SAVINGS	**$ 2,113,500**	**$ 5,205,105**	**$ 5,693,649**	**$ 5,693,649**	**$ 5,693,649**	**$ 24,399,552**
Total Transition Costs - (OM&A)	$ 200,000	$ 200,000	$ -	$ -	$ -	$ 400,000
Total Transition Costs - (Capital)	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL TRANSITION COSTS	**$ 200,000**	**$ 200,000**	**$ -**	**$ -**	**$ -**	**$ 400,000**
Total Annual Capital Savings	$ 500,000	$ 3,220,000	$ 3,220,000	$ 3,220,000	$ 3,220,000	$ 13,380,000
Total One-Time Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL CAPITAL SAVINGS	**$ 500,000**	**$ 3,220,000**	**$ 3,220,000**	**$ 3,220,000**	**$ 3,220,000**	**$ 13,380,000**

Billing/Call Centre Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 300,000	$ 1,200,000	$ 2,500,000	$ 7,800,000	$ 7,800,000	$ 19,600,000
Total Synergy Savings - Other	$ 550,000	$ 500,000	$ 550,000	$ 550,000	$ 550,000	$ 2,700,000
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	$ 850,000	$ 1,700,000	$ 3,050,000	$ 8,350,000	$ 8,350,000	$ 22,300,000
Total Avoided Costs - Labour	$ -	$ -	$ -	$ -	$ -	$ -
Total Avoided Costs - Other	$ -	$ -	$ -	$ -	$ -	$ -
One-Time Avoided Costs	$ 350,000	$ 400,000	$ -	$ 150,000	$ -	$ 900,000
TOTAL AVOIDED COSTS	$ 350,000	$ 400,000	$ -	$ 150,000	$ -	$ 900,000
Total Operating Savings (Synergy/Avoided)	$ 1,200,000	$ 2,100,000	$ 3,050,000	$ 8,500,000	$ 8,350,000	$ 23,200,000
LESS: Total On-Going Cost Increases	$ 230,000	$ 430,000	$ 430,000	$ 430,000	$ 430,000	$ 1,950,000
TOTAL NET OPERATING SAVINGS	$ 970,000	$ 1,670,000	$ 2,620,000	$ 8,070,000	$ 7,920,000	$ 21,250,000
Total Transition Costs - (OM&A)	$ -	$ -	$ -	$ -	$ -	$ -
Total Transition Costs - (Capital)	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL TRANSITION COSTS	$ -	$ -	$ -	$ -	$ -	$ -
Total Annual Capital Savings	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 1,500,000
Total One-Time Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL CAPITAL SAVINGS	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 300,000	$ 1,500,000

IT Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 490,536	$ 929,197	$ 3,685,103	$ 3,740,380	$ 4,198,315	$ 13,043,531
Total Synergy Savings - Other	$ 613,056	$ 936,987	$ 3,308,371	$ 5,302,702	$ 5,382,487	$ 15,543,602
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	$ 1,103,592	$ 1,866,184	$ 6,993,474	$ 9,043,082	$ 9,580,802	$ 28,587,133
Total Avoided Costs - Labour	$ -	$ -	$ -	$ -	$ -	$ -
Total Avoided Costs - Other	$ -	$ -	$ -	$ -	$ -	$ -
One-Time Avoided Costs	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL AVOIDED COSTS	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Savings (Synergy/Avoided)	$ 1,103,592	$ 1,866,184	$ 6,993,474	$ 9,043,082	$ 9,580,802	$ 28,587,133
LESS: Total On-Going Cost Increases	$ 1,522,207	$ 1,951,207	$ 1,981,207	$ 2,042,507	$ 2,042,507	$ 9,539,633
TOTAL NET OPERATING SAVINGS	$ (418,615)	$ (85,023)	$ 5,012,267	$ 7,000,575	$ 7,538,295	$ 19,047,500
Total Transition Costs - (OM&A)	$ 2,368,251	$ 1,163,016	$ 286,966	$ -	$ -	$ 3,818,233
Total Transition Costs - (Capital)	$ 31,970,653	$ 14,748,292	$ 4,425,246	$ -	$ -	$ 51,144,191
TOTAL TRANSITION COSTS	$ 34,338,904	$ 15,911,308	$ 4,712,212	$ -	$ -	$ 54,962,424
Total Annual Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
Total One-Time Capital Savings	$ 17,764,557	$ 13,787,651	$ 20,807,509	$ 15,052,611	$ 21,963,633	$ 89,375,961
TOTAL CAPITAL SAVINGS	$ 17,764,557	$ 13,787,651	$ 20,807,509	$ 15,052,611	$ 21,963,633	$ 89,375,961

Operations Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 4,603,222	$ 7,766,891	$ 10,029,251	$ 10,029,791	$ 10,213,821	$ 42,642,976
Total Synergy Savings - Other	$ 300,000	$ 300,000	$ (615,000)	$ (615,000)	$ (615,000)	$ (1,245,000)
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	**$ 4,903,222**	**$ 8,066,891**	**$ 9,414,251**	**$ 9,414,791**	**$ 9,598,821**	**$ 41,397,976**
Total Avoided Costs - Labour	$ -	$ -	$ -	$ -	$ -	$ -
Total Avoided Costs - Other	$ -	$ -	$ -	$ -	$ -	$ -
One-Time Avoided Costs	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL AVOIDED COSTS	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Operating Savings (Synergy/Avoided)	$ 4,903,222	$ 8,066,891	$ 9,414,251	$ 9,414,791	$ 9,598,821	$ 41,397,976
LESS: Total On-Going Cost Increases	$ 916,630	$ 916,630	$ 916,630	$ 916,630	$ 916,630	$ 4,583,150
TOTAL NET OPERATING SAVINGS	**$ 3,986,592**	**$ 7,150,261**	**$ 8,497,621**	**$ 8,498,161**	**$ 8,682,191**	**$ 36,814,826**
Total Transition Costs - (OM&A)	$ -	$ -	$ -	$ -	$ -	$ -
Total Transition Costs - (Capital)	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL TRANSITION COSTS	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total Annual Capital Savings	$ 2,092,015	$ 2,092,015	$ 2,092,015	$ 2,092,015	$ 2,092,015	$ 10,460,075
Total One-Time Capital Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL CAPITAL SAVINGS	**$ 2,092,015**	**$ 2,092,015**	**$ 2,092,015**	**$ 2,092,015**	**$ 2,092,015**	**$ 10,460,075**

Metering Savings and Costs Summary	BUSINESS CASE 2016	2017	2018	2019	2020	TOTAL
Total Synergy Savings - Labour	$ 324,812	$ 879,312	$ 1,056,212	$ 1,157,620	$ 1,259,036	$ 4,676,992
Total Synergy Savings - Other	$ 96,000	$ 419,750	$ 531,562	$ 534,562	$ 538,012	$ 2,119,886
One-Time Synergy Savings	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL SYNERGY SAVINGS	**$ 420,812**	**$ 1,299,062**	**$ 1,587,774**	**$ 1,692,182**	**$ 1,797,048**	**$ 6,796,878**
Total Avoided Costs - Labour	$ -	$ -	$ -	$ -	$ -	$ -
Total Avoided Costs - Other	$ -	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 400,000
One-Time Avoided Costs	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL AVOIDED COSTS	$ -	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 400,000
Total Operating Savings (Synergy/Avoided)	$ 420,812	$ 1,399,062	$ 1,687,774	$ 1,792,182	$ 1,897,048	$ 7,196,878
LESS: Total On-Going Cost Increases	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 50,000
TOTAL NET OPERATING SAVINGS	**$ 410,812**	**$ 1,389,062**	**$ 1,677,774**	**$ 1,782,182**	**$ 1,887,048**	**$ 7,146,878**
Total Transition Costs - (OM&A)	$ 200,000	$ 250,000	$ 100,000	$ -	$ -	$ 550,000
Total Transition Costs - (Capital)	$ -	$ 45,000	$ -	$ -	$ -	$ 45,000
TOTAL TRANSITION COSTS	**$ 200,000**	**$ 295,000**	**$ 100,000**	**$ -**	**$ -**	**$ 595,000**
Total Annual Capital Savings	$ -	$ 101,500	$ 101,500	$ 101,500	$ 101,500	$ 406,000
Total One-Time Capital Savings	$ -	$ 100,000	$ -	$ -	$ -	$ 100,000
TOTAL CAPITAL SAVINGS	**$ -**	**$ 201,500**	**$ 101,500**	**$ 101,500**	**$ 101,500**	**$ 506,000**