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March 7, 2018

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Suite 2700
Toronto, ON M4P 1E4

**Attention: Ms Kirsten Walli
Board Secretary**

Dear Ms. Walli:

Re: EB-2017-0269 – Newmarket-Tay Power Distribution Ltd. and Midland Power Utility Corporation application under section 86 of the *Ontario Energy Board Act, 1998* and application for other related relief

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Further to the Ontario Energy Board's Procedural Order No. 2 in this proceeding, please find enclosed Newmarket-Tay Power Distribution Ltd.'s argument-in-chief.

Sincerely,

Signed in the original

George Vegh

cc. J. Mark Rodger, counsel to Midland Power Utility Corporation

EB-2017-0269

ONTARIO ENERGY BOARD

IN THE MATTER OF an application by Newmarket-Tay Power Distribution Ltd. for leave to purchase all of the issued and outstanding shares of Midland Power Utility Corporation under section 86(2)(b) of the *Ontario Energy Board Act*, *1998* S.O. 1998, c. 15, (Schedule B) (the "**OEB Act**");

AND IN THE MATTER OF an application by Newmarket-Tay Power Distribution Ltd. for leave to amalgamate with Midland Power Utility Corporation under section 86(1)(c) of the OEB Act;

AND IN THE MATTER OF an application by Midland Power Utility Corporation for leave to transfer its distribution system to Newmarket-Tay Power Distribution Ltd. under section 86(1)(a) of the OEB Act;

AND IN THE MATTER OF an application by Midland Power Utility Corporation for approval to transfer its rate order to Newmarket-Tay Power Distribution Ltd. under section 18(1) of the OEB Act;

AND IN THE MATTER OF an application by Midland Power Utility Corporation to cancel its distribution licence pursuant to section 77(5) of the OEB Act; and

AND IN THE MATTER OF an application by Newmarket-Tay Power Distribution Ltd. for an order to amend Newmarket-Tay Power Distribution Ltd.'s licence pursuant to section 74 of the OEB Act.

NEWMARKET-TAY POWER DISTRIBUTION LTD. ARGUMENT-IN-CHIEF

INTRODUCTION

1. Newmarket-Tay Power Distribution Ltd. and Midland Power Utility Corporation ("**NT Power**" and "**MPUC**" respectively, and together the "**Applicants**") filed an application (the "**Application**") on July 14, 2017 for Ontario Energy Board (the "**OEB**" or the "**Board**") approval of NT Power's purchase of MPUC's distribution system. Following the purchase by NT Power of the shares of MPUC, the two corporations will amalgamate promptly (the share purchase and the amalgamation together, the "**Proposed Transaction**") to form the consolidated utility (the "**Combined Utility**").

2. If approved, the Proposed Transaction is expected to generate significant efficiencies which will result in an overall positive effect with regards to customers of the Applicants in respect of prices and adequacy, reliability and quality of electricity service. MPUC customers are expected to benefit from NT Power's lower cost structures, and all customers will benefit from greater efficiencies and economies of scale. SAIDI and SAIFI and quality of electricity service is expected to remain strong.

3. The Proposed Transaction is also expected to have an overall positive effect with regards to economic efficiency, cost effectiveness and the maintenance of a financially viable electricity industry. The harmonization of NT Power and MPUC operational and administrative functions is expected to result in significant efficiencies and natural synergies. Moreover, NT Power has ensured the financial viability of the Combined Utility by performing a sensitivity analysis and modelling the financial outlook for several years following the Proposed Transaction.

4. Based on the foregoing, the Applicant submits that approval of the Proposed Transaction meets the no-harm test and is in the public interest.

5. In order to achieve these benefits, the Applicants request the following approvals from the Board:

   i. leave for NT Power to purchase all of the issued and outstanding shares of MPUC, as required by section 86(2)(b) of the OEB Act;

   ii. leave for NT Power to amalgamate with MPUC, as required by section 86(1)(c) of the OEB Act;

   iii. leave for MPUC to transfer its distribution system to NT Power, as required by section 86(1)(a) of the OEB Act;

iv. approval for MPUC to transfer its rate order to NT Power, as required by section 18(1) of the OEB Act;

v. cancellation of MPUC's electricity distribution licence pursuant to section 77(5) of the OEB Act; and

vi. amendment of NT Power's electricity distribution licence pursuant to section 74 of the OEB Act, in order to add the current service area of MPUC to NT Power's electricity distribution licence.

6. The Application also requests the following relief:

- Approval of a ten-year deferral period for the rebasing of MPUC rates and the rates of the Combined Utility.
- Approval of an earnings-sharing plan which would be implemented in the case of earnings above 300 basis points in years six to ten of the deferral period;
- Approval of a deferral and variance account to track excess earnings in years six to ten of the deferral period;
- Approval to continue with current rate riders approved by the OEB for NT Power and MPUC; and
- Approval to continue with the current deferral and variance accounts approved by the Board for all Ontario local distribution companies and for NT Power and MPUC specifically.

7. The Application has been made in order to obtain OEB approval for NT Power's purchase of all of the issued and outstanding shares of MPUC pursuant to a Share Purchase Agreement entered into between NT Power and the Town of Midland on June 1, 2017.

8. The Board's Procedural Order No. 1 in this proceeding dated October 30, 2017 approved the School Energy Coalition ("**SEC**") as an intervenor and provided for written interrogatories and responses to interrogatories. The Applicants filed responses to interrogatories on December 6, 2017.

9. Procedural Order No. 2 in this proceeding dated February 2, 2018 ("**Procedural Order 2**"), provided for further interrogatories to be filed by OEB Staff, which interrogatories were answered by the Applicants on February 23, 2018. Procedural Order 2 also provided for argument-in-chief from the applicants, as well as for submissions from SEC and OEB Staff and reply submissions from the Applicants.

10. This argument-in-chief is made pursuant to Procedural Order 2, and is organized as follows: first, the background to Ontario local distribution company ("**LDC**")

consolidations is described. Following this, the Board's test for determining whether a consolidation transaction is in the public interest is set out, and this test is then applied to the evidence before the Board in this proceeding. Finally, rate considerations are discussed.

Context – Distribution Sector Consolidation in Ontario

11. The Board's March 26, 2015 Report of the Board on Rate-Making Associated with Distributor Consolidation (the "**Consolidation Report**") summarizes recent Ontario government-commissioned reports as well as Ontario government statements regarding Ontario LDC consolidation as follows:

> The report of the Ontario Distribution Sector Review Panel, issued in December 2012, set out a vision for consolidation resulting in the less costly and more efficient delivery of electricity, with a predicted cost savings of $1.2 billion over the next ten years. When the Minister of Energy responded to the Panel's report, he indicated that he expected that the sector would find ways to achieve those savings through more efficient service delivery, including negotiated consolidations. This view was carried forward in the government's December 2013 Long Term Energy Plan ("**LTEP**"), where it is stated that the government expects electricity distributors to pursue innovative partnerships and transformative initiatives that will result in savings for electricity ratepayers. […]
>
> On November 13, 2014, the Advisory Council on Government Assets issued its findings which included the view that consolidation was needed to encourage modernization of the electricity distribution system.[1]

12. As a result of the above-described government policy expectations as well as OEB consultations and expectations "that the distribution sector should continue to seek out efficiencies especially through consolidation", the OEB issued the *Handbook to Electricity Distributor and Transmitter Consolidations* (the "**Handbook**").

13. The Handbook further describes the conclusions of the various reports on Ontario LDC consolidation as follows:

> The Commission on the Reform of Ontario's Public Services, the Distribution Sector Review Panel and the Premiers Advisory Council on Government Assets have all recommended a reduction in the number of local distribution companies in Ontario and have endorsed consolidation. According to these reports,

[1] Consolidation Report, page 3.

consolidation can increase efficiency in the electricity distribution sector through the creation of economies of scale and/or contiguity. Consolidation permits a larger scale of operation with the result that customers can be served at a lower per customer cost. Consolidations that eliminate geographical boundaries between distribution areas result in a more efficient distribution system.[2]

14. In addition to the increased efficiencies through creation of economies of scale and a more efficient distribution system as a result of elimination of geographical boundaries noted above, the Handbook also notes the following benefits of consolidation:

i. Consolidation will enable distributors to address challenges in an evolving electricity sector such as new technology requirements to meet customer expectations, changing dynamics in the electricity sector, and the need for asset renewal.[3]

ii. Delivery of public policy goals relating to electricity conservation and demand management, implementation of a smart grid and the promotion of the use and generation of electricity from renewable energy sources are public policy goals that require innovation and internal capacity that can be more cost effective for larger distributors to develop.

15. The above-described background is the context in which this application is made to the Board. As demonstrated by the evidence in this proceeding and this argument-in-chief, the Proposed Transaction is expected to generate the benefits expected by the Ontario government and the OEB as a result of consolidation.

THE BOARD'S TEST IN A SECTION 86 APPLICATION

16. The scope of issues that the Board considers in determining whether to grant leave in a Mergers, Acquisitions, Amalgamations and Divestitures application under section 86 of the OEB Act was established in RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257 (the "**Combined Decision**"). In the Combined Decision, the Board determined that the "no harm" test is the appropriate test to be applied to a section 86 application. More specifically, the Board explained that its mandate in these matters is to consider:

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[2] Handbook, page 1.

[3] Handbook, page 1.

> Whether the transaction that has been placed before it will have an adverse effect relative to the status quo in terms of the Board's statutory objectives. It is not to determine whether another transaction, whether real or potential, can have a more positive effect than the one which has been negotiated to completion by the parties. In that sense, in section 86 proceedings of this nature the Board equates "protecting the interests of consumers" with ensuring there is "no harm to consumers."[4]

17. The Handbook as well as the recent Board decision in EB-2016-0025 approving the formation of the newly-formed Alectra Utilities[5] (the "**Alectra Decision and Order**") explains why it is the Board's first two statutory objectives that are key in a s. 86 application (emphasis added):

> While the OEB has broad statutory objectives, <u>in applying the no harm test, the OEB's review primarily focuses on the impacts of the proposed transaction on price and quality of service to customers, and the cost effectiveness, economic efficiency and financial viability of the consolidating utilities.</u> The OEB considers this an appropriate approach, given the performance-based regulatory framework under which regulated entities are required to operate and the OEB's existing performance monitoring framework.
>
> The OEB has implemented a number of instruments, such as codes and licences that ensure regulated utilities continue to meet their obligations with respect to the OEB's statutory objectives relating to conservation and demand management, implementation of smart grid, and the use and generation of electricity from renewable resources. With these tools and the existing performance monitoring framework, the OEB is satisfied that the attainment of these objectives will not be adversely affected by a consolidation and the no harm test will be met following a consolidation.[6]

18. Following the Combined Decision, the Board's practice is to apply the "no harm" test when it considers whether to grant leave in section 86 applications. Thus, the test in an application under section 86 of the OEB Act is whether harm may occur i) to ratepayers of the applicants, in consideration of prices and the adequacy, reliability and quality of electricity service; and ii) in relation to the economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity

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[4] Page 6, Combined Decision.

[5] EB-2016-0025, Decision and Order dated December 8, 2016.

[6] See Handbook page 6 and Alectra Decision and Order at pages 5-6.

and on the maintenance of a financially viable electricity industry. If the proposed transaction would have a positive or neutral effect on the attainment of the Board's statutory objects, the application should be granted.

19. The evidence in this proceeding demonstrates that the Proposed Transaction is expected to have a positive effect on the attainment of the Board's statutory objectives and therefore passes the "no-harm" test. NT Power's evidence in this proceeding is grouped into three categories relevant to the no-harm test. These are the following:

i. Price, Cost Effectiveness and Economic Efficiency

ii. Reliability and Quality of Electricity Service

iii. Purchase Price and Financial Viability

20. Thesecategories are the same as those used by the Board in the Alectra Decision and Order.

21. Following the consideration of how the evidence in this proceeding demonstrates that the no-harm test is met, rate considerations and the Applicant's proposed earnings sharing mechanism are discussed.

Price, Cost Effectiveness and Economic Efficiency

22. During the deferred rate rebasing period, customers in the MPUC service area will have their rates set pursuant to the price cap adjustment as calculated using MPUC's current cohort (cohort 4).[7] NT Power customers will have rates set pursuant to the annual IR index rate setting mechanism, until a different option is selected, if any, by way of application to the OEB.[8]

23. At the time of rebasing of the Combined Utility, customers will benefit from the following significant efficiencies and natural synergies, which are expected to result in a downward pressure on rates:

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[7] Staff IRR 17. As indicated in Staff IRR 17, should the Board find this approach unacceptable, NT Power would be amenable to the Board requiring that MPUC's rates be adjusted during the deferral period by the Annual IR Index adjustment, instead of the price cap mechanism adjustment.

[8] For more detail see "Rate Considerations" below.

i. **Lower cost structures** as the MPUC service area, over time, moves to be more in line with current NT Power cost structures. MPUC is currently operating in the OEB's cohort 4 efficiency cohort and NT Power is operating in the OEB's efficiency cohort 2.[9] Efficiencies resulting from lower cost structures over time are expected to result in annual OM&A reductions of $248 thousand to $1,424 thousand.[10] NT Power also has a significantly lower OM&A per customer than MPUC.[11]

ii. **Efficiencies created as a result of contiguous service territories and intertwined communities:** NT Power's service territory in the Township of Tay ("**Tay**") is contiguous to MPUC's service territory. NT Power currently has existing assets serving many customers abutting the current MPUC service territory.[12] The consolidation will allow for harmonization of operational and administrative facilities in the current MPUC and Tay service areas, resulting in economies of scale at the field and operational levels.[13] Specifically, the following efficiencies are expected to result in a downward pressure on rates:[14]

a. rationalization of space requirements as a result of the elimination or repurposing of duplicate facilities such as service and operating centres;

b. more efficient scheduling of operating and maintenance work and dispatch crews over a larger service area. NT Power and MPUC currently share a pool of staff to support after hours service. Post transaction, a further efficiency will be realized as the need for a sub foreman position in NT Power's Tay service area will be redeployed as a lead hand or line person position[15];

c. more efficient utilization of work equipment (e.g., trucks and other tools), leading to lower capital replacement needs over time; and

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[9] Application page 19.

[10] Board Staff IRR 6 and Board Staff IRR 7.

[11] Application page 23-24.

[12] Application page 24.

[13] Application page 25.

[14] Application page 25; SEC IRR 4.

[15] See SEC IRR 6.

d. elimination of the service area boundary between MPUC and the Tay service areas, which will allow for more rational and efficient planning and development of the distribution system.

iii. **Other efficiencies created by consolidation not specifically linked to contiguous service territories** are also expected to result in significant cost savings. Specifically, the following efficiencies are expected:[16]

a. safety – the safety of employees and the public is the highest priority within any LDC. Existing employee and public programs would be combined to maintain the highest standards while gaining cost efficiencies in delivery of the combined programs;

b. one integrated management team;

c. one LDC board of directors;

d. efficiencies gained in relation to after-hours service staff;

e. integration of the MPUC and NT Power smart meter systems;

f. reduction in fleet and associated maintenance costs;

g. software licensing and maintenance costs particularly for the GIS and accounting systems;

h. professional fees – cost savings from having to prepare only one set of financial statements and requiring only one audit. In addition, the Combined Utility would benefit from having to pay fewer general legal expenses;

i. regulatory – the Combined Utility would have only one set of regulatory filings;

j. consolidation of the Tay and Midland operations and administrative facilities (currently located 6 km apart) resulting in premises cost savings; and

[16] Application page 26, see also efficiencies by business operations unit: Staff IRR 7 and comparative cost analysis breakdown: SEC IRR 4.

k. capacity – NT Power can leverage its current distribution capacity and proximity to MPUC distribution systems to provide immediate enhancements in distribution flexibility.

24. Moreover, as a result of the Midland service territory being contiguous with Tay, there is the potential for the Combined Utility to connect the Tay and MPUC service territories directly to the IESO controlled-grid at Waubashene transformer station. As soon as practicable following the closing of the Proposed Transaction, the Combined Utility will begin operational discussions with Hydro One Networks Inc. ("**HONI**") and prepare a working plan to connect the Tay and MPUC service territory directly to the IESO controlled-grid. If successfully implemented, the plan would result in significant benefit to MPUC customers, as well as NT Power customers by the elimination of costs attributable to embedded distribution. In particular, NT Power estimates that the elimination of losses related to embedded distribution could result in a three percent average savings on MPUC customers' overall electricity bills.[17]

Reliability and Quality of Electricity Service

25. NT Power expects to be in a position to maintain strong reliability measures in both System Average Interruption Duration Index ("**SAIDI**") and System Average Interruption Frequency Index ("**SAIFI**") metrics in both NT Power and Midland's current service territories following the Proposed Transaction.[18] SAIFI and SAIDI results for the year ending 2015 indicate that NT Power customers benefit from superior reliability characterized by fewer outages and shorter durations when compared to many other Ontario utilities.[19] Moreover, NT Power's SAIDI and SAIFI statistics in recent years were stronger than MPUC's except for 2014 and 2015 where MPUC had exceptionally good reliability.[20]

26. Like all Ontario utilities, NT Power measures service quality indicators as prescribed by the OEB. For the 2015 reporting year, in all categories related to quality of service, NT Power's performance is at or above the OEB's standard.[21]

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[17] See Application page 20 and Staff IRR 9.

[18] Application page 20-21.

[19] Application page 20.

[20] Staff IRR 10.

[21] Application page 21, Staff IRR 11.

27. Moreover, NT Power has a strong culture of customer service. NT Power engages an independent survey firm to give it greater insight into how its customers view the service they receive from NT Power. In NT Power's latest survey for 2017, customers of NT Power reported an overall customer satisfaction of 91 percent, a score that is higher than Ontario and national benchmarks for electric utilities. Customer interactions were also measured by a "customer experience performance rating" that evaluated their experiences with the utility. In this measure, NT Power again recorded scores higher than Ontario and national benchmarks.[22]

28. The above-described excellence in customer service is expected to continue following the Proposed Transaction.[23]

29. Finally, NT Power will retain the local knowledge of existing MPUC staff. This local knowledge, in combination with NT Power's Tay service area operations and staff, will allow NT Power to operate the distribution system in a manner which is expected to maintain or improve reliability.[24]

30. Moreover, if successfully implemented, NT Power's plan to connect the Tay and MPUC service territories directly to the IESO controlled-grid could also improve reliability. Given that all of the feeders supplying the MPUC and Tay service areas are shared with and owned by HONI, repair of any failure on the shared portions must be attended to by HONI and subject to the availability of HONI resources. Should the feeders supplying Midland and Tay be dedicated and owned by the Combined Utility, then the Combined Utility's local resources could attend to any failures. This is expected to reduce outage times for these types of failures and result in improved reliability.[25]

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[22] Application page 21-22.

[23] Application page 21-22.

[24] Application page 21 and 24, Staff IRR 8.

[25] Staff IRR 9.

<u>Purchase Price and Financial Viability</u>

Purchase Price Premium and Transaction Costs

31. The purchase price premium, including the additional $200,000 to be paid to the Town of Midland to cover the Town of Midland's transaction costs, will not be recovered through rates.[26]

32. NT Power is financing the acquisition cost consisting of MPUC's book value, premium and transaction costs and expenses through cash and new term debt. The debt will be amortized over twenty-five years. The cash portion of the acquisition cost will be used to partially fund the premium and transaction costs and expenses.[27]

33. The Combined Utility will account for the debt in two components: a premium and transaction costs and expenses component and a book value component. During the deferred rebasing period, efficiencies will increase ROE and this increase will be used to fund the amortization of the premium and transaction costs and expenses component. The residual amortization of the premium and transaction costs and expenses component from year eleven onwards will continue to be funded from ROE. This accounting treatment will ensure that ratepayers will pay no portion of the premium and the transaction cost and expenses.[28]

Financial Viability

34. NT Power has ensured the financial viability for the Combined Utility by modelling the financial outlook for several years post-amalgamation[29] as well as performing a sensitivity analysis for the Combined Utility.[30] The financial projections and ratios include the new term debt which will be obtained to finance the Proposed Transaction.[31] The financing for the proposed transaction is available as shareholder debt is being subordinated and postponed, which results in NT Power having a 2016 third party debt to capital ratio of 6.7%.[32] NT Power has up to $50M of financing capacity available.[33]

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[26] Staff IRR 2; Staff supplementary IRR 5.

[27] Staff supplementary IRR 5.

[28] Staff supplementary IRR 5.

[29] Staff IRR 12.

[30] Staff supplementary IRR 6.

[31] Staff supplementary IRR 6.

[32] Staff supplementary IRR 7.

[33] Staff supplementary IRR 7.

<u>Other considerations – support of economic development in Midland</u>

35. NT Power supports economic development in the communities in which it operates.[34] NT Power is committed to shopping locally when it is economic to do so using transparent and fair charge out rates.[35]

36. Other initiatives are achieved in two ways: participation in utility coordination and planning to ensure electric distribution construction projects are well coordinated with municipal, gas, and telecom infrastructure such that new development is serviced in a timely and efficient manner. This coordination and planning provides an efficient process for new business developers, is in keeping with good utility practice, and is included within rates.[36]

37. As part of NT Power's Conservation Demand Management ("**CDM**") activities, NT Power works with local Chambers of Commerce and municipal governments to showcase the communities it serves as efficient and economic places to do business through offering an easily accessed and complete suite of energy conservation programs.[37]

<u>Rate considerations and earnings sharing mechanism</u>

38. During the deferred rate rebasing period, customers in the MPUC service area will have their rates set pursuant to the price cap adjustment as calculated using MPUC's current cohort (cohort 4).[38] NT Power customers will have rates set pursuant to the annual IR index rate setting mechanism, until a different option is selected, if any, by way of application to the OEB.[39]

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[34] See Schedule 6.3 of Share Purchase Agreement (included at Schedule E of the Application).

[35] Staff IRR 3.

[36] Staff IRR 3.

[37] This is allowable outreach under the current CDM Framework and is funded through NT Power's CDM budget. See Staff IRR 3.

[38] Staff IRR 17. As indicated in Staff IR 17, should the Board find this approach unacceptable, NT Power would be amenable to the Board requiring that MPUC's rates be adjusted during the deferral period by the Annual IR Index adjustment, instead of the price cap mechanism adjustment.

[39] As set out in Staff IRR 16 b), NT Power is currently setting its rates pursuant to the Annual IR Index rate setting mechanism. Pursuant to the Consolidation Report and the Handbook, a distributor who is a party to a consolidation transaction and who is on the Annual IR Index will continue to have rates based on the Annual IR Index during the deferral period, until it selects a different rate-setting option (see Handbook page 14 and Consolidation Report page 11). Therefore, NT Power may select to migrate from its existing plan to a different option, but a final decision on this has not been made at this time.

39. As required by Board policy as set out in the Handbook and the Consolidation Report, the Combined Utility proposes to implement an earnings sharing mechanism if earnings in years 6 to 10 of the deferred rate rebasing period are more than 300 basis points above the Combined Utility's annual ROE.[40]

40. NT Power proposes to record any excess earnings in a deferral and variance account (the "**ESM Account**") in years six through ten of the deferred rebasing period. NT Power requests that the Board approve a deferral and variance account for this purpose, or; if the Board prefers, NT Power can request that the Board approve the ESM Account at a later date (i.e., in approximately 5 years when the account is needed).

41. Subsequently, when rebasing occurs, NT Power proposes to use the amounts in the ESM Account towards any rate mitigation measures required as determined by the Board at the time of rebasing and in accordance with rate-making principles.[41]

42. In other words, NT Power proposes that the amounts in the ESM Account be first used towards any customers for whom it is found that rate mitigation is needed at the time of rebasing of the Combined Utility. Should it be found by the Board at the time of rebasing that rate mitigation is not needed in relation to any customers, NT Power would propose to distribute the amounts in the ESM Account to all customers, in a manner acceptable to the Board at the time of rebasing. Should amounts in the ESM Account be greater than the amount required to cover any rate mitigation measures directed by the Board, the excess amount is proposed to be distributed to all customers, in a manner acceptable to the Board.[42]

43. The Applicants submit that the proposed ESM is preferable to the ESM set out in the Handbook for two reasons:

   i. Under the Applicants' proposal, the rate impact of any mitigation measures required at the time of rebasing would be lessened by amounts, if any, in the ESM account. In other words, if there are amount in the ESM account, instead of refunding these amounts to customers in each of years 6-10 and then potentially requiring all customers to fund mitigation measures through their rates in year 11 at the time of rebasing, customers' rates in years 6-10 would remain stable and in year eleven, if mitigation is required, rate adjustments required for mitigation

[40] See Application page 30.

[41] See Staff IRR 18.

[42] See Staff IRR 18.

can be lessened by any amounts in the ESM account. This arrangement promotes rate stability.

ii. The customers that NT Power believes may potentially require mitigation at the time of rebasing are MPUC's General Service classes.[43] The ESM plan proposed considers those customers that may potentially require mitigation as a result of the transaction and accrues the benefit to these customers (who are expected to be customers of the acquired distributor).

44. As set out in the Applicants' replies to Board Staff supplementary IRs, the Applicants are of the view that the benefit of greater rate stability achieved under the Applicants' ESM proposal outweighs the inter-generational inequity which results from the proposal to dispose of any ESM account balance at the time of rebasing.

CONCLUSION

45. The Proposed Transaction is expected to generate significant efficiencies which will result in an overall positive effect with regards to customers of the Applicants in respect of prices and adequacy, reliability and quality of electricity service. MPUC customers are expected to benefit from NT Power's lower cost structures, and all customers will benefit from greater efficiencies and economies of scale. SAIDI, SAIFI and quality of electricity service is expected to remain strong.

46. The Proposed Transaction is also expected to have an overall positive effect with regards to economic efficiency, cost effectiveness and the maintenance of a financially viable electricity industry. The harmonization of NT Power and MPUC operational and administrative functions is expected to result in significant efficiencies and natural synergies. Moreover, NT Power has ensured the financial viability of the Combined Utility by performing a sensitivity analysis and modelling the financial outlook for several years following the Proposed Transaction.

47. Based on the foregoing, the Applicant submits that approval of the Proposed Transaction meets the no-harm test and is in the public interest.

48. The Applicants therefore request that the Board approve this application as proposed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[43] See Staff IRR 5.