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March 21, 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 reply argument.

Sincerely,

Signed in the original

George Vegh

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

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. REPLY ARGUMENT

INTRODUCTION

1. On July 14, 2017, Newmarket-Tay Power Distribution Ltd. and Midland Power Utility Corporation ("**NT Power**" and "**MPUC**" respectively, and together the "**Applicants**") filed an application (the "**Application**") with the Ontario Energy Board (the "**OEB**" or the "**Board**") for approval of NT Power's purchase of MPUC's distribution system.

2. 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**").

3. Pursuant to Procedural Order number 2 dated February 2, 2018 in this proceeding, the Applicants filed their arguments-in-chief on March 7, 2018.

4. School Energy Coalition ("**SEC**") reply submission was filed on March 8, 2018 (the "**SEC Submissions**") and OEB staff's submission was filed on March 14, 2018 (the "**Staff Submissions**").

5. These reply submissions are in response to the SEC Submissions and the Staff Submissions, and are organized according to the subcategories in the Staff Submissions, after which the conditions proposed by SEC are considered.

6. By way of overview, these reply submissions consider each of the points raised in the Staff Submissions and show how the "no-harm" test is met.

7. As set out in detail in the Applicants' arguments-in-chief, 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 is the "no-harm" test.[1] The Board is to consider 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. The Board determined this test in RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257 (the "**Combined Decision**").

8. In the Combined Decision, the Board clarified that the appropriate test 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.[2] This is important, because the Staff Submissions are marked throughout by vague propositions which do not appear to be based on a consideration of the "no-harm" test. Rather, they appear to be based on hypothetical statements in regards to what is ideal/not ideal.[3] The Applicants

[1] RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257 (the "Combined Decision").

[2] Combined Decision.

[3] Staff Submission, page 15.

submit that this is not the appropriate context in which to assess the Proposed Transaction. The appropriate lens is for applicants to show that there is a reasonable expectation based on underlying cost structures that the costs to serve acquired customers following a consolidation will be no higher than they otherwise would have been.[4] In this case, the Applicants have clearly demonstrated that "no-harm" will result from the Proposed Transaction. Accordingly, the Proposed Transaction should be approved.

9. As will be demonstrated below, 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, economic efficiency and cost effectiveness. Moreover, the Proposed Transaction is based on a sound business case and responsible financial modelling. It is expected to contribute to the maintenance of a financially viable electricity industry. Finally, the Proposed Transaction is expected to maintain or improve the adequacy, reliability and quality of electricity service, a point which neither the Staff Submissions nor the SEC Submissions contest.

10. These submissions also consider the SEC Submissions which support the approval of the Application arising from SEC's conclusion that the Proposed Transaction discharges the "no-harm" test .

11. In regards to SEC's conditions of approval, the Applicants accept SEC's proposals relating to the earnings sharing mechanism and the filing of a consolidated Distribution System Plan by 2020. In relation to SEC's fifth condition, the Applicants submit that this condition has in fact been fulfilled in NT Power's IRM filings. In regards to SEC's condition that "the 10 year rebasing deferral period should be fixed", the Applicants submit that it is indeed their proposal to fix the rebasing period at 10 years for the Combined Utility. Finally, in regards to SEC's proposed condition regarding cost allocation, it is submitted that this matter does not fall within the scope of the Board's "no-harm" test in a s. 86 proceeding and should be rejected.

Significant Misunderstanding in Staff Submissions

12. The Staff Submissions state at page 6 that the Applicants "have estimated that cumulative efficiencies arising from the proposed consolidation transaction result in cost savings of $1.3 million by year 10."[5] This is not correct.

13. As stated in the Application at page 22 line 24, "[t]he efficiencies over time are estimates that result in <u>annual</u> reductions of OM&A ranging from $248 to $1,424k" (emphasis added),[6]

[4] Handbook to Electricity Distributor and Transmitter Consolidation, January 19, 2016, page 7.

[5] Staff Submission, page 6.

[6] Application, page 22 line 24.

which totals to $10.524 million by year 10, not $1.3 million as stated throughout the Staff Submission.[7] These annual reductions can be clearly seen in the Table provided in response to Board Staff interrogatory 1-6(a).

14. Board Staff interrogatory 1-6 ("**Staff IR 1-6**"), states as follows (emphasis added):

> The proposed transaction is expected to result in cost reductions. Table 3 sets out annual OM&A and capital costs for NT Power and Midland Power and the synergies anticipated from the transaction on a yearly basis for ten years post-transaction. […][8]

15. Therefore, while Staff IR 1-6 correctly refers to annual cost reductions, and it is clear from the Applicant's response that the numbers listed in Table 3 of the Application and page 22 line 24 of the Application are annual reductions, this evidence has been misunderstood in the Staff Submissions.

16. As explained in answer to Staff IR 1-6, Table 3 of the Application shows annual reductions taking into account the annual rent of the 16984 Highway 12 property. The expanded Table 3 provided in answer to Staff IR 1-6 shows annual reductions excluding the annual rent of the 16984 Highway 12 property.[9] Full calculations supporting Table 3 were filed by the Applicant in response to SEC interrogatory 4. Finally, in the 2nd set of interrogatory responses NT Power submitted Table 3 synergy efficiencies by main business operations identifier.[10] The total synergies for the forecasted 10-year period (years 1 to 10) is $10.524m.

17. As a result, the total estimated OM&A efficiencies arising from the proposed consolidation by year 10 when including the annual rent cost for the 16984 Highway 12 property are $9.463 million.[11] The total estimated OM&A efficiencies arising from the proposed consolidation by year 10 when excluding the annual rent of the 16984 Highway 12 property are $10.524 million.[12] In addition to this, there is a capital efficiency estimated in year 5 of $0.773 million.[13] For clarity, the Applicants note that the estimated savings resulting from

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[7] Staff Submission, page 6 paragraph 1; Staff Submission, page 6 paragraph 2; Staff Submission, page 8 paragraph 2; Staff Submission page 8 paragraph 4; Staff Submission, page 13-14 paragraph 5; Staff Submission, page 18 paragraph 3; Staff Submission page 20 paragraph 3, 5.

[8] Staff interrogatory 1-6.

[9] Response to Staff interrogatory 1-6(b).

[10] Response to Staff interrogatory 2-4 (a).

[11] See Application Table 3.

[12] Response to Board Staff interrogatory 1-6(a).

[13] See Application Table 3, page 23 line 2, as further explained in response to Staff interrogatory 1-6(c).

the Proposed Transaction as a percentage of OM&A are 10.5%[14], not 1.3% as stated on page 14 of the Staff Submissions.

18. As a result, NT Power submits that the Staff Submissions, which reference the Proposed Transaction's "meagre economic efficiencies"[15] are based on a significant misunderstanding of the evidence. Once this misunderstanding is corrected, many of the submissions made in the Staff Submissions are not relevant given the unchallenged evidence presented in this case.

19. The balance of these submissions are organized to reflect the Staff Submissions and will demonstrate how the "no-harm" test is met under each subheading below. Specific points raised in the SEC Submissions are also considered following the points made in the Staff Submissions.

"NO-HARM" TEST - THE BOARD'S TEST IN A SECTION 86 APPLICATION

Price, Cost Effectiveness and Economic Efficiency

20. As explained above, the efficiencies over the ten-year deferred rate rebasing period are estimated to amount to $9.463 million or $10.524 million in OM&A efficiencies[16] and $0.773 million in capital efficiencies[17] (collectively, the "**Estimated Efficiencies**"). The misunderstanding made in the Board Staff submissions in this regard is referred to below as the "**Estimated Efficiencies Misunderstanding**".

21. The Staff Submissions state that the Applicants indicated that:

> "[E]fficiencies will be used to address future rate mitigation that NT Power expects will be required for Midland's GS customers and will also be used to finance the purchase price premium of $11.9 million."[18]

22. The second part of the above statement is correct. The Applicant does propose that the Estimated Efficiencies be used to fund the purchase price premium of $11.9 million. However, the first part of the above statement relating to future rate mitigation is incorrect. NT Power had in fact suggested that over earnings in years 6-10, if any, be tracked in a

[14] See responses to SEC interrogatory 1-4.

[15] Staff Submission, page 9 paragraph 2; Staff Submission, page 20 paragraph 4.

[16] Depending on whether the annual rent of the 16984 Highway 12 property is included, see response to Staff interrogatory 1-6(b).

[17] See Application Table 3, page 23 line 2, as further explained in response to Staff interrogatory 1-6(c).

[18] Staff Submission page 8. No references to the evidence are provided in support of this statement.

variance account and used towards any Board-ordered mitigation measures in year 11.[19] As stated in paragraph 11, the Applicants accept the SEC proposal relating to the ESM which is exactly what is set out in the *Handbook to Electricity Distributor and Transmitter Consolidations* (the "**Handbook**").

23. The Staff Submissions further state:

> "In OEB staff's view, the efficiencies generated will be insufficient to mitigate rates as proposed by NT Power, particularly considering that NT Power anticipates using these efficiencies to also finance the recovery of the purchase price premium."

24. Regarding the use of efficiencies to finance the recovery of the purchase price, the Applicant submits that the Estimated Efficiencies will go far towards the recovery of the purchase price premium of $11.9 million and that the Staff Submissions in this regard are invalid as they are based on the Estimated Efficiencies Misunderstanding.

25. Moreover, the Applicant submits that upon rebasing, customers will receive the benefit of the Estimated Efficiencies as the cost to serve them will be lower, thereby producing a lowering effect on rates.

26. The Staff Submissions make a claim at page 9, paragraphs two to four that is primarily based on the Estimated Efficiencies Misunderstanding. The Staff Submissions claim that the "applicants may see their overall proposal as risk-free, as any under-earnings in a given year could trigger an off-ramp for them to rebase".[20] This claim may be primarily based on the Estimated Efficiencies Misunderstanding. In any event NT Power submits that there is no evidence in this proceeding which demonstrates that the Proposed Transaction is not financially viable. The Proposed Transaction has been tested by robust financial analysis and ROE is expected to be as shown below at paragraph 54. Please see "Financial Viability", below.

27. In summary, NT Power submits that the amount of economic efficiencies expected is reasonable and demonstrates that the "no-harm" test will be met.

Staff Submissions proposal regarding ROE reporting

28. In regards to the proposal in the Staff Submissions regarding ROE reporting[21], NT Power submits the premium portion of the transaction ($11.9m) will be funded by the cash payment of the purchase and the $10.524m of synergies from year 1 to year 10. If there is

[19] See response to Staff interrogatory 2-10.

[20] Staff Submission, page 9.

[21] Staff Submission, page. 9, paragraph 6.

any premium remaining post year 10, this will be funded by the Combined Utility's ROE. NT Power would report the financial impact of the premium remaining by the annual ROE reconciliation schedule with the RRR filings. This would provide a before and after perspective of the ROE as it relates to the impact of the premium interest and associated taxes.

Staff Submissions in relation to the establishment of sub-accounts

29. Moreover, in regards to Staff Submissions in relation to the establishment of sub-accounts to record transactions for the long-term debt associated with the purchase premium[22], NT Power submits it would utilize sub accounts associated with the OEB Accounting Procedures Handbook to track the portion of the purchase premium associated within short term debt, long term debt, interest expense and tax expense. This will facilitate reporting of return on equity (ROE) and provide assurance funding of the premium is a shareholder responsibility.

Staff Submissions regarding rate mitigation plan order

30. In regards to Staff Submissions at page 10 regarding ordering NT Power to submit a rate mitigation plan upon rebasing "which would involve mitigating any cost increases to NT Power's GS customers by having NT Power's shareholders absorb more of the cost increase", NT Power submits that such an order is inappropriate at this time as rate mitigation is a matter that would, if applicable, be addressed at the time of rebasing.

31. The Applicants also note another misunderstanding in regards to GS customer rate estimates: At page 5, the Staff Submissions have misunderstood the rate impact provided by NT Power in OEB Staff IRR #5. The rate impact provided was not a monthly rate impact but an <u>annual</u> rate impact. In other words, the estimated annual delivery rate impact amounts provided within the IR response from NT Power were annualized monthly rate impacts, not monthly rate changes.

<u>Future Grid Connection</u>

32. The SEC Submissions are supportive of the Applicant's proposal regarding the potential un-embedding of the MPUC and Tay service territories and connection to the IESO-controlled grid (the "**Future Grid Connection Proposal**"), characterizing this proposal as "clearly promising."[23]

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[22] Staff Submission, page 10, paragraph 1 & page 18, paragraph 4.

[23] SEC Submissions, page 2.

33. The Staff Submissions also are supportive of the Future Grid Connection Proposal, submitting that “the contemplated direct connection to the IESO-grid is expected to eliminate, in whole or in part, low voltage charges in addition to reducing line losses.”[24]

34. Accordingly, the Applicant commits to engaging with Hydro One with respect to determining what practical operational changes are achievable to unembed its local distribution system and any subsequent customer benefits resulting therefrom, as identified in the cost / benefit analysis that will also be undertaken, will be accretive and additional to the synergies already identified in the Application.

Continued Use of Midland Name and Branding

35. The Staff Submissions recommend that the OEB should “reject the applicants”[25] proposed branding strategy. The Applicants respectfully disagree with Staff’s submission as they would result in higher costs for customers. The Applicant’s branding strategy is the most cost-effective strategy given the specific circumstances associated with this LDC consolidation and the approach is grounded directly in the Applicant’s prior experience.

36. The Staff Submissions incorrectly state at page 11 that the applicants are “intending to be branded and operate as the predecessor utilities.” The Staff Submissions wrongly conflate branding and consolidation of business operations.

37. To clarify, the Applicants will operate as one utility as soon as practicable following the Proposed Transaction and this is clear from all the evidence in this proceeding whereby the Applicants have quantified the efficiencies expected from operating as one utility.[26] Indeed, the Staff Submissions recognize that the Applicants plan to operate the distributors as one utility when the Staff Submissions state at page 11 that “plans call for common operations.”[27]

38. By proposing to begin consolidating operations as soon as the Proposed Transaction is approved, the Applicants are in fact proposing to do precisely what the OEB recommends in the Handbook when it states that it is “of the view that having consolidating entities operate as one entity as soon as possible after the transaction is in the best interests of consumers.”[28]

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[24] Staff Submissions, page 11.

[25] Staff Submissions, page 21.

[26] See Application, Table 3, page 23 line 2, as further explained in response to Staff interrogatory 1-6(a).

[27] Staff Submissions, page 6.

[28] Consolidation Report, page 7 and Handbook, page 13, as quoted in the Staff Submission, page 11.

39. Moreover the Applicants' plan is not to keep billing and maintenance separate as alleged in the Staff Submissions at page 11, but instead to consolidate billing and maintenance, as set out in answer to Board Staff IR 2-1(c). In this answer, NT Power explains that billing will be consolidated such that <u>only at the printing stage</u> will different letterhead be utilized.[29] In relation to maintenance and signage, the Applicants propose to not waste costs related to changing signage such that as fleet vehicles and other physical assets bearing the Midland brand are replaced, they will bear the NT Power brand.[30] This is the most cost effective plan. It is based on NT Power's prior experience when Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Inc. merged in 2007 no customer confusion with respect to this approach is expected.[31] NT Power can advise the Board that it received no indication whatsoever that customers were confused by this cost saving approach.

40. Finally, the Staff Submissions question the cost effectiveness of continuing with separate websites. In the Applicant's experience, it is most cost effective – and least confusing to customers – to proceed by slowly, over time, changing each of the websites so that they are made to look more and more similar such that around the time of rebasing of the Combined Utility, the websites can easily be fully merged. This process is in fact more cost effective as it can be undertaken over time by staff responsible for the websites as opposed to investing additional resources in making a sudden, one time change to a completely new website immediately following the Proposed Transaction.

Conclusion on Staff Submission Branding Recommendation

41. The Staff Submissions "questions the impact of the applicants' proposals on economic efficiency and cost effectiveness."[32] With respect, as shown above, it is the Applicant's proposal that is consistent with economic efficiency and cost effectiveness given the cost saving measures and efficiencies explained above. The recommendation of the Staff Submissions to reject the Applicant's branding strategy will result in higher costs and lost efficiencies. As a result, the Staff Submission on this issue does not meet the "no-harm" test while the Applicants' proposal, consistent as shown above with cost effectiveness and ratepayer interests, accords with the "no-harm" test.

42. The Applicants further note that the party representing a consumer group in this proceeding (i.e., SEC) has raised no concerns in regards to the Applicants' branding strategy, including no concerns regarding consumer confusion.

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[29] Response to Staff interrogatory 2-1.

[30] Response to Staff interrogatory 2-1(c).

[31] Response to Staff interrogatory 2-1(b).

[32] Staff Submissions, page 11.

Earnings-Sharing Plan

43. To-date, NT Power has proposed an earnings-sharing plan that would contribute to rate stability at the time of rebasing.[33] However, if the Board directs, the Applicant will follow the earnings sharing mechanism exactly as it is set out in the Handbook.

44. In the Staff Submissions regarding the earnings sharing plan, statements are made in regards to alleged "less than ideal analysis and planning"[34] for how savings will be achieved by the Combined Utility. As these statements are based on the Estimated Efficiencies Misunderstanding, Staff's submissions cannot be given any credence by the Board. For clarity, the Applicants note that the estimated savings resulting from the Proposed Transaction as a percentage of OM&A are 10.5% of OM&A[35], not 1.3% as stated at page 14 of the Staff Submissions under Earnings-Sharing Plan.

45. Moreover, the Applicants submit that the "no-harm" test does not involve speculation around theoretical and abstract constructs of what is "ideal" as appears to be proposed in the Staff Submissions. The question is whether a reasonable expectation exists based on underlying cost structures that the costs to serve acquired customers following a consolidation will be no higher than they otherwise would have been.[36]

46. Finally, the Staff Submissions regarding the earnings sharing plan agree with the Applicants that an ESM account can be requested closer to year six of the deferred rebasing period, with a draft accounting order provided at that time.[37]

Impact on Service Quality and Reliability, and filing of Distribution System Plan

Service Quality and Reliability

47. The Staff Submissions submit that "the amalgamated entity can reasonably be expected to meet service quality and reliability standards currently provided by each of the amalgamating distributors."[38]

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[33] See NTP argument-in-chief at paragraph 43.

[34] Staff Submissions, page 13.

[35] See response to SEC interrogatory 1-4.

[36] Handbook to Electricity Distributor and Transmitter Consoliation, January 19, 2016, page 7.

[37] Staff Submissions, page 14.

[38] Staff Submissions, page 16.

48. Similarly, the SEC Submissions state "both distributors have reasonably good reliability and customer service results, and there is no reason to believe that their performance in either case will decline after a consolidation."[39]

49. As a result, both the Staff Submissions and SEC Submissions agree with the Applicants that the "no-harm" test is clearly met with regards to service quality and reliability.

Distribution System Plan filing

50. The Applicants have proposed to file a Distribution System Plan for the Consolidated Entity by December 2020.[40] The SEC Submissions submit that this should be a condition of approval of the Proposed Transaction. The Applicants are agreeable to this being made a condition of approval.

51. OEB staff "submits that the Applicants' proposal for the filing of DSPs for the Midland rate zone and for the consolidated entity are reasonable." The Applicants assume that the Staff Submissions are in agreement with the Applicants' proposal. For clarity, the proposal is to file a Distribution System Plan for the Combined Utility by December 2020.[41]

<u>Impact on Financial Viability</u>

52. The Staff Submissions' statements and proposals in regards to the impact of the Proposed Transaction on the financial viability of the Combined Utility are based on the Estimated Efficiencies Misunderstanding and as a result, should be dismissed by the Board.

53. However, NT Power submits the following in reply to certain specific submissions made in the Financial Viability section of the Staff Submissions:

54. The Staff Submissions state that NT Power's 2016 third party debt to capital ratio of 6.7% cannot be verified[42]. The 2016 third party debt to capital is based on NT Power's 2016 audited financial statements as follows:

    1. 3rd party debt $6,374,255 (Audited Financial Statements, Note 11);

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[39] SEC Submissions, page 3.

[40] Response to Staff interrogatory 2-14.

[41] Response to Staff interrogatory 2-14.

[42] Staff Submission, page 18, paragraph 5.

2. Net PPE $94,961,239 (Audited Financial Statements, Note 6) plus Net intangible assets $435,759 (Audited Financial Statements, Note 7) = Total capital assets $95,396,998; and

3. 3rd party debt $6,374,255 / Total capital assets $95,396,998 = 6.7% 3rd party debt to capital ratio.

The Staff Submission further states that "OEB staff has some reservations … with 90% debt financing of the purchase"[43]. NT Power has ensured the financial viability for the Combined Utility by modelling the financial outlook for ten years post-amalgamation. The financial ratios demonstrate ample financial capacity to carry the new term debt over its amortization period[44]. The purchase price premium of $11.9M is 12% of NT Power's 2016 net fixed assets. The following table reflects the financial ratios projections of the Combined Utility[45].

Combined Utility Financial Ratios[46]

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Third party debt to capital	47.7%	48.1%	49.1%	49.1%	48.8%	48.4%	47.8%	47.1%	46.2%	45.3%
Debt service coverage ratio	3.8x	3.7x	3.8x	3.9x	4.1x	4.2x	4.4x	4.5x	4.7x	4.8x
Return on Equity (After-tax)	4.0%	5.7%	6.3%	6.6%	7.1%	7.2%	7.4%	7.5%	7.6%	7.6%

55. The 2016 Combined Utility financial ratios demonstrate a debt service coverage ratio of 3.6 and a third-party debt to capital ratio of 9.7%[47] To ensure the financial viability of the transaction NT Power performed a sensitivity analysis, and determined financial projections and financial ratios for the Combined Utility using the new term debt financing. TD Canada Trust's Commercial Division has reviewed the financial viability of the transaction including

[43] Staff Submission, page 19, paragraph 1.
[44] Response to Staff interrogatory 2 – 5(c).
[45] Response to Staff interrogatory 1- 12(b).
[46] Response to Staff interrogatory 1 – 12(a).
[47] Response to Staff interrogatory 2 – 5(e).

the debt ratios[48]. The bank has also reviewed the synergies analysis, financial positions and the pro-forma statements prior to providing the Commitment Letter for Debt[49].

56. Furthermore, NT Power has a healthy financial position and considerable leverage capacity with a total third party debt over total capital ratio of 7% and a total debt over total capital ratio of 32%[50].

57. Finally, NT Power notes that the Staff Submissions refer several times to the OEB's "expectation that the transaction costs, including the premium, is recovered from efficiencies generated during the deferred rebasing period."[51] However, as stated in response to Staff interrogatories[52], neither the *Report of the Board on Rate-Making Associated with Distributor Consolidation dated March 26, 2015 (EB-2014-0138)* nor the Handbook impose a requirement that a purchase price premium must be fully recovered from efficiencies generated during the deferred rebasing period. This matter is a shareholder issue and does not impact electricity distribution ratepayers.

SEC Submissions regarding the Deferred Rate Rebasing Period

58. The SEC Submissions have misunderstood the Applicants' proposal in relation to the deferred rate rebasing period. The SEC Submissions state that the Applicants have proposed a ten year deferred rebasing period, but that the Applicants also propose "that they be allowed to choose whether to continue on the 10 year deferral or not, in effect having an unfettered discretion to file cost of service at any time."[53]

59. NT Power has not proposed that it be allowed to choose whether to continue on the 10 year deferral or not. Instead, it has proposed a 10 year deferred rebasing period for the Combined Utility and that with regard to the current NT Power service territory only, it may select to migrate from its existing plan to a different option as specifically permitted by the Handbook[54] and the Consolidation Report[55].

60. Specifically, NT Power explained as follows in response to Board Staff IR 16(b):

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[48] Interrogatory responses 1 – Attachment A.

[49] Interrogatory responses 1 – Attachment A.

[50] Application, page 29, line 23-27.

[51] See, for example, page 17 of Staff Submissions.

[52] See also Response to Staff interrogatory 2-5(b).

[53] SEC Submissions, page 3.

[54] Handbook, page 14.

[55] Consolidation Report, page 11.

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.

61. In relation to the Combined Utility, NT Power's intent and proposal is to re-base at the end of the ten year deferral period.

62. In response to SEC's note[56] that it has been unable to find the source for the cost of long term debt and ROE currently embedded in NT Power's rates, NT Power advises that these figures are found in the settlement agreement[57] in regards to NT Power's last rebasing.

63. Finally, in response to SEC's statements regarding the length of the deferral period,[58] the Applicants submit that it is the Board's policy, as stated in the Handbook[59] and the Consolidation Report[60], to allow for a deferral of up to ten years prior to the rebasing of a consolidated entity.[61] If SEC has concerns regarding the Board's policy on distributor consolidation, the Applicants submit that this proceeding is not the appropriate forum to raise such concerns.

SEC Submissions regarding the Cost-Allocation and Rate Design

64. SEC submits that the Applicants should be required to update their cost allocation models within twelve months of completing the Proposed Transaction. SEC further states that these models should be filed with the Board, together with a proposal to adjust over time any rates that are too high or too low relative to the Board's cost allocation policies.

65. SEC's proposal regarding cost allocation is not appropriate because this proceeding is a s. 86 proceeding relating to the approval of the Applicants' proposed sale and amalgamation transaction, and not a cost of service rate proceeding.

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[56] SEC Submission, page 4, paragraph 1.

[57] See proposed settlement agreement, page 18 filed on February 4, 2011 in EB-2009-0269.

[58] SEC submissions, page 4.

[59] Handbook, page 12.

[60] Consolidation Report, page 6.

[61] See response to SEC interrogatory 1-15.

SEC Submissions regarding the impact of accounting changes due to IFRS conversion

66. In its final argument, SEC introduced the following IFRS related issue as follows:

> The impact of accounting changes due to IFRS conversion should be reported in the next IRM application of NT Power, and thereafter should be refunded annually to customers as part of the Applicants' annual IRM applications.[62]

67. NT Power can advise that the above-noted measure is one which has been incorporated into both its 2017 and 2018 IRM applications. As a result, the issue introduced by SEC is already being addressed.

68. Moreover, in order to provide the Board with the most up-to-date information available to NT Power, we can advise that subsequent to the filing of NT Power's interrogatory responses to the second set of Board Staff interrogatories filed in this proceeding, a correction is being proposed to the rate riders for the annual clearance of Account 1576 balance. This corrected information is already before the Board in NT Power's current 2018 IRM application (EB-2017-0062).

The proposed rate rider to clear the account balance on an annual basis are shown in the table below.

Customer Class	Units of Measure	Frequency of Allocator	2016 Allocator	Allocation of Account 1576	Revised 1576 Rider
Residential	# of customers	Monthly	31,945	$ 673,707	$ 1.7575
GS <50 kW	kWh	Annual	87,282,578	$ 219,452	$ 0.0025
GS >50 kW	kW	Annual	701,463	$ 692,424	$ 0.9871
USL	kWh	Annual	275,297	$ 692	$ 0.0025
Sentinel Lighting	kW	Annual	798	$ 723	$ 0.9055
Street Lighting	kW	Annual	7,341	$ 6,747	$ 0.9190
Total				**$ 1,593,745**	

USL= Unmetered Scattered Load

[62] SEC submissions, page 2.

69. NT Power has submitted this revised annual IFRS Account 1576 rate rider as part of its 2018 IRM proceeding. When the corrected rate riders are considered, the delivery charge impact to the GS customers is shown on the table below. NT Power GS>50 customers are paying almost 3% less compared to Midland GS>50 customers. NT Power GS<50 customers are paying 10% more compared to Midland GS<50.

	Average Monthly Load 2016		Monthly Delivery Charge by Customer Class			
	NTP	**MPUC**	**NTP**	**MPUC**	**Var MPUC%**	**Var MPUC$**
Residential	699	628	24.73	29.92	-17.3%	-5.19
GS<50	2,311	2,518	71.00	64.67	9.8%	6.33
GS>50 kW	157	219	753.75	776.48	-2.9%	-22.73

70. The following table compares NT Power and Midland Power's monthly delivery rates using Midland's average load. The GS<50 and GS>50 have monthly delivery rate increases of 15% and 28% respectively.

		Delivery Charge by Customer Class		Variance to MPUC's	
	MPUC Average Load	**MPUC**	**NTP**	**$**	**%**
Residential	628	29.92	24.21	- 5.72	-19.1%
GS<50	2,518	64.67	74.61	9.94	15.4%
GS>50 kW	219	776.48	997.07	220.59	28.4%

71. As a result, the estimate of a year eleven[63] expected typical bill increase in rates for GS<50 and GS>50 customers, in light of the impact of the corrected 2018 IFRS rate rider noted above, is as follows: The estimated quantum annual delivery rate impacts by year 11 for GS<50 is an increase of $77/annually (8%) and GS>50 reduction of ($491)/annually (-4%). NT Power notes that this is a significant change from the estimate previously provided and observes that the likelihood of rate mitigation being required at the time of rebasing is lower than previously anticipated.

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[63] Response to Staff interrogatory 1-Staff-5 (a)

Other Requested Approvals

72. The Applicants note that the Staff Submissions indicate that Staff has no concerns with the approval of the following requests:

Approval for:

- Transfer of Midland Power's rate order to NT Power
- Cancellation of Midland Power's electricity distribution licence
- Amendment of NT Power's electricity distribution licence
- Continuation with current rate riders approved by the OEB for NT Power and Midland Power
- Continuation with existing approved deferral and variance accounts for NT Power and Midland Power

73. However, OEB Staff is of the view that approval to continue with rate riders is not required as rate riders are part of the rate orders. NT Power has no issues with this approach.

CONCLUSION

74. In conclusion and as shown in these reply submissions, the Proposed Transaction is one which is expected to have a positive impact on both NT Power and MPUC customers. The harmonization of NT Power and MPUC operational and administrative functions is expected to result in significant efficiencies and natural synergies. These efficiencies are expected to benefit customers at the time of rebasing as the cost to service customers is expected to be lower as a result of the Estimated Efficiencies. 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.

75. The Proposed Transaction is based on a sound business case and provides benefits to all customers as set out herein and described in the Application and evidence in this proceeding. Sound financial modeling has been conducted to assess the Proposed Transaction, from performing a sensitivity analysis to modelling the financial outlook for several years following the Proposed Transaction.

76. The Application and evidence, as well as the arguments-in-chief filed by the Applicants and these reply submissions, demonstrate the above-noted aspects of the Proposed Transaction.

77. The "no-harm" test requires that applicants demonstrate that customers will not be harmed relative to the status quo. The "no-harm" test does not have minimum thresholds as appears to be asserted in the Staff Submissions,[64] although as demonstrated herein the Proposed Transaction accords with the minimum thresholds put forward in the Staff Submissions, when the Estimated Efficiencies Misunderstanding is taken into account.[65]

78. The Applicants therefore submit that they have fully discharged the onus of demonstrating that the Proposed Transaction meets the "no-harm" test and is in the public interest.

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED

[64] In the Staff Submissions on estimated savings resulting from the Proposed Transaction as a percentage of OM&A, the Staff Submissions appear to be creating a new test for section 86 transactions that has no basis in Board policy. In any event, the Staff Submissions on this point are likely based on the Estimated Efficiency Misunderstanding, as the estimated savings resulting from the Proposed Transaction as a percentage of OM&A is 10.5% of OM&A, not 1.3% as stated at page 14 of the Staff Submissions.

[65] See above footnote.