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BY E-MAIL

June 7, 2018

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

Dear Ms. Walli:

**Re: Ontario Energy Board File Number: EB-2018-0014
Application for approvals to effect the amalgamation of Alectra Utilities Corporation (Alectra Utilities) and Guelph Hydro Electric Systems Inc. (Guelph Hydro)**

In accordance with Procedural Order No. 1, please find attached OEB Staff Interrogatories in the above proceeding. The attached document has been forwarded to the applicants and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Saleh Lavaee
Advisor
Supply & Infrastructure

Attachment

cc: Parties to EB-2018-0014



OEB Staff Interrogatories

**Alectra Utilities Corporation
Guelph Hydro Electric Systems Inc.**

**Application for approvals to effect the amalgamation of Alectra
Utilities Corporation and Guelph Hydro Electric Systems Inc.**

EB-2018-0014

June 7, 2018

Exhibit B-Staff-1

Ref: Exhibit B, Tab 2, Schedule 1, Page 4

Supportive Tax Rulings Sought from the Ministry of Finance

- a) Please explain how this consolidation application will be impacted, if the parties are unable to receive a supporting ruling from the Ministry of Finance.

Exhibit B-Staff-2

Ref: Exhibit B, Tab 2, Schedule 1, Page 5

Proposed Closing Date

It is stated that subject to the OEB approval, the applicants are planning for a January 1, 2019 closing of the proposed amalgamation.

- a) Please explain what, if any, implications there are if the OEB decision in this application is not rendered in time to enable the transaction to close effective January 1, 2019.

Exhibit B-Staff-3

Ref: Exhibit B, Tab 2, Schedule 1, Page 8

Notices of Proposal under Sections 80 and 81

- a) Please confirm for the record, whether notices of proposal under sections 80 and 81 have been filed with the OEB, in respect of Alectra Inc.'s acquisition of shares in the capital of Guelph Hydro and Guelph Municipal Holdings Inc.'s acquisition of shares in the capital of Alectra Inc.

Exhibit B-Staff-4

Ref: Exhibit B, Tab 3, Schedule 2, Page 3

Implications of the Merger Application on Village of Rockwood

The applicants state that Guelph Hydro is a partial embedded distributor in relation to Hydro One Networks Inc. for distribution services for the Village of Rockwood and that Guelph Hydro is charged by Hydro One Networks Inc. for low voltage distribution services.

- a) Please explain if customers located in the Village of Rockwood will be affected any differently than other Guelph Hydro customers, if the application for consolidation is approved.

Exhibit B-Staff-5

Ref: Exhibit B, Tab 4, Schedule 2, Page 1

Merger Participation Agreement (MPA) and Legal Agreement to Implement the Transaction

The applicants state that the MPA contemplates certain pre-closing transactions, i.e. to affect the amalgamation of Guelph Hydro and Envida Community Energy Inc. (Envida) to be entered into on the day prior to the Alectra Utilities-Guelph Hydro transaction.

- a) Please confirm whether all the pre-closing transactions included in the MPA are in respect to Guelph Hydro and Envida amalgamation. If applicable, please provide information on any additional pre-closing transactions for the purpose of Alectra Utilities' and Guelph Hydro's merger application.

Exhibit B-Staff-6

Ref: Exhibit B, Tab 5, Schedule 1, Page 2; Exhibit B, Tab 5, Schedule 4, Page 8; Green Energy & Technology Centre (GRE&T Centre)

- a) Please explain specifically what the purpose of GRE&T Centre would be and how it would benefit the Guelph rate zone ratepayers, if the application is approved.
- b) Would the benefits be shared with other rate zones in Alectra Utilities' service area, if the application is approved?
- c) What would happen to the proposed GRE&T Centre, if Alectra Utilities is unable to secure external provincial and/or Federal funding to run this centre?
- d) What would happen to the proposed merger and the merged entity (post consolidation), if for any reason, the proposed GRE&T Centre is not approved or its establishment never materializes?

Exhibit B-Staff-7

Ref: Exhibit B, Tab 5, Schedule 2, Page 1

Operating, Maintenance and Administration (OM&A) Costs

The proposed transaction is expected to result in reductions in operating, maintenance and administration (OM&A) costs. Figure 15 sets out the applicants' projected cost savings on a yearly basis for ten years. The projected savings are shown as the difference in costs between the *status quo* forecast, i.e., in the absence of the transaction.

- a) Figure 15 only shows OM&A cost savings and not any Capital savings. Please provide a similar analysis shown in Figure 15, for Capital savings.
- b) Please identify the specific areas of the distribution business where the projected cost savings (both OM&A and Capital) are expected to be generated as a result of the proposed transaction.
- c) Please provide a breakdown of the costs identified in the following sections:
 - i. OM&A Synergies
 - ii. OM&A Transition Costs
 - iii. As per Exhibit B-Staff-7(a), Capital Synergies, if applicable
 - iv. As per Exhibit B-Staff-7(a), Capital Transition Costs, if applicable
- d) Please explain all the assumptions the applicants have made with respect to the expected cost savings.

Exhibit B-Staff-8

Ref: Exhibit B, Tab 5, Schedule 3, Page 1

OM&A Cost per Customer

- a) Figure 16 shows OM&A cost per customer for Alectra Utilities and Guelph Hydro pre-consolidation. Please expand Figure 16 to include the forecasted OM&A cost per customer for the merged entity (i.e. Alectra Utilities with all its various rate zones) from 2019 to 2029.

Exhibit B-Staff-9

Ref: Exhibit B, Tab 5, Schedule 4, Page 1

The application states that Alectra Utilities and Guelph Hydro will harmonize the engineering standards, which will enable more efficient and effective inventory management and ensure sufficient spare equipment for higher reliability.

The applicants further state that all policies for expansion of the distribution system will be standardized across the new geographic service territory.

- a) Please identify any current major differences between Alectra Utilities' and Guelph Hydro's engineering standards, project management standards and inventory and asset management practices.
- b) Please identify any current major differences between Alectra Utilities's and Guelph Hydro's policies and practices, including but not limited to service area expansion and Offer to Connect process.
- c) Please identify any current major differences between Alectra Utilities' and Guelph Hydro's human resources policies, including but not limited to employee benefits and compensation levels.

Exhibit B-Staff-10

Ref: Exhibit B, Tab 5, Schedule 4, Page 6 and 7

Centralized and De-centralized Functions

In the description provided on distribution system operations, a distinction is made between centralized and decentralized functions. Figure 19 provides a listing of centralized and decentralized functions.

- a) Please provide the anticipated reduction in operating expenditures in each of the functions listed in Figure 19.
- b) Please provide all the assumptions that the applicants are making for the anticipated operating expenditure reductions.

Exhibit B-Staff-11

Ref: Exhibit B, Tab 5, Schedule 4, Page 2 and 7

Guelph Service Centre Staffing

- a) Please provide the total number of employees currently working for Guelph Hydro (pre-consolidation) in table format, showing a breakdown by departments.
- b) What are your plans for Guelph Hydro's executive team and board of directors?
- c) Please confirm whether the applicants anticipate a reduction in local staff in Guelph Service Centre, post consolidation (i.e. 2019-2029). If so, please reflect year over year changes in the table provided in Exhibit B-Staff-11(a).
- d) Please identify all Alectra Utilities' centralized and decentralized functions that will be stationed in Guelph Service Centre, post consolidation.
- e) If applicable, please describe the applicants' plans, identifying the functions and positions that are expected to be eliminated and the expected impact on the operations of the merged entity.
- f) Please explain how Alectra Utilities will ensure continuity of staff knowledge and experience in Guelph Service Centre, post consolidation.

Exhibit B-Staff-12

Ref: Exhibit B, Tab 6, Schedule 1, Page 1-5 and Figure 20

The application provides that the proposed transaction is expected to result in cost savings in OM&A of approximately \$37 million and approximately \$3.8 million in avoided capital costs, which represent \$40.8 million in total cash savings, before transition costs of \$14.3 million. Figure 20 sets out a number of areas of the distribution business where projected cost savings are expected to be generated as a result of the proposed transaction.

- a) Please confirm the projected savings include the incremental transaction and integration costs identified in the application. If the projected savings do not include the transaction and integration costs, please provide an updated forecast that includes these costs.
- b) Please clearly describe the cost segments below (shown in Figure 20) and confirm whether the annual amounts shown in Figure 20 are savings that persist year over year or are incremental savings anticipated in each year:
 - i. "Total Synergy Savings- Labour"
 - ii. "Total Synergy Savings-Other"
 - iii. "One-time Synergy Savings"
 - iv. "Total Operating Savings"
 - v. "On-Going Costs"
 - vi. "Transition Costs (OM&A)"
 - vii. "Transition Costs (Capital)"
 - viii. "Total One-Time Capital Savings"
- c) Please provide a detailed breakdown for each of the segments (i) to (viii) identified in Exhibit B-Staff-12(b) and show which business area, function or activity they correspond to.
- d) Please provide all the assumptions the applicants have made in calculating the following segments, shown in Figure 20:
 - i. "Total Synergy Savings"
 - ii. "Total Net Operating Savings"
 - iii. "Total Transition Costs"
 - iv. "Total Capital Savings"
- e) Please explain why the applicants do not anticipate any "Avoided Costs", shown in Figure 20.
- f) Please identify significant risks that could negatively impact the projected cost savings.

Exhibit B-Staff-13

Ref: Exhibit B, Tab 6, Schedule 1, Page 3

It is stated that the total OM&A savings translate into an approximate decrease of 1.5% of revenue requirement versus what it otherwise would have been at the end of the proposed deferred rebasing period.

- a) Please confirm whether the applicants anticipate ongoing OM&A savings beyond the proposed deferred rebasing period and the expected impact on the rates of the merged entity.

Exhibit B-Staff-14

Ref: Exhibit B, Tab 6, Schedule 1, Figure 21; Exhibit B, Tab 5, Schedule 1, Page 1
Overall Impact of the Transaction

The applicants state that the proposed consolidation is expected to deliver lower distribution costs to Alectra Utilities customers averaging an aggregate of:

- i. \$3.9 million per year, or 0.5% through the entire forecast period of 20 years (2019-2038)
- ii. \$1 million per year, or 0.2% through the rebasing deferral period
- iii. \$7.5 million per year, or 0.9% following a transfer of merger benefits to customers in 2028.

The applicants state that Alectra Utilities' customers are expected to see cost savings from this merger application after the ten year rebasing deferral period in 2029.

- a) Please provide all the assumptions the applicants have made in reaching to conclusions in (i), (ii) and (iii).
- b) Please elaborate on how the \$7.5 million per year amount mentioned above will flow back to the customers. Please confirm whether the date should be 2028 or 2029.
- c) The applicants state that Alectra Utilities are expected to see cost savings from this merger application beyond the 10-year rebasing deferral period. What are the applicants' expectations with respect to cost savings for Guelph Hydro rate zone customers beyond the rebasing deferral period?

Exhibit B-Staff-15

Ref: Exhibit B, Tab 6, Schedule 2, Page 1-3

The applicants state that the aggregated consolidation costs are approximately \$14.3 million and that these costs will be funded through the anticipated productivity savings expected from the consolidation during the ten year rebasing deferral period and will not be included in the ratepayer funded Alectra Utilities revenue requirement.

The consolidation costs

“...include, but are not limited to: due diligence on the part of all Parties; due diligence to negotiate the terms of the consolidation; costs associated with all regulatory, legal and statutory reviews in order to receive necessary regulatory approvals; integration costs of IT systems including CIS, ERP systems and other technology-related support systems; integration of operational systems including GIS, OMS and Supervisory Control and Data Acquisition (“SCADA”) systems; alignment of financial and regulatory reporting processes; staff related costs and transition of assets and related management to one standard.”

- a) Please provide a breakdown of the \$14.3 million of aggregated consolidation costs into the categories outlined above by year. Please specify whether the anticipated savings are capital or expense dollars.

Exhibit B-Staff-16

Ref: Exhibit B, Tab 6, Schedule 2, Page 3, Figure 22 and 23

Figure 22 – Total Cash Savings and Figure 23-Total Operating Expenditure Savings are presented which provide savings by year for these two categories for the period 2019 to 2028.

- a) Please provide a breakdown of the anticipated Total CAPEX savings shown in Figure 22 equivalent to what is provided for the Total OPEX savings in Figure 23.

Exhibit B-Staff-17

Ref: Exhibit B, Tab 2, Schedule 1, Pages 7, 10; Exhibit B, Tab 5, Schedule 1, Pages 1-2

- a) Please confirm that Guelph Hydro would rebase in 2021 and 2026 under the *status quo* scenario (i.e. in the absence of consolidation).
- b) Please identify the price cap index rate changes assumed for each rate year from 2019 to 2029.
- c) The applicants state that the merged entity would rebase in 2029. Does Alectra Utilities intend to rebase in 2027 (for Horizon, Enersource, Brampton and PowerStream rate zones) and again in 2029 (for Guelph Hydro), if this current merger application is approved? Has Alectra Utilities considered rebasing in 2027 for all the rate zones, including Guelph Hydro rate zone, if this merger application is approved? Please explain.

Exhibit B-Staff-18

Ref: Exhibit B, Tab 6, Schedule 3, Page 1
Valuation of Assets and Shares

It is stated that “*The assumption for future rate levels in the valuation was based on annual rebasing for the Applicants going forward from the time of the next rebasing application.*”

- a) Please elaborate on the above specifically discussing why annual rebasing was assumed from the time of the next rebasing, given that the OEB has three rate-setting options: Price Cap Incentive Regulation (IR), Custom IR and Annual IR Index, none of which include annual rebasing.
- b) Please re-evaluate the valuation of assets and shares assuming that rebasing would occur only every five years and compare results with the applicants’ proposal to rebase annually.

Exhibit B-Staff-19

Ref: Exhibit B, Tab 6, Schedule 1, Page 5, Figure 21
Distribution Revenue Trends

- a) Specifically in Figure 21, please explain the decrease in distribution revenue per customer between year 2026 and 2027.

- b) Please provide a comparison (similar to Figure 21) and compare total annual distribution revenue under the *status quo* scenario (i.e. in the absence of consolidation) with total annual distribution revenue of Alectra Utilities, post merger with Guelph Hydro with each figure shown on the chart.
- c) Please provide all the assumptions made in preparing the comparison provided in Exhibit B-Staff-19(b).

Exhibit B-Staff-20

Ref: Exhibit B, Tab 6, Schedule 3, Page 1

Shareholder Benefits

It is stated that subject to assumptions and risks, the proposed consolidation is expected to deliver the following shareholder benefits:

To the benefit of Alectra Utilities (the combined Alectra-Guelph Hydro) shareholders throughout the forecast period of 20 years:

- 1.2% average increase in dividends for Alectra Utilities (the combined Alectra-Guelph Hydro) shareholders or \$1.3 million per year over the *status quo*, for 25.4 million total increase in dividends

- a) Please state the rate-setting assumptions (e.g. annual rebasing, rebasing every five years with annual IR for the intervening years) that were assumed in both the *status quo* and merged scenarios, as well as the reasons for any differences between the two scenarios.
- b) Please state the impacts of these assumptions on the identified expected increase of approximately \$25.4 million.

Exhibit B-Staff-21

**Ref: Exhibit B, Tab 2, Schedule 1, Page 9; Exhibit B, Tab 7, Schedule 2, Page 1;
OEB's Filing Requirements For Electricity Distribution Rate Applications for 2017
Rate Applications - Chapter 3, Incentive Rate-Setting Applications, 3.3.2 Incremental
Capital Module, Page 18**

It is stated that:

"Earnings in excess of 300 basis points above the Board's established regulatory return on equity ("ROE") for the consolidated entity would be divided on a 50/50

basis between LDC Co and its ratepayers. The ratepayer share of earnings will be credited to a newly proposed deferral account, for clearance at the next applicable annual IRM application filing. For example, if Alectra Utilities over-earned in year six post-consolidation, it would report the balance in the deferral account in the year eight IRM application which would be filed in year seven, and refund 50% of this balance to ratepayers over the twelve months commencing January 1 of year eight.”

Chapter 3 of OEB’s Filing Requirements Incentive Rate-Setting Applications states that “The ICM is not available for incremental funding if a distributor’s regulated return exceeds 300 basis points above the deemed return on equity embedded in the distributor’s rates.”

- a) Are the applicants anticipating earnings in excess of 300 basis points starting year 6? Why? Why not?
- b) Do applicants foresee any capital spending that would normally have required an ICM between year 6-10 of rebasing deferral period?

Exhibit B-Staff-22
Reporting and record keeping requirements (RRR)

- a) Does Alectra Utilities intend to report RRR data, such as ROE on a consolidated basis, if the merger application is approved? Please explain.

Exhibit B-Staff-23
Ref: Exhibit B, Tab 2, Schedule 1, Page 10

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

- a) Please confirm whether the applicants are seeking OEB approval for a new proposed deferral account in the current consolidation application to capture any potential over earning in years 6 to 10 due to the merger with Guelph Hydro. If not, please explain why not.

Exhibit B-Staff-24

Ref: Exhibit B, Tab 2, Schedule 1, Figure 3-7

The applicants are requesting that the rate orders of Guelph Hydro be transferred to Alectra Utilities following the completion of the consolidation. Each of Alectra Utilities' rate zones has a rate order that contains a number of rate riders established in order to dispose of balances in specified deferral and variance accounts. The applicants provided their 2017 OEB approved rate riders.

- a) Please confirm Figure 3, 4, 5, 6 and 7 show the most recent OEB approved rate riders for Alectra Utilities and Guelph Hydro. If Figure 3-7 rate riders are not the most recent ones, please provide the latest OEB approved rate riders for both Alectra Utilities and Guelph Hydro.

Exhibit B-Staff-25

Ref: Decision and Rate Orders EB-2017-0024 (Alectra Utilities) and EB-2017-0044 (Guelph Hydro)

- a) Please complete the table below with respect to Specific Service Charges for the two applicants and add/remove/modify any rows as necessary:

Specific Service Charge	Current Approved Charge				
	Alectra Utilities				Guelph Hydro
Customer Administration	Enersource	Horizon	PowerStream	Brampton	
Arrears Certificate					
Statement of Account					
Pulling post dated cheques					
Duplicate invoices for previous billing					
Request for other billing information					
Easement letter					
Income tax letter					
Notification charge					
Account history					
Credit reference/credit check (plus credit agency costs if applicable)					
Returned cheque (plus bank charges)					
Charge to certify cheque					
Legal letter charge					
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)					
Account set up charge/change of occupancy charge					
Special meter reads					
Meter dispute charge plus Measurement Canada fees (if meter found correct)					

Non-payment of Account					
Late payment – per month					
Late payment – per annum					
Collection of account charge – no disconnection					
Collection of account charge – no disconnection – after regular hours					
Disconnect/reconnect at meter – during regular hours					
Disconnect/reconnect at meter – after regular hours					
Disconnect/reconnect at pole – during regular hours					
Disconnect/reconnect at pole – after regular hours					
Install/remove load control device – during regular hours					
Install/remove load control device – after regular hours					
Other					
Specific charge for access to power poles – per pole/year (with the exception of wireless attachments)					
Disconnect/reconnect charge at customer’s request – at meter during regular hours					
Temporary service install and remove – overhead – no transformer					
Temporary service install and remove – overhead – with transformer					
Switching for company maintenance – charge based on time and materials					

- b) Please identify any differences in specific service charges, as well as the ones that may be currently charged by one, but not both of the applicants.

- c) Since the applicants propose that the amalgamated entity would only rebase rates after 10 years, please explain how Alectra Utilities, post merger, proposes to handle any differences in specific service charges identified in Exhibit B-Staff-25(b).

- d) Please explain how Alectra Utilities, post merger, intends to communicate with customers, and how it proposes to handle customer issues or complaints regarding differences in rates for the specific service charges identified in Exhibit B-Staff-25(b).

Exhibit B-Staff-26

Ref: Decision and Rate Orders EB-2017-0024 (Alectra Utilities) and EB-2017-0044 (Guelph Hydro)

- a) When would Alectra Utilities anticipate harmonizing rates for its various rate zones, including Guelph Hydro rate zone, if this merger application is approved?
- b) If the merger application is approved, what is Alectra Utilities' expectations of the overall cost structures following the deferred rebasing period and the impact on Guelph Hydro customers?

Exhibit B-Staff-27

Total Bill Amount for Typical Customers

Typical Monthly Consumption (kWh) – Rate Class	Total Monthly Bill Amount for Alectra Utilities Rate Zones (\$)				Total Monthly Bill Amount for Guelph Hydro Rate Zone (\$) (E)	Monthly Difference (\$)			
	Enersource (A)	Horizon (B)	PowerStream (C)	Brampton (D)		(A)-(E)	(B)-(E)	(C)-(E)	(D)-(E)
Using 750 kWh for Residential Class									
Using 2,000 kWh for GS<50 kW Class									

- a) Please provide the estimated total bill amount (\$ per Month) before taxes using the applicants' current approved Tariffs of Rates and Charges and compare a typical Guelph Hydro Residential and GS<50 kW customers with those of Alectra Utilities', using the table above. For typical monthly consumption for Residential rate class, please use 750 kWh per month and for GS<50 kW rate class, use 2,000 kWh per month.

Exhibit B-Staff-28

Conditions of Service

- a) Please provide a copy of current Conditions of Service for Alectra Utilities and Guelph Hydro.

- b) Please identify any material differences in the current Conditions of Service of Alectra Utilities and Guelph Hydro.
- c) Please confirm that these current Conditions of Service are available on each of the applicants' websites and available at their business offices for viewing by customers.
- d) If there are any material differences, please identify how the merged entity intends to communicate and resolve these in dealing with customers if the application is approved.