

July 26, 2018

RESS, EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Alectra Utilities Corporation and Guelph Hydro Electric Systems Inc. –
Application for Leave to Consolidate – Argument-in-Chief (EB-2018-0014)**

We are counsel to Alectra Utilities Corporation (“Alectra”), which together with Guelph Hydro Electric Systems Inc. (“Guelph Hydro”) are the applicants in the above-referenced proceeding (the “Applicants”). In accordance with Procedural Order No. 2, issued by the Board on July 12, 2018, please find enclosed the Applicants’ Argument-in-Chief.

Please note that small portions of the Argument-in-Chief have been redacted. The redacted portions are identical to certain of the information redacted in the Applicants’ responses to interrogatories B-Staff-7, B-Staff-10 and B-Staff-12, which the Board has accepted as warranting confidential treatment. Copies of the public (redacted) version have been filed on RESS and served on all parties. Copies of the redacted portions are enclosed in accordance with the Board’s *Practice Direction on Confidential Filings*.

Yours truly,

(Signed on Original)

Charles Keizer

cc: Indy J. Butany-DeSouza, Vice President, Regulatory Affairs, Alectra
Cristina Birceanu, Vice President, Regulatory Affairs, Customer Care and Billing, Guelph Hydro
All Parties

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IN THE MATTER OF Sections 18, 74, 77 and 86 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B, as amended; and

AND IN THE MATTER OF an application for approvals to amalgamate Alectra Utilities Corporation and Guelph Hydro Electric Systems Inc. and continue operations as Alectra Utilities Corporation.

ARGUMENT-IN-CHIEF

July 26, 2018

1.0 INTRODUCTION

Alectra Utilities Corporation (“Alectra Utilities”) and Guelph Hydro Electric Systems Inc. (“Guelph Hydro”) (collectively, the “Applicants”) filed an application with the Ontario Energy Board (“OEB” or the “Board”) on March 8, 2018, under sections 18, 74, 77 and 86 of the *Ontario Energy Board Act, 1998* (the “OEB Act”) seeking approval to amalgamate and continue operations as Alectra Utilities, and of related matters (the “Application”).

The Application was prepared in accordance with the OEB’s January 19, 2016 *Handbook to Electricity Distributor and Transmitter Consolidations* (the “Handbook”). The Application also adhered to the Board’s March 26, 2015 *Report on Rate-Making Associated with Distributor Consolidation* (the “Consolidation Policy”). This is the Applicants’ Argument-in-Chief in respect of the Application. For the reasons that follow, it is the Applicants’ submission that the proposed consolidation transaction satisfies the Board’s ‘no harm’ test, that the additional relief requested is reasonable and that the Application should therefore be approved, as filed.

2.0 OVERVIEW

The proposed consolidation will result in the amalgamation of Alectra Utilities and Guelph Hydro into a combined distributor carrying on business as a single corporation referred to as Alectra Utilities. Following the transaction, if approved, Alectra Utilities will continue to be the largest

1 municipally-owned local distribution company (“LDC”) in Ontario, serving over 1,045,000
2 customers, with a total rate base of approximately \$3.18 billion.

3 The proposed consolidation that is the subject of the Application will involve the following steps:

4 Step 1 Guelph Municipal Holdings Inc. (“GMHI”) sells all of the shares it owns in Guelph
5 Hydro to Alectra Inc. (the parent company of Alectra Utilities) in exchange for
6 common shares of Alectra Inc. (the “Share Purchase Transaction”).

7 Step 2 Alectra Utilities and Guelph Hydro, each being wholly owned by Alectra Inc.,
8 amalgamate with one another and continue as a corporation with the corporate
9 name Alectra Utilities Corporation (the “Amalgamation Transaction”).

10 The Applicants are planning for the Share Purchase Transaction to take place on December 31,
11 2018 and the Amalgamation Transaction to be effective January 1, 2019. The Share Purchase
12 Transaction and the Amalgamation Transaction, together, are hereinafter referred to as the
13 “Consolidation Transaction”.

14 To permit the Consolidation Transaction, the Applicants have asked for the Board to approve:

- 15 • pursuant to Subsection 86(2)(a) of the OEB Act, the purchase by Alectra Inc. of all the
16 issued and outstanding shares of Guelph Hydro held by GMHI; and
- 17 • pursuant to Subsection 86(1)(c) of the OEB Act, the amalgamation of Alectra Utilities and
18 Guelph Hydro and their continuation as a corporation referred to as Alectra Utilities.

19 In addition, the Applicants have asked for the Board to approve:

- 20 • pursuant to Subsection 18(1) of the OEB Act, the transfer from Guelph Hydro to Alectra
21 Utilities of Guelph Hydro’s 2018 distribution rate order, issued December 14, 2017 and
22 corrected on December 15, 2017 in EB-2017-0044, along with any subsequent rate orders
23 that may be issued for Guelph Hydro prior to closing of the Consolidation Transaction;¹

¹ The OEB has assigned proceeding number EB-2018-0036 to Gueph Hydro’s 2019 distribution rates proceeding.

- 1 • pursuant to Subsection 18(2) of the OEB Act, the transfer from Guelph Hydro to Alectra
2 Utilities of generation licence (EG-2004-0438)², to be effective immediately prior to the
3 amalgamation;
- 4 • pursuant to Subsection 74(1) of the OEB Act, an amendment to Alectra Utilities' electricity
5 distribution licence (ED-2016-0360) to include Guelph Hydro's service area, to be
6 effective on the completion of the amalgamation; and
- 7 • pursuant to Subsection 77(5) of the OEB Act, the cancellation of Guelph Hydro's
8 electricity distribution licence (ED-2002-0565), to be effective on the completion of the
9 amalgamation.

10 The proposed Consolidation Transaction will enable the Applicants to deliver a broad range of
11 benefits both to their customers and to their shareholders. These benefits will be realized both
12 during and after the proposed 10-year rebasing deferral period. The proposed Consolidation
13 Transaction satisfies the no harm test and should be approved by the Board.

14 **3.0 THE BOARD'S TEST FOR THE PROPOSED CONSOLIDATION**

15 Approval of the Board is required for consolidation transactions, including the Share Purchase
16 Transaction, which requires leave of the Board pursuant to Subsection 86(2)(a) of the OEB Act,
17 and the Amalgamation Transaction, which requires leave of the Board pursuant to Subsection
18 86(1)(c) of the OEB Act. The Handbook, which provides guidance on consolidation applications,
19 explains that in reviewing an application by a distributor for approval of a consolidation transaction
20 the Board will apply its 'no harm' test, which is described by the Board as follows:

21 The "no harm" test considers whether the proposed transaction will have an adverse
22 effect on the attainment of the OEB's statutory objectives, as set out in section 1 of
23 the OEB Act. The OEB will consider whether the "no harm" test is satisfied based
24 on an assessment of the cumulative effect of the transaction on the attainment of its
25 statutory objectives. If the proposed transaction has a positive or neutral effect on
26 the attainment of these objectives, the OEB will approve the application.

² Pursuant to the OEB's Decision and Order in EB-2018-0114, Electricity Generation Licence EG-2004-0438 was transferred from Envida Community Energy Inc. to Guelph Hydro effective July 24, 2018.

1 The OEB's objectives under section 1 of the OEB Act are:

2 1. To protect the interests of consumers with respect to prices and the adequacy,
3 reliability and quality of electricity service.

4 1.1 To promote the education of consumers.

5 2. To promote economic efficiency and cost effectiveness in the generation,
6 transmission, distribution, sale and demand management of electricity and to
7 facilitate the maintenance of a financially viable electricity industry.

8 3. To promote electricity conservation and demand management in a manner
9 consistent with the policies of the Government of Ontario, including having regard
10 to the consumer's economic circumstances.

11 4. To facilitate the implementation of a smart grid in Ontario.

12 5. To promote the use and generation of electricity from renewable energy sources
13 in a manner consistent with the policies of the Government of Ontario, including
14 the timely expansion or reinforcement of transmission systems and distribution
15 systems to accommodate the connection of renewable energy generation facilities.

16 While the Board's statutory objectives are broad, it has indicated that, in applying the 'no harm'
17 test to distribution consolidations, the primary focus of the review will be on the impacts of the
18 proposed transaction on price and quality of service to customers, and the cost effectiveness,
19 economic efficiency and financial viability of the electricity distribution sector.³ The remaining
20 statutory objectives are considered to be appropriately addressed through the Board's existing
21 regulatory and performance monitoring framework.

22 Price

23 In considering the impact of a proposed transaction on customers with respect to price, the focus
24 for the Board will be on the underlying cost structures of the consolidating utilities. To
25 demonstrate that a transaction causes no harm, the Handbook states that "applicants must show
26 that there is a reasonable expectation based on underlying cost structures that the costs to serve
27 acquired customers following a consolidation will be no higher than they otherwise would have

³ Handbook, p. 6.

1 been. While the rate implications to all customers will be considered, for an acquisition, the
2 primary consideration will be the expected impact on customers of the acquired utility.”⁴

3 Adequacy, Reliability and Quality of Electricity Service

4 In considering the impact of a proposed transaction on customers with respect to the adequacy,
5 reliability and quality of electricity service, the Board will be informed by the metrics of the
6 consolidating entities provided through annual reporting. The Board’s expectation is that there
7 will be continuous improvement in a distributor’s ability to deliver improved reliability
8 performance without an increase in costs, or to maintain the same level of performance at a reduced
9 cost, and that this continuous improvement will continue after a consolidation.⁵

10 Economic Efficiency and Financial Viability

11 In considering the extent to which a proposed transaction promotes economic efficiency and cost
12 effectiveness in the distribution of electricity, and facilitates the maintenance of a viable electricity
13 industry, the Board will assess the various aspects of utility operations where the applicant expects
14 sustained operational efficiencies, both quantitative and qualitative. Regarding financial viability,
15 the Board’s primary concerns are the effect of the purchase price on the consolidated entity and
16 the financing of transaction and integration costs to implement the transaction. Such transaction
17 and integration costs are not generally recoverable through rates but instead may be recovered
18 through efficiency gains during the permitted rebasing deferral period of up to ten years.⁶

19 **4.0 THE PROPOSED CONSOLIDATION SATISFIES THE ‘NO HARM’ TEST**

20 The proposed Consolidation Transaction will cause no harm relative to the Board’s statutory
21 objectives, including in particular with respect to the impacts of the proposed Consolidation
22 Transaction on price and quality of service to customers, and the cost effectiveness, economic
23 efficiency and financial viability of the electricity distribution sector. In fact, it is the Applicants’
24 expectation, supported by the evidence in this proceeding, that relative to the *status quo* the
25 proposed Consolidation Transaction will provide a broad range of important benefits that will have

⁴ Handbook, p. 7.

⁵ Handbook, p. 7.

⁶ Handbook, pp. 8-9.

1 a positive impact for all of the affected customers. These benefits will be realized both during and
2 after the proposed 10-year rebasing deferral period.⁷

3 Price

4 As described in Exhibit B, Tab 5, Schedule 1, the Consolidation Transaction is expected to result
5 in savings for Guelph Hydro customers and for existing Alectra Utilities customers.

6 For the duration of the 10-year rebasing deferral period, distribution rates for customers in the
7 Guelph Rate Zone would be set through the Board's Price Cap Incentive Regulation (IR)
8 methodology.⁸ As a result, if the Consolidation Transaction is approved, customers in the Guelph
9 Rate Zone will avoid the rate impacts that would have resulted from two cost of service rate
10 applications. Those applications would otherwise have been filed during that period, under the
11 *status quo* scenario, in 2020 (for 2021 rates) and in 2025 (for 2026 rates). As described in response
12 to IBEW-2, Guelph Hydro's two prior cost of service rate applications have resulted in distribution
13 rate increases of 5-6%. The Applicants estimate that similar increases would result for 2021 rates
14 and 2026 rates under the *status quo*. Avoidance of those increases through the continued
15 application of the Price Cap IR methodology will result in savings for the Guelph Rate Zone
16 customers. The Applicants have quantified this benefit as amounting to savings of approximately
17 \$2.3MM (0.6%) for Guelph Hydro customers during the rebasing deferral period.⁹ Alectra
18 Utilities will be in a position to continue on Price Cap IR because of the cash flow support it will
19 realize from the synergies and efficiencies arising from the consolidation, which will reduce the
20 underlying cost structures.

21 In addition, if during years 6-10 of the rebasing deferral period Alectra Utilities earns more than
22 300 basis points over its regulated ROE (which is not currently expected), then as a result of the

⁷ Under the *status quo* scenario, as explained in B-Staff-20, the Consolidation Transaction would not occur, the parties would continue on as standalone entities, and Guelph Hydro would continue to have its distribution rates established through the Price Cap IR methodology, with cost of service rebasing applications in 2021, 2026, 2031 and 2036. As indicated in IBEW-2, it is assumed for the *status quo* scenario that distribution rate increases of 5 to 6% would result from each of the rebasing applications.

⁸ B-Staff-20(a).

⁹ Exhibit B, Tab 5, Schedule 1, p. 2.

1 proposed Earnings Sharing Mechanism those overearnings would be shared 50:50 between Alectra
2 Utilities and its ratepayers.¹⁰

3 Reductions in the underlying cost structures are demonstrated by the expected reductions in
4 OM&A costs. As indicated in Exhibit B, Tab 5, Schedule 2, Figure 15, the consolidated OM&A
5 costs for Alectra Utilities and Guelph Hydro, determined on a standalone basis under the *status*
6 *quo* scenario, would be approximately \$4MM higher in each year over the next 10 years as
7 compared to the total OM&A costs of the consolidated entity (though lower in the first two years
8 due to transaction costs and fewer synergies). As indicated in response to B-Staff-7, there will be
9 little change in the expected capital costs relative to the *status quo* scenario. The total quantified
10 savings from synergies before transaction costs is expected to be \$40.88MM, comprised of
11 \$37.04MM from OM&A savings and \$3.84MM from capital savings.¹¹

12 Following the 10-year rebasing deferral period, the costs to serve Alectra Utilities' distribution
13 customers are expected to be modestly lower, by an aggregate of \$3.9MM per year (0.5%)
14 throughout the forecast period.¹²

15 As indicated in Exhibit B, Tab 5, Schedule 3, Figure 16, Guelph Hydro's OM&A cost per customer
16 in 2016 (pre-consolidation) is \$265.81 and the weighted average OM&A cost per customer for
17 Alectra Utilities' current rate zones is \$254.81. By comparison, as indicated in B-Staff-8, the total
18 forecasted 2019 to 2029 OM&A cost per customer for the consolidated entity, including all
19 existing Alectra Utilities rate zones and the Guelph Rate Zone, ranges from \$238.21 in 2019 to
20 \$228.13 in 2029, with a low of \$222.98 in 2021.

21 The specific drivers for the above-referenced savings were set out in response to B-Staff-7(b) and
22 B-Staff-12(b), and are reproduced in Tables 1 and 2, below.

¹⁰ IBEW-2.

¹¹ IBEW-2, B-Staff-7.

¹² Exhibit B, Tab 5, Schedule 1, p. 2.

1 **Table 1: OM&A and Capital Synergies by Function (\$MM)**

| Synergy Categories | Category | OM&A Synergies | OM&A Transition Costs | Capital Synergies | Capital Transition Costs |
|--------------------|----------------|-----------------|-----------------------|-------------------|--------------------------|
| | Centralized | \$ 3.43 | | | |
| | Centralized | \$ 0.04 | | | |
| | Centralized | \$ (7.02) | \$ 3.74 | | |
| | Centralized | \$ 1.85 | | \$ 0.95 | |
| | Centralized | \$ 5.15 | | | |
| | Centralized | \$ 5.45 | \$ 0.65 | \$ 2.89 | \$ 9.58 |
| | De-Centralized | \$ 4.10 | | | |
| | De-Centralized | \$ 1.51 | | | |
| | Centralized | \$ 3.53 | | | |
| | Centralized | \$ 19.00 | \$ 0.15 | | \$ 0.15 |
| Total | | \$ 37.04 | \$ 4.54 | \$ 3.84 | \$ 9.73 |

3 **Table 2: Annual Amounts by Cost Segment (\$MM)**

| Cost Segment | Initiative | Amount |
|---------------------------------|--|-----------------|
| Total Synergy Savings- Labour | | \$ 38.45 |
| Total Synergy Savings-Other | General Administrative (Conference, Seminars, Training, Office Supplies, Meals, Mileage) | \$ 4.25 |
| | IT Hardware & Software Maintenance & License | \$ 2.60 |
| | Professional Services (Legal & Consulting) | \$ 2.24 |
| | Total: | \$ 9.10 |
| One-time Synergy Savings | Software Update and Building Renovations | \$ 0.03 |
| On-Going Costs | | \$ 10.55 |
| Transition Costs (OM&A) | | \$ 3.74 |
| | IT Projects | \$ 0.65 |
| | Branding Costs | \$ 0.15 |
| | Total: | \$ 4.54 |
| Transition Costs (Capital) | IT Projects | \$ 9.58 |
| | Branding Costs | \$ 0.15 |
| | Total: | \$ 9.73 |
| Total One -Time Capital Savings | System Integration - Network, Cyber Security, Firewall, HRIS, IBM, Software, etc. | \$ 2.89 |
| | Rolling Stock - pool specialized equipment, reduce fleet vehicles | \$ 0.95 |
| | Total: | \$ 3.84 |

1 Adequacy, Reliability and Quality of Electricity Service

2 Adequacy, reliability and quality of electricity service will be maintained following completion of
3 the proposed Consolidation Transaction. As explained in Exhibit B, Tab 5, Schedule 4, Alectra
4 Utilities will organize its operations into four regions, one of which – the Southwest Region – will
5 include the current Guelph Hydro service area. The four regions will be served by seven service
6 centres, including the existing Guelph Hydro operational centre that will be maintained for a
7 minimum of 10 years. The Guelph service centre will provide de-centralized functions such as
8 construction, maintenance, trouble response, logistics, fleet services and metering. As such,
9 response times will not be degraded and operations staffing levels will not be changing. In
10 circumstances of large-scale outages, due to its geographic diversity, Alectra Utilities will have
11 the ability to draw upon a larger number of operations staff from other service centres, thereby
12 making additional capabilities, resources and equipment available to respond quickly and
13 effectively.¹³

14 In addition, though no material differences have been identified to-date, engineering standards and
15 practices will be harmonized between Alectra Utilities and Guelph Hydro to enable more efficient
16 and effective inventory management and availability of spare equipment, and to ensure adoption
17 of best practices. Guelph Hydro customers will benefit from being served by a larger utility that
18 will have an expanded ability to monitor, report on and improve system reliability and power
19 quality, given its diverse and greater resources.¹⁴

20 As explained in Exhibit B, Tab 5, Schedule 4, Alectra Utilities expects that it will maintain or
21 improve upon the five-year average SAIDI and SAIFI reliability indices and the OEB’s Customer
22 Service Standard metrics for its customers, including the Guelph Rate Zone customers, following
23 the Consolidation transaction.

24 Economic Efficiency and Financial Viability

25 As indicated in Exhibit B, Tab 6, Schedule 1, as a result of the Consolidation Transaction the
26 Applicants anticipate aggregate gross OM&A savings of \$37MM over the first 10 years following

¹³ IBEW-7.

¹⁴ Exhibit B, Tab 5, Schedule 4; B-Staff-9.

1 consolidation, or 1.5% of total OM&A expenditures, thereafter continuing at a rate of
2 approximately 1.5% of savings annually. In addition, the Applicants anticipate aggregate gross
3 capital expenditure savings of \$3.8MM over that same period, for total savings of \$40.8MM.

4 These savings will result from synergies and efficiencies to be realized as a result of the proposed
5 Consolidation Transaction, as set out in Exhibit B, Tab 6, Schedule 1, Figure 20, and will benefit
6 customers and shareholders alike. The approximately \$3.8MM in capital savings over the initial
7 10-year period arise mainly from the integration of common information systems. The balance of
8 the savings over this period, being \$37MM gross or \$32.5MM net of transaction costs, are from
9 OM&A synergies and efficiencies. More particularly, approximately \$24.2MM of these net
10 savings will come from payroll reductions with the balance of \$8.3MM coming from non-payroll
11 cost reductions. The Applicants expect that the majority of the costs savings will be OM&A-
12 related and that these will come primarily from reductions in labour, reductions in audit, legal and
13 consulting expenses and reductions in Board of Directors expenses. A breakdown of the expected
14 cost savings from synergies is provided in B-Staff-7(b).

15 Based on the foregoing, the proposed transaction promotes economic efficiency and cost
16 effectiveness in the distribution of electricity, and facilitates the maintenance of a viable electricity
17 industry.

18 Transaction and integration costs, which are estimated to be \$14.3MM over this period, will
19 primarily be incurred during the first three years. As such, Alectra Utilities expects that the
20 proposed Consolidation Transaction will deliver approximately \$26.6MM of net cash savings (pre-
21 tax) over the first 10 years following consolidation, and that savings of approximately \$4MM per
22 year will be sustained thereafter.¹⁵ The sustained savings will be driven largely by the integration
23 of back office functions. Therefore, financial viability of the utility post-consolidation will be
24 maintained.

¹⁵ See Exhibit B, Tab 6, Schedule 1 and Figure 22.

1 **5.0 OTHER MATTERS**

2 In connection with the proposed Consolidation Transaction, the Applicants have requested
3 additional relief, as follows.

4 **5.1 Licensing and Transfer of OEB Orders**

5 Pursuant to Subsection 18(1) of the OEB Act, the Applicants have requested leave to transfer
6 Guelph Hydro's existing distribution rate order to Alectra Utilities, effective immediately prior to
7 the amalgamation. This will enable Alectra Utilities, following the Consolidation Transaction, to
8 continue to charge distribution rates to customers in the Guelph Rate Zone in accordance with the
9 rate orders already in effect for those customers for the duration of the rebasing deferral period.
10 The relevant orders consist of the current 2018 distribution rate order issued December 14, 2017
11 and corrected on December 15, 2017 in EB-2017-0044, along with any subsequent distribution
12 rate orders that may be issued for Guelph Hydro prior to closing of the Consolidation
13 Transaction.¹⁶

14 Pursuant to Subsection 18(2) of the OEB Act, the Applicants have requested leave to transfer
15 electricity generation licence EG-2004-0438 from Guelph Hydro to Alectra Utilities, effective
16 immediately prior to the amalgamation. The generation licence that the Applicants seek to transfer
17 was issued to Envida Community Energy Inc. ("Envida"). In its Decision and Order in EB-2018-
18 0114, dated May 31, 2018, the Board approved the amalgamation of Guelph Hydro and Envida
19 and their continuation as Guelph Hydro, as well as the transfer of Envida's electricity generation
20 licence (EG-2004-0438) to Guelph Hydro. The Board instructed the applicants in that proceeding
21 to notify the OEB of the completion of that transaction, following which the OEB would change
22 the name of the licensee to give effect to the transfer from Evida to Guelph Hydro. Notification
23 of the completion of the transaction was provided to the OEB on July 5, 2018. The OEB issued
24 the amended licence EG-2004-0438 under the name of Guelph Hydro Electric Systems Inc.,
25 effective July 24, 2018. The licence provides authorization to own and operate the Eastview
26 Landfill Gas Facility, which has an installed capacity of 1.85 MW and is located in Guelph.¹⁷

¹⁶ The OEB has assigned proceeding number EB-2018-0036 to Gueph Hydro's 2019 distribution rates proceeding.

¹⁷ In transferring the licence from Envida to Guelph Hydro, the installed capacity referenced in the licence was also updated from 2.775 MW to 1.85 MW to reflect a prior amendment to the power purchase agreement with the IESO.

1 Transfer of the generation licence will ensure that following the Consolidation Transaction Alectra
2 Utilities will be authorized to carry on the business of owning and operating the Eastview Landfill
3 Gas Facility.

4 Pursuant to Subsection 74(1) of the OEB Act, the Applicants have requested an amendment to
5 Alectra Utilities' electricity distribution licence (ED-2016-0360) so as to include Guelph Hydro's
6 service area as an area in which Alectra Utilities is authorized to distribute and sell electricity in
7 accordance with paragraph 8.1 of its licence. This amendment, which would be made to Schedule
8 1 of the licence as set out in the form provided in Attachment 15 to the pre-filed evidence, is
9 proposed to be effective on the completion of the amalgamation. As the amendment would enable
10 Alectra Utilities to carry on the business of distributing electricity within the Guelph Hydro service
11 area following the Consolidation Transaction, if approved, the proposed amendment is in the
12 public interest.

13 In addition, pursuant to Subsection 77(5) of the OEB Act, the Applicants have requested the
14 cancellation of Guelph Hydro's electricity distribution licence (ED-2002-0565), to be effective on
15 the completion of the amalgamation. Upon the completion of the Consolidation Transaction and
16 the Guelph Hydro service area being incorporated into Alectra Utilities' distribution licence, the
17 Guelph Hydro licence would no longer be required.

18 **5.2 Rebasing Deferral**

19 The Applicants have selected a rebasing deferral period of 10 years from the date of closing of the
20 Consolidation Transaction for the Guelph Rate Zone and an Earnings Sharing Mechanism
21 ("ESM") for the Guelph Rate Zone for years six to ten of the rebasing deferral period. Each of
22 these proposals is consistent with the Board's Handbook and Consolidation Policy. Regulatory
23 net income for purposes of the ESM will be calculated in the same matter as net income for
24 regulatory purposes under the Board's Reporting and Record Keeping Requirements.¹⁸ The
25 Applicants' rebasing proposal is further discussed in Part 6.0, below.

¹⁸ Exhibit B, Tab 2, Schedule 1.

1 **5.3 Post-Closing Distribution Rate Matters**

2 As set out in the Handbook, rate-setting following a consolidation will not be addressed in an
3 application for approval of a consolidation transaction unless there is a rate proposal that is an
4 integral aspect of the consolidation. Instead, rate-setting for a consolidated entity will be addressed
5 in a separate rate application in the future, in accordance with the OEB’s rate setting policies. The
6 only rate-related proposals made by the Applicants in the Application, for which Board approval
7 has been requested, are (i) for the transfer of Guelph Hydro’s rate orders to Alectra Utilities as
8 noted above, and (ii) for approval to continue to track costs to the regulatory deferral and variance
9 accounts currently approved by the Board for each existing Alectra Utilities rate zone and for
10 Guelph Hydro so as to facilitate disposition of the recorded balances at a future date. As noted by
11 Board Staff in B-Staff-24, each of the Alectra Utilities rate zones and Guelph Hydro has a rate
12 order that contains a number of rate riders established in order to dispose of balances in specific
13 accounts. The most recent OEB approved rate riders have been provided in response to B-Staff-
14 24.

15 **6.0 REBASING PROPOSAL**

16 In Procedural Order No. 2, issued July 12, 2018, the Board invited parties to make submissions on
17 the proposal to rebase in 2027 for the Horizon, Enersource, Brampton and PowerStream rate zones,
18 and again in 2029 for the Guelph Rate Zone only.

19 As explained in Exhibit B, Tab 2, Schedule 1, Alectra plans to defer the rebasing for the newly
20 created Guelph Rate Zone for a period of ten years following the closing of the consolidation
21 transaction, with new rates to be set through rebasing for January 1, 2029. This proposal is
22 consistent with the Handbook and the Consolidation Policy.¹⁹ Alectra Utilities is currently in a
23 10-year rebasing deferral period arising from the consolidation of Horizon, Enersource, Brampton
24 and PowerStream, which consolidation was approved by the Board in EB-2016-0025.
25 Consequently, Alectra Utilities’ next rebasing for its four current rate zones will be for rates to be
26 effective January 1, 2027. The Handbook does not specifically consider the circumstances where
27 a consolidation occurs during a rebasing deferral period from a prior consolidation.

¹⁹ Handbook, pp. 11-12.

1 As explained by the Applicants in response to B-Staff-20(a), the rate-setting assumptions for the
2 consolidation scenario are as follows:

- 3 • for the four existing Alectra Utilities rate zones, distribution rates will be established using
4 the appropriate methodology²⁰ during the 10-year rebasing deferral period contemplated in
5 EB-2016-0025, i.e. until 2026. Alectra Utilities will apply, using the Custom IR
6 methodology, to rebase and establish distribution rates for the four existing rate zones
7 effective from January 1, 2027;
- 8 • for the Guelph Rate Zone, rates will be established using the Price Cap IR methodology
9 during the selected 10-year rebasing deferral period identified in this Application, i.e. until
10 2029. Alectra Utilities will apply, using the Cost of Service methodology, to rebase and
11 establish distribution rates for the Guelph Rate Zone effective from January 1, 2029, with
12 distribution rates to be established through the Price Cap IR methodology thereafter; and
- 13 • for all five rate zones (the existing Alectra Utilities rate zones and the Guelph Rate Zone),
14 a Custom IR application will be filed in 2031 to rebase and establish rates for all five rate
15 zones effective from January 1, 2032. As the Guelph Rate Zone will be under Price Cap
16 IR in 2030 and 2031, Alectra Utilities will be permitted to apply to the Board for an early
17 rebasing for the Guelph Rate Zone at that time, which it will do by means of the Custom
18 IR application.²¹

19 As explained in B-Staff-26, at the end of the rebasing deferral period, and upon rebasing the
20 Guelph Rate Zone, Alectra Utilities will evaluate its rate harmonization options with regard for
21 the then-applicable OEB policies and practices and may make a proposal to the Board at that time.
22 Until then, separate rate zones with separate rate-setting methods will be maintained. Alectra
23 Utilities does not intend to harmonize rates as between the Guelph Rate Zone and its existing rate
24 zones until such time as it is favorable for customers to do so based upon the differences in cost
25 structures being immaterial.²² Regardless of whether or when rate harmonization occurs, the

²⁰ For the Horizon Rate Zone, the appropriate methodology is Custom IR up to and including 2019 and Price Cap IR thereafter. For the other three rate zones, the appropriate methodology is Price Cap IR.

²¹ See Handbook, Table 1, p. 15, which states that in circumstances of one distributor being on Custom IR and the other being on Price Cap IR, “if the term for the LDC on CIR expires first, the consolidated entity may rebase following the expiration of the CIR term and once the selected rebasing deferral period has concluded.”

²² B-Staff-26.

1 benefits of the Consolidation Transaction will flow to the Guelph Rate Zone customers. During
2 the rebasing deferral period, those customers will benefit through the avoidance of two rebasing
3 applications. Starting in 2029, those customers will further benefit from the lower underlying cost
4 structure upon which their distribution rates will thereafter be established. The benefits to the
5 Guelph Rate Zone customers will extend beyond the rebasing deferral period and no harm to those
6 customers will be sustained.

7 **7.0 CONCLUSION**

8 The proposed Consolidation Transaction will cause no harm relative to the Board's statutory
9 objectives, including in particular with respect to the impacts of the proposed Consolidation
10 Transaction on price and quality of service to customers, and the cost effectiveness, economic
11 efficiency and financial viability of the electricity distribution sector. The proposed Consolidation
12 Transaction is also consistent with and supportive of the policies for consolidation underlying the
13 Handbook, the Consolidation Policy and the Board's objectives under the Renewed Regulatory
14 Framework for Electricity. The Consolidation Transaction therefore satisfies the Board's 'no
15 harm' test and the additional relief requested is reasonable. On this basis, the Application should
16 be approved as filed.

17 All of which is respectfully submitted this 26th day of July, 2018.

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ALECTRA UTILITIES CORPORATION

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By its Counsel, Torys LLP

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(Signed on Original)

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Charles Keizer