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File 94979

**VIA RESS FILING AND COURIER**

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli,

**Re: Application for approvals to amalgamate Alectra Utilities Corporation and Guelph Hydro Electric Systems Inc. and continue operations as Alectra Utilities Corporation (EB-2018-0014)**

Attached please find the Power Workers' Union's Submissions with respect to the above-noted application.

Yours very truly,

**PALIARE ROLAND ROSENBERG ROTHSTEIN LLP**

A handwritten signature in black ink, appearing to be "R. Stephenson", written over the typed name and initials.

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RPS:pb

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(1934 - 2006)

**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.

## **SUBMISSIONS OF THE POWER WORKERS' UNION**

### **I. INTRODUCTION**

1. 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, seeking approval to amalgamate and continue operations as Alectra Utilities.

2. The proposed consolidation will result in the amalgamation of Alectra Utilities and Guelph Hydro into a combined distributor operating as a single corporation - Alectra Utilities. The Applicants propose two steps for the consolidation:<sup>1</sup>

**Step 1:** Guelph Municipal Holdings Inc. ("GMHI") sells all of the shares it owns in Guelph Hydro to Alectra Inc. (the parent company of Alectra Utilities) in exchange for common shares of Alectra Inc. (the "Share Purchase Transaction").

**Step 2:** Alectra Utilities and Guelph Hydro, each being wholly owned by Alectra Inc., amalgamate with one another and continue as a corporation with the corporate name Alectra Utilities Corporation (the "Amalgamation Transaction").

3. The Applicants are planning for the Share Purchase Transaction to take place on December 31, 2018 and the Amalgamation Transaction to be effective January 1, 2019.

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<sup>1</sup> Argument-in-Chief, page 2

4. The Applicants seek the following specific approvals by the Board:<sup>2</sup>

- The purchase by Alectra Inc. of all the issued and outstanding shares of Guelph Hydro held by GMHI;
- The amalgamation of Alectra Utilities and Guelph Hydro and their continuation as a corporation referred to as Alectra Utilities;
- The transfer from Guelph Hydro to Alectra Utilities of Guelph Hydro's 2018 distribution rate order, issued December 14, 2017 and corrected on December 15, 2017 in EB-2017-0044, along with any subsequent rate orders that may be issued for Guelph Hydro prior to closing of the Consolidation Transaction;
- The transfer from Guelph Hydro to Alectra Utilities of generation licence (EG-2004-0438), to be effective immediately prior to the amalgamation;
- An amendment to Alectra Utilities' electricity distribution licence (ED-2016-0360) to include Guelph Hydro's service area, to be effective on the completion of the amalgamation; and
- The cancellation of Guelph Hydro's electricity distribution licence (ED-2002-0565), to be effective on the completion of the amalgamation.

## **II. SUBMISSIONS OF THE POWER WORKERS' UNION**

5. The Power Workers' Union ("PWU") submits that the Application should be approved as filed because the proposed Consolidation Transaction not only meets the Board's 'no harm' test but also will generate benefits to customers as well as shareholders of the Applicants.

6. When considering applications for consolidation, the Board's practice is to apply its "no harm" test which informs the Board whether the proposed Consolidation Transaction will have an adverse impact on the achievement of the Board's statutory

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<sup>2</sup> Argument-in-Chief, pages 2-3



objectives, including the following two major objectives which are particularly relevant to the review of consolidations in respect to distribution companies:<sup>3</sup>

1. **To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.**  
...
2. **To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.**

7. The evidence indicates that the proposed Consolidation Transaction will cause no harm with respect to impact on price and quality of service to customers, and the cost effectiveness, economic efficiency and financial viability of the electricity distribution sector. In fact, there is evidence that indicates there are benefits to be realized as a result of the proposed consolidation transaction during and after the proposed 10-year rebasing deferral period. In IBEW-2, the Applicants have made a reasonable assumption that customers in the Guelph Rate Zone will realize savings because the proposed Consolidation Transaction will avoid two cost-of-service applications during the 10-year deferral period:<sup>4</sup>

**As identified in the Applicant's response to Interrogatory B-Staff-20 a), during the rebasing deferral period, Alectra Utilities' Guelph Rate Zone's rates would be set through the OEB's Price Cap Incentive Regulation. As a result, two cost of service rate applications would be avoided, which, in the absence of the amalgamation proposal, would have been filed with the OEB in 2020 (for 2021 distribution rates) and in 2025 (for 2026 distribution rates) by Guelph Hydro.**

**Between cost of service applications, utilities are subject to the OEB's Incentive Regulation Mechanism ("IRM") cycle. Other things remaining equal, distribution rate increases are necessarily higher in a cost of service test year than distribution rates changes in the IRM period because of the need to incorporate, among other things, capital expenditures ("capex") in ratebase for the capex spent in the Incentive Regulation Mechanism ("IRM") period.**

**In Guelph Hydro's case, without the amalgamation proposal, approximately \$60MM in gross capex would need to be examined for inclusion in ratebase by the OEB in Guelph Hydro's 2021 electricity distribution rate application. Absent this amalgamation proposal, a similar pattern would prevail in the 2022–2026 rate plan term.**

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<sup>3</sup> Ontario Energy Board, Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016

<sup>4</sup> IBEW-2

Guelph Hydro's experience from its two previous cost of service rates applications has shown that rate increases averaged between 5% and 6% in those cost of service periods. Guelph Hydro anticipates distribution rate increases in the 2021 and 2026 cost of service test years to average between 5% and 6%, as a result of the underlying pattern of distribution expenses, for which relief would be sought, are not expected to be markedly different from the previous two cost of service rebasing periods. The absence of these two rebasings, during the rebasing deferral period, as a result of the amalgamation, translates to savings for customers.

8. The evidence also indicates that these savings accruing to customers of Guelph Hydro amount to approximately \$2.3MM (0.6%).<sup>5</sup>

9. Moreover, the Applicants have proposed a 50-50 Earnings Sharing Mechanism that would allow ratepayers of Alectra Utilities to share any overearnings by Alectra Utilities that exceed 300 basis points over its regulated ROE during years 6-10 of the rebasing deferral period.<sup>6</sup>

10. The evidence in B-Staff-7, b, indicates that the total quantified savings from synergies before transaction costs is expected to be \$40.88M, comprised of \$37.04M from OM&A savings and \$3.84MM from capital savings. Taking OM&A and Capital transaction/integration costs of \$4.54M and \$9.73M, respectively, the proposed Consolidation Transaction is forecast to deliver approximately \$26.6M of net savings over the first 10 years following consolidation.

11. These savings are expected to lower OM&A cost per customer for the merged utility over the 2019-2029 period compared to the status quo. For example, Guelph Hydro's OM&A cost per customer in 2016 (pre-consolidation) is \$265.81 and the weighted average OM&A cost per customer for Alectra Utilities' current rate zones is \$254.81.<sup>7</sup> On the other hand, the following table shows that OM&A cost per customer for each year of the 2019-2029 period is significantly lower:

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<sup>5</sup> Exhibit B, Tab 5, Schedule 1, page 2

<sup>6</sup> IBEW-2

<sup>7</sup> Exhibit B, Tab 5, Schedule 3, Figure 16

**Table 1 – OM&A Cost per Customer 2019 – 2029 (\$MM)<sup>8</sup>**

<b>Year</b>	<b>OM&amp;A</b>	<b>Customers *</b>	<b>OM&amp;A / Customer</b>
2019	\$ 241.68	1,014,583	\$ 238.21
2020	\$ 233.19	1,031,911	\$ 225.98
2021	\$ 234.02	1,049,534	\$ 222.98
2022	\$ 238.48	1,067,459	\$ 223.41
2023	\$ 243.29	1,085,691	\$ 224.09
2024	\$ 248.19	1,104,234	\$ 224.76
2025	\$ 253.19	1,123,094	\$ 225.44
2026	\$ 258.28	1,142,276	\$ 226.11
2027	\$ 263.48	1,161,786	\$ 226.79
2028	\$ 268.79	1,181,630	\$ 227.47
2029	\$ 274.17	1,201,813	\$ 228.13

*\*Number of customers is the sum of Residential, General Service <50kW, >50kW, and Large Users; excludes USL, Sentinel and Street Lighting*

12. The evidence also indicates that after the 10-year rebasing deferral period, the costs to serve Alectra Utilities' distribution customers are expected to be lower by approximately \$3.9MM per year (0.5%).<sup>9</sup>

13. With respect to reliability and quality of electricity service, there is no evidence that suggests the proposed Consolidation Transaction would cause any harm. The Applicants expect to maintain or improve upon the five-year average SAIDI and SAIFI reliability indices and the OEB's Customer Service Standard metrics for its customers, including the Guelph Rate Zone customers, following the Consolidation Transaction.<sup>10</sup> Under the proposal, the current Guelph Hydro service area will be integrated with one of the planned four operational regions – the Southwest Region- and the four regions will be served by seven service centres, including the existing Guelph Hydro operational centre that will be maintained for a minimum of 10 years.<sup>11</sup> The Applicants have also indicated that a reduction in local staff is not anticipated in Guelph Service Centre, with respect to staff involved in responding to outages and power quality issues, year over year from 2019 to 2029.<sup>12</sup>

<sup>8</sup> B-Staff-8, a

<sup>9</sup> Exhibit B, Tab 5, Schedule 1, p. 2

<sup>10</sup> Exhibit B, Tab 5, Schedule 4

<sup>11</sup> Ibid

<sup>12</sup> B-Staff-11, c

14. The proposed Consolidation Transaction will not cause any harm to the Board's statutory objective of promoting economic efficiency and cost effectiveness in the distribution industry. As discussed earlier, the proposed Consolidation Transaction will deliver savings in the \$26.6M (net of transaction costs) over the first 10 years following consolidation, and that savings of approximately \$4M per year will be sustained thereafter.<sup>13</sup> Moreover, the proposed consolidation would allow the sharing of experience and more efficient use of resources.

15. Finally, the Application indicates that a significant proportion of the savings from the Consolidation Transaction are anticipated to arise from reductions in personnel. The majority of this reduction is expected to be achieved through retirements and other attrition. So long as existing collective agreements and other applicable legal requirements are respected, there is no reason to believe that any harm will arise to any aspect of the Board's statutory objectives in relation to the transaction.

16. To conclude, the proposed Consolidation Transaction satisfies the Board's 'no harm' test in that it would result in savings for the ratepayer, would maintain or improve reliability at no incremental cost and would help achieve greater efficiency. For these reasons, the PWU submits that the Board approve the Application.

**All of which is respectfully submitted**

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<sup>13</sup> See Exhibit B, Tab 6, Schedule 1 and Figure 22.