

August 23, 2018

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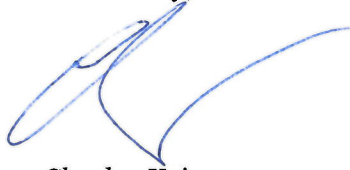
Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
26th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Alectra Utilities Corporation and Guelph Hydro Electric Systems Inc. –
Application for Leave to Consolidate – Reply Submissions (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’ Reply Submission. The Reply Submission has been filed on RESS and a copy served on all parties.

Yours truly,



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

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.

APPLICANTS' REPLY SUBMISSIONS

August 23, 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”).

In accordance with Procedural Order No. 2, issued by the OEB on July 12, 2018, the Applicants filed their Argument-in-Chief on July 26, 2018. Submissions were filed on August 8, 2018 by the International Brotherhood of Electrical Workers (“IBEW”) and on August 9, 2018 by the Power Workers’ Union (“PWU”) and OEB Staff. The following are the Applicants’ Reply Submissions. 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 submissions of the PWU are 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.¹

¹ PWU Submissions, p. 2.

OEB Staff also accepts that the Consolidation Transaction meets the ‘no harm’ test and argues that the Application should be approved. However, OEB Staff takes issue with the Applicants’ rebasing deferral proposal and puts forward two alternative options.² In the Applicants’ view, the concerns raised by OEB Staff are without merit. Moreover, the alternative options proposed by OEB Staff are contrary to the Board’s January 19, 2016 *Handbook to Electricity Distributor and Transmitter Consolidations* (the “Handbook”) and its March 26, 2015 *Report of the Board on Rate-Making Associated with Distributor Consolidation* (the “Consolidation Policy”); OEB staff place administrative ease ahead of the interests of customers; and, if any of OEB Staff’s proposed options for rebasing deferral is accepted by the Board, this would send the wrong signal and could potentially have a chilling effect on further consolidations in the electricity distribution sector. The Applicants’ proposed approach to rebasing is preferable in all respects and should be accepted by the Board.

The IBEW opposes the Application based on its view that the ‘no harm’ test has not been satisfied. They argue that the anticipated cost savings are speculative, and that the transaction has the potential to adversely impact reliability and service quality for Guelph customers. IBEW has not pointed to any evidence whatsoever to support its submissions. In the Applicants’ view, the record is clear that not only will the proposed transaction not cause harm, but it will also generate benefits to customers without any adverse impacts on reliability or service quality for Guelph customers or existing Alectra Utilities customers.

In the sections that follow, the Applicants elaborate on these aspects in response to the submissions of OEB Staff and the IBEW.

3.0 RESPONDING SUBMISSIONS

3.1 No Basis for IBEW Submission that Consolidation Transaction will Cause Harm

IBEW argues that the Applicants have not satisfied the ‘no harm’ test and that the anticipated cost savings are highly speculative. IBEW argues that, because the savings are to be achieved through synergies which reduce underlying cost structures, the majority of the savings will be achieved through staff reductions, and this will affect reliability and quality of service, thereby adversely impacting Guelph Hydro’s customers. In addition, IBEW argues that the anticipated efficiencies are speculative, have not been fully explained and should not satisfy the OEB that the underlying cost structures are no

² OEB Staff Submissions, p. 1.

1 higher. IBEW noted that it was not aware of the specific planned synergy savings initiatives because
2 the OM&A and capital synergies categories were redacted and not disclosed to IBEW. In addition,
3 IBEW argues that, if the Guelph operational centre is moved after 10 years, this will affect the quality
4 of service for Guelph customers and that response times will be degraded.

5 IBEW has not pointed to any evidence in making its submissions. Although IBEW views the cost
6 savings anticipated from the proposed transaction to be speculative, this appears to arise simply from
7 the fact that the Application and the 'no harm' test are considered on a forecast basis. Moreover,
8 IBEW's complaint that it was not aware of the specifics of the planned synergy savings due to the
9 Board-approved redactions to the public record should be ignored. The Board, in its August 7, 2018
10 Supplementary Decision on Confidentiality, provided a reasonable opportunity for IBEW counsel to
11 gain access to that redacted information but IBEW counsel opted not to avail themselves of that
12 opportunity. The Applicants have identified the expected cost savings using careful analysis based on
13 sound methodologies. The expected cost savings are reasonable and no party, including IBEW, has
14 provided or relied upon any evidence suggesting otherwise.

15 Contrary to IBEW's belief that the anticipated reductions in staffing levels will affect reliability and
16 quality of service, the evidence is that (1) reliability and quality of electricity service will be maintained
17 through the continued use of a localized service centre for de-centralized functions such as outage
18 response, (2) due to geographic diversity, in circumstances of large-scale outages Alectra Utilities will
19 be able to draw upon a larger number of operations staff from other service centres and thereby have
20 access to additional capabilities, resources and equipment to facilitate timely and effective response,
21 and (3) being part of a larger utility will enable more efficient inventory management, greater
22 availability of spare equipment and an enhanced ability to identify and implement best practices.³
23 Moreover, the Applicants have provided evidence that following consolidation, it will maintain or
24 improve upon the five-year average SAIDI and SAIFI reliability indices and the OEB's Customer
25 Service Standard metrics for its customers, including those in the Guelph Rate Zone.⁴

26 OEB Staff has not expressed any concerns about the amalgamated entity's ability to meet the service
27 quality and reliability standards currently achieved by Guelph Hydro and Alectra Utilities.⁵ Moreover,

³ Alectra Utilities, Argument-in-Chief, p. 9; Exhibit B, Tab 5, Schedule 4; B-Staff-9; IBEW-7.

⁴ Alectra Utilities, Argument-in-Chief, p. 9.

⁵ OEB Staff, Submissions, pp. 3-4.

1 the PWU in its submissions states that despite the fact that a significant proportion of the savings from
2 the Consolidation Transaction are anticipated to arise from reductions in personnel, the majority of the
3 reductions are expected to be achieved through retirements and other attrition and, as such, so long as
4 the Applicants respect the applicable collective agreements and other legal requirements (which the
5 Applicants intend to do), there is no reason to believe that any harm will arise with respect to any
6 aspect of the OEB's statutory objectives in relation to the Consolidation Transaction.⁶

7 The Applicants have committed to maintaining the existing Guelph service centre to provide de-
8 centralized functions for at least ten years following consolidation. In addition, the evidence is that no
9 reduction in local staff involved in responding to outages and power quality issues from the Guelph
10 service centre is anticipated over that period.⁷ IBEW's argument that quality of service and response
11 times will be adversely affected if the Guelph service centre is relocated beyond that 10-year period is
12 mere speculation. The Applicants do not have plans to close or relocate the Guelph service centre
13 following the 10-year commitment period. Rather, as a prudent distribution system owner and
14 operator, Alectra Utilities will continue to assess and, on an ongoing basis, implement effective and
15 efficient operational practices, together with the facilities needed to support those practices, so as to
16 maintain or enhance service quality while providing value for money to all of its customers over the
17 long-term.

18 **3.2 Rebasing Deferral Proposal is Reasonable and Preferable to OEB Staff Alternatives**

19 Although OEB Staff accepts that the Consolidation Transaction meets the 'no harm' test and should
20 be approved, they take issue with the Applicants' rebasing deferral proposal. Whereas the Applicants
21 have selected a 10-year rebasing deferral period, OEB Staff argues that the Guelph Rate Zone should
22 not be rebased in 2029 if Alectra Utilities' current rate zones are rebasing in 2027. Rather, OEB Staff
23 argues that the Guelph Rate Zone and the current Alectra Rate Zones should be rebased together, either
24 in 2027 or 2029, and that the OEB should select one or the other or give the Applicants the opportunity
25 to select an option.

⁶ PWU, Submissions, p. 6.

⁷ IRR B-Staff-11(c).

1 ***(a) The Applicants' Rebasing Deferral Proposal***

2 As explained by the Applicants in response to B-Staff-20(a) and on pp. 13-15 of the Applicants'
3 Argument-in-Chief, the rate-setting assumptions for the Alectra Utilities/Guelph Hydro consolidation
4 are as follows:

- 5 • for the four existing Alectra Utilities rate zones, distribution rates will be established using the
6 appropriate methodology⁸ during the 10-year rebasing deferral period contemplated in EB-
7 2016-0025, i.e. until 2026. Alectra Utilities will apply, using the Custom IR methodology, to
8 rebase and establish distribution rates for the four existing rate zones effective from January
9 1, 2027;
- 10 • for the Guelph Rate Zone, distribution rates will be established using the Price Cap IR
11 methodology during the selected 10-year rebasing deferral period identified in this Application,
12 i.e., until year-end 2028. Alectra Utilities will apply, using the Cost of Service methodology,
13 to rebase and establish distribution rates for the Guelph Rate Zone effective from January 1,
14 2029, with distribution rates to be established through the Price Cap IR methodology thereafter;
15 and
- 16 • for all five rate zones (the existing Alectra Utilities rate zones and the Guelph Rate Zone), a
17 Custom IR application will be filed in 2031 to rebase and establish rates for all five rate zones
18 effective from January 1, 2032.

19 At the end of the rebasing deferral period, and upon rebasing the Guelph Rate Zone, Alectra Utilities
20 will evaluate its rate harmonization options with regard to the then applicable OEB policies and
21 practices and it may make a proposal to the Board at that time. Until then, separate rate zones with
22 separate rate-setting methods will be maintained. Alectra Utilities does not intend to harmonize rates
23 as between the Guelph Rate Zone and its existing rate zones until such time as it is favorable for
24 customers to do so based upon the differences in cost structures being immaterial.⁹

25 Regardless of whether or when rate harmonization occurs, the benefits of the Consolidation
26 Transaction will flow to the Guelph Rate Zone customers. During the rebasing deferral period, those

⁸ 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 existing rate zones, the appropriate methodology is Price Cap IR.

⁹ B-Staff-26.

1 customers will benefit through the avoidance of two rebasing applications. Starting in 2029, those
2 customers will further benefit from the lower underlying cost structure upon which their distribution
3 rates will thereafter be established. The benefits to the Guelph Rate Zone customers will extend beyond
4 the rebasing deferral period and no harm to those customers will be sustained. As noted below, the
5 Applicants' proposed approach to rebasing is also in the interests of customers in the Horizon,
6 Enersource, Brampton and PowerStream rate zones.

7 OEB Staff has rejected the Applicants' proposal to rebase in 2027 for the Horizon, Enersource,
8 Brampton and PowerStream rate zones, and in 2029 for the Guelph Rate Zone only, as well as in 2032
9 for all five rate zones concurrently. Instead, OEB Staff proposes two alternative approaches. In making
10 its submissions, OEB Staff has (i) ignored key aspects of the Handbook and the Consolidation Policy
11 which are integral to the Applicants' proposal; (ii) fundamentally altered the basis of the intended
12 consolidation and disregarded the Applicants' proposal that permits the benefits of the consolidation
13 to be passed on to the customers that are the subject of that consolidation; and (iii) proposed alternatives
14 that place administrative ease ahead of the interests of the customers that are the subject of the
15 considerations in question.

16 Rebasing Deferral Period is Selected at Applicant's Option and is Fundamental to the Transaction

17 The first key aspect of the Handbook and Consolidation Policy disregarded by OEB Staff relates to the
18 selected rebasing deferral period. In the Consolidation Policy, with respect to the deferral period for
19 rate rebasing, the Board states:

20 The OEB believes that the decision to extend the deferred rebasing period for
21 distributors who are party to a MAADs transaction supports the OEB's own
22 expectations, as well as those of the government, that the distribution sector should
23 continue to seek out efficiencies, especially through consolidation . . . The OEB has
24 determined that providing an extension of the allowed deferral period to up to 10 years
25 after the closing of the transaction, would address distributors' key concern about the
26 2007 policy; would reduce the risk of a MAADs transaction, which may encourage
27 more consolidation; and would provide distributors with the flexibility to manage their
28 own, unique circumstances.¹⁰ (emphasis added)

29 The Applicants plan to defer rebasing for the newly created Guelph Rate Zone for a period of 10 years
30 following the closing of the Consolidation Transaction, with new rates to be set through rebasing for
31 January 1, 2029. The deferral period is selected at the option of the distributor and requires no

¹⁰ OEB, Consolidation Policy, p. 6.

supporting evidence and, therefore, does not form part of the consideration of the Board. This proposal is consistent with the Consolidation Policy, as well as the Handbook, which states:

The extent of the deferred rebasing period is at the option of the distributor and no supporting evidence is required to justify the selection of the deferred rebasing period subject to the minimum requirements set out below. The OEB will therefore require consolidating distributors to identify in their consolidation application the specific number of years for which they choose to defer. It is not sufficient for applicants to state that they will defer rebasing for up to 10 years. Distributors must select a definitive timeframe for the deferred rebasing period. This will allow the OEB to assess any proposed departure from this stated plan.¹¹ (emphasis added)

The minimum requirement for selecting the rebasing deferral period is merely that the distributor select a definitive timeframe.¹² As noted by the Board, this is because the Board considers the rebasing deferral period to be an integral part of the definitive plan for consolidation and the Board needs certainty as to the rebasing deferral period in order to assess any changes to that plan that may subsequently be requested. In particular, the Handbook goes on to specify the implications of the consolidating distributors selecting a definitive rebasing deferral period, as follows:

The OEB considers that consolidations can provide for greater efficiencies and benefits to customers and is committed to reducing regulatory barriers to consolidations. The OEB has allowed for a deferred rebasing period to eliminate one of the identified barriers to consolidations. The OEB remains of the view that having consolidating entities operate as one entity as soon as possible after the transaction is in the best interest of consumers. That being said, when a consolidating entity has opted for a deferred rebasing period, it has committed to a plan based on the circumstances of the consolidation. For this reason, if the consolidated entity seeks to amend the deferred rebasing period, the OEB will need to understand whether any change to the proposed rebasing timeframe is in the best interest of customers.¹³ (emphasis added)

Based on the foregoing, the selection of the rebasing deferral period is solely at the option of the distributor and is part of the financial basis of the consolidation such that the distributor commits to “a plan based on the circumstances of the consolidation”. The Board recognizes that the economic basis of the consolidation (both from the distributor and customer perspectives) is tied to the rebasing deferral period. Further, the Board recognizes that a change in that period could alter the circumstances

¹¹ OEB, Handbook, p. 12.

¹² OEB, Handbook, p. 12. In addition, the selected rebasing deferral period must not be shorter than the shortest remaining term of one of the consolidating distributors.

¹³ OEB, Handbook, p. 13.

1 of the consolidation, and the commercial terms of the consolidation, as well as the related distributor
2 and customer interests.

3 The Applicants' selection of a 10-year rebasing deferral period is based on the circumstances of the
4 proposed Consolidation Transaction and is a fundamental part of the plan proposed by Alectra Utilities
5 and Guelph Hydro in this Application. A change in that rebasing deferral period would be inconsistent
6 with the intended Consolidation Transaction that is proposed.

7 The Customers Affected by a Consolidation Should Receive the Benefits of that Consolidation

8 The second provision of the Handbook that was disregarded by OEB Staff relates to the interests of
9 the customers that are the subject of the consolidation. The Handbook states:

10 To demonstrate "no harm", applicants must show that there is a reasonable expectation
11 based on underlying cost structures that the costs to serve acquired customers following
12 a consolidation will be no higher than they otherwise would have been. While the rate
13 implications to all customers will be considered, for an acquisition, the primary
14 consideration will be the expected impact on customers of the acquired utility.¹⁴
15 (emphasis added)

16 The Applicants' rebasing proposal is consistent with this aspect of the Handbook, both with respect to
17 the Guelph Rate Zone customers in the Consolidation Transaction that is the subject of this proceeding
18 and with respect to customers in the Horizon, Brampton, Enersource and PowerStream rate zones
19 arising from the original Alectra Utilities consolidation approved by the Board in EB-2016-0025. A
20 key element of the plan arising from the rebasing deferral periods is that the benefits arising from the
21 synergies achieved during the rebasing deferral periods are, upon rebasing, shared with the same
22 customers that are subject to the applicable consolidation. Under the Applicants' proposal, the
23 synergistic benefits achieved as a result of the original consolidation transaction will be fully shared
24 with customers of the Horizon, Enersource, Brampton and PowerStream rate zones starting in 2027
25 immediately following the rebasing deferral period selected for that consolidation approved by the
26 Board in EB-2016-0025. Likewise, the benefits to be achieved from the synergies as a result of the
27 proposed Consolidation Transaction will be shared with the Guelph Rate Zone customers starting in
28 2029, which is immediately following the 10-year rebasing deferral period selected by Alectra Utilities
29 and Guelph Hydro. OEB Staff, on the other hand, propose a different result by having either Guelph
30 customers share in the benefits applicable to the original Alectra Utilities consolidation in 2027 or

¹⁴ OEB, Handbook, p. 7.

1 having Alectra Utilities customers share in the benefits of the Consolidation Transaction in 2029. The
2 OEB Staff proposal is contrary to the Handbook since to share the benefits arising from rebasing with
3 customers who are not the subject of that particular consolidation transaction would dilute the benefits
4 that are to be shared and would ignore the customers of the consolidation as being the primary
5 consideration.

6 Moreover, the Applicants' proposal appropriately respects the potential need for a rate harmonization
7 plan in 2032, when rates provide alignment with cost structures to permit ongoing benefits to flow to
8 customers. This is consistent with the Handbook which states:

9 A rate harmonization plan can propose the approach and timeline for harmonizing rate
10 classes or provide rationale for why certain rate classes should not be harmonized based
11 on underlying differences in cost structures and drivers. For acquisitions, distributors
12 can propose plans that place acquired customers into an existing rate class or into a
13 new rate class. However, the OEB expects that whichever option is adopted, rates will
14 reflect the cost to serve the acquired customers, including the anticipated productivity
15 gains resulting from consolidation.¹⁵

16 ***(b) OEB Staff Concerns with the Selected Rebasing Deferral***

17 OEB Staff asserts that the Applicants' rebasing proposal should be rejected for various reasons.
18 However, these reasons are not sustainable. They are invalid and not supported by the Handbook or
19 the Consolidation Policy. If accepted, the Board would be placing administrative ease ahead of the
20 interests of customers and acting contrary to its own Handbook and Consolidation Policy. Accepting
21 OEB Staff's approach to rebasing would send precisely the wrong signal respecting further
22 consolidations in the distribution sector by discouraging distributors from undertaking more than one
23 consolidation transaction in any 10-year period. Each of OEB Staff's concerns is dealt with in turn, as
24 follows.

25 **Staff's Practical Concerns are Overstated and Should Not be Prioritized Over Customer Benefits**

26 OEB Staff states that they have a practical concern with the Applicants' proposal in that it will be
27 difficult to evaluate the current Alectra Utilities rate zones and the Guelph Rate Zone on a standalone
28 basis at the time of the respective rebasings in 2027 and 2029. OEB Staff states that the Board "would
29 be faced with challenging questions of how to tease out the costs and savings associated with the
30 Guelph Rate Zone" to ensure that the rates set for the Alectra Utilities existing rate zones reflect the

¹⁵ OEB, Handbook, p. 18.

costs of serving those zones only.¹⁶ However, OEB Staff overstates the complexity of the rate setting exercise. OEB Staff also understates the experience and expertise of the Board in dealing with zonal rates, as well as the separation of those costs that are recovered through rates and those costs that are to be excluded from rates similar to non-regulated costs.

It is important to recognize that, with respect to the revenue requirement and rates proposed for the current Alectra Utilities rate zones in 2027, Alectra Utilities will bear the burden of proof pursuant to Subsection 78(8) of the *Ontario Energy Board Act, 1998*. To discharge that burden, Alectra Utilities will be obligated to provide the allocation of costs for rate zones included in the rate proposal and those outside of that proposal. The Board has significant expertise in considering such allocations, and regularly considers the allocation of costs and revenues as between regulated and unregulated affiliates and services, as well as between rate zones, within rate proceedings.¹⁷ As a result, OEB Staff's practical concern poses no real barrier to the assessment of rates. In any event, such a concern should not take priority over the benefits to customers that are the subject of a particular consolidation transaction.

Applicants' Approach to Rebasing is Fair to Both Existing and Guelph Rate Zone Customers

OEB Staff also raises the baseless concern that somehow it is unfair that customers in the Guelph Rate Zone would have to wait until 2029 to benefit from the lower costs that will be seen starting in 2027 by customers in the four existing Alectra Utilities rate zones, upon the rebasing of those four existing Alectra Utilities rate zones. This concern is misdirected because, in assessing the proposed transaction, the focus for the Board's consideration is on whether the affected customers will be harmed relative to their status quo. Moreover, the concern is unfounded because it ignores the interests of the customers of the current Alectra Utilities rate zones and also ignores the significance of the rebasing deferral period to the plan that is based on the circumstances of the currently proposed Consolidation Transaction.

¹⁶ OEB Staff, Submissions, p. 6.

¹⁷ See OEB, Decision and Order re Union Gas, EB-2005-0520, June 29, 2006. In this rate proceeding, which followed the consolidation of Union Gas with Centra Gas Ontario, the OEB considered a proposal by Union to modify and achieve consistency in the methodologies used to allocate rate base and operating costs to and within each of its Union North and Union South rate zones. The OEB approved a Settlement Agreement under which the parties agreed with Union's proposed approach to cost allocation for the two rate zones, which generally reflected the legacy service territories of Union Gas and Centra Gas Ontario.

1 The Board found that there was no harm in the original consolidation that gave rise to Alectra Utilities
2 and its current rate zones. In establishing that the original consolidation satisfied the ‘no harm’ test,
3 Alectra Utilities proposed a plan based on its selection of a 10-year rebasing deferral period, during
4 which efficiencies and synergies would be achieved as a result of consolidating Horizon, Brampton,
5 Enersource and PowerStream. The benefits of those efficiencies and synergies would be reflected in
6 the consolidated entity’s underlying cost structures, which would be the basis for rates upon rebasing,
7 such that those benefits would thereafter be shared with the Alectra Utilities customers that were the
8 subject of that consolidation. This is the foundation upon which that transaction, the ‘no harm’ test
9 and the Consolidation Policy have been built. By requiring all five rate zones (the four Alectra Utilities
10 rate zones and Guelph) to rebase concurrently, the inclusion of customers that have not been the subject
11 of that consolidation (in this case, the Guelph customers) means that the benefits arising from the
12 original Alectra Utilities consolidation would be less under the OEB Staff’s proposal of a 2027 rebasing
13 for all zones than if Alectra Utilities’ four existing rate zones and Guelph had separate rebasing periods
14 as proposed by the Applicants. The Guelph customers were not the subject of the original Alectra
15 Utilities consolidation. OEB Staff has put forward no basis as to why the current Alectra Utilities rate
16 zone customers should be disadvantaged relative to the Guelph rate zone customers.

17 Furthermore, there is no unfairness to the Guelph Rate Zone customers in waiting until 2029 for
18 rebasing. Based on the ‘no harm’ test, which all parties (with the exception of IBEW) acknowledges
19 has been satisfied, Guelph Rate Zone customers will benefit from the consolidation through the
20 avoidance of two rebasing applications and, starting in 2029, through the lower underlying cost
21 structure upon which their distribution rates will be established. If not for the occurrence of the original
22 Alectra Utilities consolidation and its earlier rebasing date, there would be no consideration given by
23 OEB Staff and the Board to the possibility of reducing the rebasing deferral period for the proposed
24 Consolidation Transaction. Absent the existence of the Alectra Utilities rebasing, in the ordinary
25 course, the Guelph rate zone customers would gain the full benefit of the consolidation to which they
26 are subject following the full 10-year rebasing deferral period selected by the Applicants as the basis
27 for the proposed transaction. The Handbook would be applied and there would be no assertion of
28 unfairness to the Guelph customers arising from the selected 10-year deferral. As such, the rebasing
29 of the current Alectra Utilities rate zones in 2027 is an irrelevant consideration to this Application.

1 Rebasing Deferral Period Selected at Applicants' Option and No Basis to Vary It

2 Contrary to the Handbook, which requires the filing of evidence to support the need to amend a selected
3 rebasing deferral period, OEB Staff have provided no factual or other reasonable basis to support a
4 decision by the Board, contrary to the Applicants' wishes, to shorten the rebasing deferral period. At
5 their option, the Applicants selected a 10-year rebasing deferral period consistent with the
6 circumstances of the proposed Consolidation Transaction that was negotiated and agreed to by the
7 parties and their shareholders. Imposing a different rebasing deferral period, as suggested by OEB
8 Staff, does not reflect the economics and is not the basis of the agreement negotiated and agreed to by
9 the Applicants.

10 The Need to Operate as a Single Entity is Subject to the Selected Rebasing Deferral Period

11 Another reason for questioning the Applicants' proposed approach to rebasing is OEB Staff's
12 misinterpretation of the Handbook with respect to the need to have consolidating entities operate as
13 one entity as soon as possible after the transaction being of greater importance than respecting the
14 selected rebasing deferral period. In this regard, OEB Staff quote from the Handbook as follows:

15 The OEB remains of the view that having consolidating entities operate as one entity
16 as soon as possible after the transaction is in the best interest of consumers.¹⁸

17 However, OEB Staff does not consider the two sentences that follow just after the above sentence,
18 which qualify it accordingly. These qualifying sentences state:

19 That being said, when a consolidating entity has opted for a deferred rebasing period,
20 it has committed to a plan based on the circumstances of the consolidation. For this
21 reason, if the consolidated entity seeks to amend the deferred rebasing period, the OEB
22 will need to understand whether any change to the proposed rebasing timeframe is in
23 the best interest of customers.¹⁹ (emphasis added)

24 Accordingly, the objective of having consolidating entities operate as one entity (assuming that the
25 consolidation is of no harm) remains subject to the rebasing deferral period selected by the
26 consolidating distributors. The corresponding plan, which is based on the circumstances of the
27 consolidation, and any change in that rebasing period, requires a demonstration that it is in the best
28 interest of customers. By setting aside the fact that the Handbook defers to the consolidating utility's

¹⁸ OEB, Handbook, p. 13.

¹⁹ OEB, Handbook, p. 13.

own choice of rebasing deferral period, OEB Staff have failed to show that reducing the rebasing deferral period from 10 years to 8 years is in the best interests of customers.

No Requirement to Rebase for the Utility as a Whole

To support its position, OEB Staff also references, on p. 7 of its Submissions, the following passage from the Handbook in support of the proposition that the Handbook contemplates that when a utility rebases it must be for the utility as a whole even though the Handbook contemplates a 10-year rebasing deferral period:

A consolidated entity may apply to the OEB to rebase its rates as a consolidated entity through a cost of service or Custom IR application following the expiry of the original rate-setting term of at least one of the consolidating entities and once the selected deferred rebasing period has concluded.²⁰ (emphasis added)

However, OEB Staff has taken this sentence out of context. This sentence is in reference to the Handbook's discussion relating to early termination of the pre-consolidation rate setting term. It does not stand for the proposition that rebasing must occur on an enterprise-wide basis. The foregoing sentence is in reference to a single consolidation and not the current situation and is setting the point in time where rebasing can occur relative to varying rate setting periods of consolidating entities. Moreover, in using "may" rather than "shall" it is permissive rather than mandatory. In any event, as emphasized in the wording above, the selected rebasing deferral period is a governing factor as to when rebasing can occur.

To support its argument that the Guelph Rate Zone should not be rebased on a standalone basis, OEB Staff reference the Board's findings in the original Alectra Utilities consolidation proceeding with respect to how the consolidated utility should report under the Board's *Electricity Reporting and Record-Keeping Requirements* ("RRR"). In the original Alectra Utilities consolidation proceeding, as OEB Staff notes, the Board found that Alectra Utilities should report under the Board's RRR reporting requirements on a single-entity basis, rather than separately for each of its four rate zones. In the present Application, consistent with that decision, the Applicants have proposed reporting on a single-entity basis rather than separately for each of its five rate zones following the proposed Consolidation Transaction. OEB Staff argues that it would be inconsistent with the decision in the original Alectra Utilities consolidation proceeding, and incompatible with the manner in which the Applicants intend

²⁰ OEB, Handbook, p. 12.

1 to operate the consolidated entity, to rebase the Guelph Rate Zone on a standalone basis.²¹ This
2 argument is without merit. How Alectra Utilities reports for purposes of the RRR reporting
3 requirements is not relevant to the timing or manner in which it re-establishes its rate base. In fact,
4 since completing the original consolidation Alectra Utilities has been meeting its RRR reporting
5 obligations on a single-entity basis despite that the rates in each of its four rate zones have been
6 established through separate rate proceedings for the predecessor utilities, which occurred at different
7 times and used different rate setting methodologies. Further, Alectra Utilities will have reported RRRs
8 (both quarterly and annually) nine times prior to rebasing rates in the original four rate zones. This
9 would be no different following the proposed Consolidation Transaction, except that there would be
10 an additional rate zone for which to account.

11 Staff's Options, Not the Applicants' Approach, Would Blunt Benefits to Ratepayers

12 OEB Staff believes that the “staggered rebasing might blunt the benefits to ratepayers from the
13 integration savings”.²² The use of the word “might” indicates that OEB Staff has no clear basis to
14 affirm its assertion. Further, as noted above, the Applicants' approach to rebasing would ensure that
15 the benefits of each of the original and the proposed consolidations will flow to those customers that
16 are the subject of each such consolidation. As such, there would be no “blunting” of the benefits which
17 are fairly provided to customers in the manner contemplated by the Handbook. If anything, it would
18 be OEB Staff's alternative options that would have the effect of blunting or diluting the benefits to
19 ratepayers from the integration savings.

20 Underpinning OEB Staff's position is that the Custom IR application contemplated in 2032 would be
21 too long after the date of closing for each of the original and the proposed consolidation to rebase the
22 enterprise as a whole. However, this is a false premise as it loses sight of the key aspect, which is the
23 point at which rebasing first occurs following each consolidation. Based on the Applicants' proposed
24 approach, the benefits for each consolidation would be shared with the appropriate customers in 2027
25 and 2029, respectively, which are well in advance of 2032 and which are consistent with the rebasing
26 deferral periods selected, consistent with the Handbook and Consolidation Policy, for each
27 consolidation.

²¹ OEB Staff, Submissions, p. 7.

²² OEB Staff, Submissions, p. 7.

1 Rate Harmonization Requirements Should Not be Confused With Rebasing Requirements

2 OEB Staff appear to be confusing the Handbook's requirements for rebasing with the requirements for
3 rate harmonization. There is no obligation to harmonize rates in the first application after conclusion
4 of the 10-year rebasing deferral period; only to rebase. At the time of rebasing, there is an obligation
5 to propose rate harmonization plans, but those plans can propose an approach and timeline for
6 harmonizing certain classes or provide rationale for why certain or all classes should not be
7 harmonized. Regardless of whether harmonization is proposed concurrent with rebasing or at some
8 future date, for some or all customer classes, the OEB's expectation is that following the rebasing
9 deferral period the rates will reflect the cost to serve the relevant customers, including the anticipated
10 productivity gains from consolidation.²³ This expectation is met under the Applicants' proposed
11 approach. Relative to the proposed approach of rebasing the original rate zones in 2027, the Guelph
12 Rate Zone in 2029 and all five rate zones simultaneously in 2032, rebasing on an enterprise-wide basis
13 prior to 2032 does not advance the OEB's fundamental objective of ensuring that rates reflect the cost
14 to serve the relevant customers.

15 No Prohibition on Early Rebasing through Custom IR

16 With respect to the Applicants' plan to file a Custom IR application in 2031 to rebase and establish
17 rates for all five rate zones (the existing Alectra Utilities rate zones and the Guelph Rate Zone) effective
18 from January 1, 2032, OEB Staff suggests that the Board should reject this approach because: (1) it
19 would result in the rate term for the Guelph Rate Zone being in effect for only three years, which is
20 less than the standard five-year term under the Price Cap IR methodology; (2) early rebasing is
21 generally discouraged; and (3) there is an onus on the utility seeking early rebasing to show that it is
22 justified in the circumstances.²⁴ While OEB Staff is correct that the proposed approach would result
23 in the rate term for the Guelph Rate Zone being in effect for three years (rebasing in 2029 and Price
24 Cap IR for 2030-2031), OEB Staff is not correct in its submissions that the proposed approach to early
25 rebasing is discouraged or that Alectra Utilities would need to show that such early rebasing is justified.
26 Rather, as the Guelph Rate Zone will be under Price Cap IR in 2030 and 2031, Alectra Utilities will
27 be permitted to apply to the Board for an early rebasing for the Guelph Rate Zone because it would be
28 doing so by means of a Custom IR application. The October 18, 2012 *Report of the Board on the*

²³ OEB, Handbook, pp. 17-18.

²⁴ OEB Staff, Submissions, pp. 7-8.

1 *Renewed Regulatory Framework for Electricity Distributors* (“RRFE”) states that distributors may
2 make a Custom IR application at any time within a Price Cap IR term without having to meet the early
3 rebasing test established by the Board in its April 20, 2010 letter.²⁵

4 ***(c) Rebasing Deferral Options Proposed by OEB Staff***

5 As an alternative to the Applicants’ rebasing proposal, OEB Staff has proposed two rebasing options:
6 (i) advance the rebasing of the Guelph Rate Zone and rebase the consolidated utility (all five rate zones)
7 in 2027 (“Option 1”), or (ii) delay the rebasing of the four existing Alectra Utilities rate zones and
8 rebase the consolidated utility (all five rate zones) in 2029 (“Option 2”). Neither of these options is
9 acceptable as they:

- 10 • are contrary to the Handbook, and
- 11 • are a disincentive to consolidation contrary to the Board’s Consolidation Policy.

12 Underpinning both options is OEB Staff’s view that the consolidated utility should be regulated as one
13 entity as soon as possible after the transaction. OEB Staff wrongly assert that there is a tension between
14 this concept and the fact that consolidating entities are entitled to select their rebasing deferral period.
15 However, there is no such tension. As noted above, the Board has resolved this matter and has
16 indicated that the rebasing deferral period is to be respected since it forms part of the plan based on the
17 circumstances of the consolidation on which the Board assesses the ‘no harm’ test and on future rate
18 making. Based on the Handbook, a change to the rebasing deferral period is not lightly accepted and
19 requires justification and an understanding of “whether any change to the proposed rebasing timeframe
20 is in the best interest of customers”. In proposing a change to the rebasing deferral period in respect
21 of the proposed Consolidation Transaction and also to the rebasing deferral period for Alectra Utilities’
22 existing rate zones, OEB Staff are not excused from having to demonstrate that such changes would
23 be in the best interests of customers. Other than speculation, OEB Staff have provided no such
24 justification. In fact, OEB Staff ignores the need for the benefits arising from each consolidation to be
25 appropriately shared with the customers that are the subject of each consolidation.

26 OEB Staff asserts that the Application is unique. However, this uniqueness only relates to the existence
27 of a previous consolidation for which the rebasing deferral period has not expired. Based only on this

²⁵ OEB, RRFE, pp. 15 and 70. See also the Board’s Decision and Order re PowerStream Inc. in EB-2015-0003, dated August 4, 2016, at p. 7.

factor, OEB Staff asserts that a departure from the Applicant-selected 10-year deferral period is acceptable. There is no consideration given by OEB Staff as to the impact of either of its alternative options on the Applicants' plan for consolidation or the affected customers. At most, OEB Staff considers the breakeven point of the transition costs relative to savings. However, this is not the intended basis for the rebasing deferral period. The Board has recognized that transaction costs will be incurred in the early years but savings and benefits incenting consolidation and providing future customer benefits will occur in later years. In the Consolidation Policy, the Board stated:

The OEB has determined that providing an extension of the allowed deferral period to up to 10 years after the closing of the transaction, would address distributors' key concern about the 2007 policy; would reduce the risk of a MAADs transaction, which may encourage more consolidation; and would provide distributors with the flexibility to manage their own, unique circumstances.²⁶

This determination was in response to the positions of distributors summarized by the Board as follows:

Distributors explained that the transition and integration costs of a MAADs transaction, although largely incurred upfront can continue for two to four years following the completion of the transaction. Whereas efficiency gains and savings resulting from the transaction will not start to be realized until the transaction is completed and the new entity has begun to operate. Distributors indicated that given the nature and timing of these costs and savings, annual net benefits (operational costs less transition and integration costs) are in many cases negative during the first two to four years. Therefore, it may take anywhere from six to ten years to reach a break-even point, where the cumulative savings exceed the cumulative acquisition and integration costs.²⁷

For better or worse, OEB Staff's position and proposed options are driven by one unsubstantiated objective - "having a consolidated utility rebased on a holistic basis". OEB Staff's position is driven by the occurrence of parallel consolidations and not the regulatory considerations described above. For example, notwithstanding that OEB Staff endorses the option of extending the rebasing deferral period for the four existing Alectra Utilities rate zones, from 2027 to 2029, OEB Staff points out that one of the downsides of its 'holistic consolidation' approach is that rebasing could be indefinitely deferred if there were further consolidations and rebasing deferral periods extending beyond 2029, and potentially indefinitely if there were a succession of consolidations. This is clearly the consequence of

²⁶ OEB, Consolidation Policy, p. 6.

²⁷ OEB, Consolidation Policy, p. 5.

1 an unprincipled approach and the very element that the above-noted public interest considerations
2 stipulated in the Handbook were attempting to avoid.

3 It is important to note that OEB Staff does not apply its holistic approach to the circumstance of Option
4 1 where the rebasing deferral period is reduced. Based on OEB Staff's approach, no matter what
5 consolidation Alectra Utilities was to negotiate the latest point for rebasing would always be 2027. For
6 example, if in furtherance of the Consolidation Policy Alectra Utilities proposed a new and unrelated
7 consolidation in 2021, it could not, under OEB Staff's proposal, have a rebasing deferral proposal of
8 10 years as it would be obligated to rebase at the point of earliest rebasing, which is 2027. Since OEB
9 Staff has placed its holistic approach above all others, no consolidation in which Alectra Utilities would
10 participate starting in 2019 could have a rebasing deferral period longer than 7 years, and there would
11 be a decreasing available rebasing deferral period until 2027. For the most part, the incentives provided
12 by the Handbook and the Board's Consolidation Policy would be lost with shorter rebasing deferral
13 periods, such that even the recovery of transaction costs could be in doubt. As time progressed past
14 2019, there would be no incentive for Alectra Utilities to consolidate until after 2027. As a precedent,
15 the OEB Staff's proposal implies that a distributor should not participate in more than one
16 consolidation in a 10-year period. Clearly this is not the intent of the Handbook or the Board's
17 Consolidation Policy.

18 OEB Staff also identifies a variation of Option 1, which it suggests may be more compatible with the
19 Applicants' selection of a 10-year rebasing deferral period. Under this variation, referred to as "Option
20 1A", OEB Staff proposes that (i) Alectra Utilities include the Guelph Rate Zone in the planned 2027
21 rebasing application as part of the forecast for all rate zones for the five-year rate-setting term, and (ii)
22 the Guelph Rate Zone would continue on Price Cap IR for two years and the rebased rates would not
23 be implemented for the Guelph Rate Zone until 2029. In OEB Staff's view, this approach would avoid
24 rebasing before expiry of the rebasing deferral period while still allowing for a "holistic application"
25 to be filed in 2027.

26 In the Applicants' view, Option 1A would be unprecedented since it would involve the Board making
27 a rate determination relating to the Guelph Rate Zone, which the Board (in completing the rebasing)
28 would have concluded is just and reasonable, and then having the Board hold that just and reasonable
29 rate in abeyance for two years while it approves another rate under Price Cap IR, which it would also
30 have to conclude is just and reasonable. In addition, Option 1A will not provide benefits to customers.
31 As described above, the customers in the original Alectra Utilities rate zones will have their expected

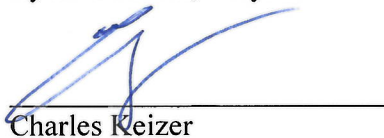
1 synergy benefits diluted because of the sharing of those benefits with the Guelph Rate Zone customers,
2 while Guelph customers' benefits derived from that exercise would be deferred for two years. The
3 exercise underpinning Option 1A is cumbersome and does not provide for regulatory efficiency or
4 transparency. Option 1A appears to be more about fulfilling OEB Staff's perceived need for a "holistic
5 rebasing approach" than it is about the impacts of the Consolidation Transaction on customers. In any
6 event, Option 1A would effectively establish through the present proceeding a rate making approach
7 for Alectra Utilities in 2027, which is contrary to the stated Board policy in the Handbook that rate
8 related matters are to be left for a future proceeding outside of the MAAD approval process.

9 **4.0 CONCLUSION**

10 OEB Staff and the PWU agree with the Applicants' that the proposed Consolidation Transaction will
11 cause no harm relative to the Board's statutory objectives, including in particular with respect to the
12 impacts of the proposed Consolidation Transaction on price and quality of service to customers, and
13 the cost effectiveness, economic efficiency and financial viability of the electricity distribution sector.
14 The submissions of the IBEW on this point are not based on any evidence, are without merit, and
15 should be ignored. The proposed Consolidation Transaction, as well as the Applicants' selected
16 rebasing deferral period and overall plans for rebasing, are - unlike OEB Staff's proposed alternative
17 options for rebasing - consistent with and supportive of the policies for consolidation underlying the
18 Handbook, the Consolidation Policy and the Board's objectives under the RRFE. The Consolidation
19 Transaction therefore satisfies the Board's 'no harm' test and the additional relief requested is
20 reasonable. On this basis, the Application should be approved as filed.

21 All of which is respectfully submitted this 23rd day of August, 2018.

22 **ALECTRA UTILITIES CORPORATION**
23 By its Counsel, Torys LLP

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25 _____
26 Charles Keizer
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