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October 4, 2018

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Erie Thames Powerlines Corporation and West Coast Huron Energy Inc.
MAAD Application (EB-2018-0082)
Final Argument of the Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed the Final Argument of VECC in the above noted proceeding.

Yours truly,

John Lawford
Counsel for VECC

cc. Mr. Chris White
Mr. Larry McCabe
Intervenors to the Proceeding

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EB-2018-0082

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

AND IN THE MATTER OF an application by Erie Thames Powerlines Corporation (Erie Thames Powerlines) and West Coast Huron Energy Inc. (West Coast Huron Energy) for approval to amalgamate and continue operations as a single electricity distribution company.

VULNERABLE ENERGY CONSUMERS COALITION

FINAL ARGUMENT

October 5, 2018

1. INTRODUCTION

On March 14, 2018 Erie Thames Powerlines Corporation (ETPL) and West Coast Huron Energy Inc. (WCHEI) filed an application with the Ontario Energy Board for approval to amalgamate and continue operations as a single electricity distribution company.

The proposed amalgamation involves the following simultaneous transactions[1]:

1. The Town of Goderich (the sole shareholder of WCHEI) will be issued shares in ERTH Corporation[2] (ERTH) in exchange for all of the shares of WCHEI.
2. Immediately upon completion of the share exchange the two electricity distribution companies will be amalgamated into one legal entity and their respective operations will be consolidated. The consolidation involves: i) the transfer of WHCEI's Electricity Distribution Licence to ETPL and ii) the subsequent amendment of ETPL's Distribution Licence to include the WCHEI service area (and the cancellation of licence of WCHEI).

The March 2018 Application sought the following approvals from the OEB[3]:

(a) Leave for WCHEI and ETPL to amalgamate and continue as a corporation, pursuant to Section 86(1)(c) of the *OEB Act*;

(b) Leave for WCHEI to transfer its distribution systems to ETPL pursuant to Section 86(1)(a) of the OEB Act;

(c) Leave for WCHEI to transfer its distribution licenses and rate orders to ETPL, pursuant to Section 18 of the *OEB Act*;

(d) The amendment of the distribution licence for ETPL under Section 18 of the *OEB Act* to include the service area of WCHEI no later than 120 days after the approval of this Application (to be followed immediately by the cancellation of the distribution licence of WCHEI.), and

(e) Such necessary rate orders to transfer the existing WCHEI rate orders to ETPL.

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[1] Exhibit B, Tab 2, Schedule 1, pages 3-4; Staff IR #1 (a) (i) and Garland IR #7 (a) & (c)

[2] ERTH is the sole shareholder of ETPL and is currently owned by eight municipalities

[3] Exhibit A, Tab 1, Schedule 1, pages 4-5

In response to the Board Staff's interrogatories[4] the Application was amended to also seek the OEB's approval of the acquisition by ERTH of all of the shares of WCHEI pursuant to section 86(2)(a) of the *OEB Act*. The new name anticipated for the amalgamated utility is ERTH Power Corporation[5].

2. VECC's INTEREST IN THE APPLICATION

VECC's interest in the Application is primarily two-fold. First, does the Application meet the "No Harm" test? In this regard, VECC supports the Board's approach whereby the focus is on "whether the proposed transaction will have an adverse effect on the attainment of the OEB's statutory objectives, as set out in section 1 of the *OEB Act*"[6]:

> 1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
>
> 1.1 To promote the education of consumers.
>
> 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.
>
> 3. To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario, including having regard to the consumer's economic circumstances.
>
> 4. To facilitate the implementation of a smart grid in Ontario.
>
> 5. To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

Furthermore, VECC agrees that the primary focus of Board's review[7] should be with respect to the impacts of the proposed transaction on price and quality of service to

[4] Staff IR #3 (a) – amended July 10, 2018
[5] Staff IR #3 (c)
[6] OEB Handbook to Electricity Distributor and Transmitter Consolidations (the "Handbook"), January 19, 2016, page 4
[7] Handbook, page 6

customers, and the cost effectiveness, economic efficiency and financial viability of the electricity distribution sector (i.e., Objectives 1 and 2). In this regard, VECC's focus is on the impact of the transaction on the price and quality of service to customers. It is VECC's view that protecting customers' interests with respect to price and quality of service is consistent with, and will further, the Board's objectives as they pertain to the promotion of economic efficiency and cost effectiveness[8]. VECC's second area of interest is with respect to the rate-making aspects and implications of the Application.

3. <u>NO HARM TEST</u>

3.1 <u>Price</u>

3.1.1 <u>Cost Efficiencies</u>

<u>OM&A</u>

The Applicants state[9] that OM&A savings "will be largely realized through employee attrition and retirements, including the transition of some existing WCHEI employees to The Town of Goderich. In addition, OM&A savings will also be realized via savings on professional service fees (e.g. audit, actuary and consulting fees), avoided IT maintenance fees, and the elimination of redundant rental and other operating costs at redundant facilities". The Applicants have quantified the OM&A savings as follows[10]:

- The merged entity expects to realize between $160,000 and $410,000 of fully-burdened labour costs through attrition annually.
- Savings of approximately $70,000 annually are expected from reduced audit, actuary and consulting fees.
- Savings of $75,000 annually will be realized from the avoidance of cost maintenance for the Harris financial system and associated servers. These savings arise as WCHEI will be rolled into ETPL's financial systems[11].
- $100,000 in costs for rental and operating costs at redundant facilities. These savings arise as a result of the post-amalgamation consolidation of WCHEI's West

[8] This is because it is "customers" who, in the end, pay the costs incurred the utility and benefit/suffer from the reliability and service quality implications that result from those expenditures.
[9] Staff IR #7 (b) (i)
[10] Staff IR #7 (b) (ii)
[11] VECC IR #14 (c)

Street office space and EPTL's Mitchell operations centre with the WCHEI's current Huckins Street operations centre[12].

The reduced staffing requirements are in administrative areas[13] and arise as "the administrative costs for the combined organization will be maintained at current ETPL levels as the addition of WCHEI customers will not materially change the management structure of the former stand-alone ETPL" [14]. However, there will be no WCHEI employee job losses as some employees will be transferred to the Town of Goderich[15] and ETPL has refrained from hiring new staff to replace recent employees lost through attrition and opportunities elsewhere in anticipation of the amalgamation[16].

The Application provides[17] a projection of annual OM&A saving due to the amalgamation that start at $344,500 in 2018 and increase to $752,840 in 2028. While there is no annual breakdown as to the source of the annual savings, VECC notes that the savings projected for 2028 are roughly consistent with the savings noted above assuming the upper end of the range for labour costs savings is achieved and an inflation rate of 2%/annum.

VECC also notes that there are additional efficiency gains that are likely to arise as a result of the amalgamation that do not appear to have been quantified and included in the projection of OM&A savings. These include: i) saving in yearly licence fees for engineered construction standards, ii) reduced time requirement for inventory management, and iii) savings from rolling WCHEI customers into ETPL's CIS system[18].

Overall, the Applicants' projected OM&A savings appear reasonable for purposes of assessing the cost/price implication of the amalgamation.

Capital Spending

The Applicants also state that capital expenditure savings will be realized as a result of the proposed amalgamation "through avoided capital expenses, including financial

[12] VECC IR #5 (a) and VECC IR #6 (b)
[13] Exhibit B, Tab 5, Schedule 1, page 3 notes that there will be no reductions in Operations staff
[14] VECC IR #9 (a)
[15] Staff IR #7 (a) and #8 (a) (i)
[16] VECC IR #13 (e) & (f) and VECC IR #14 (f)
[17] Exhibit B, Tab 5, Schedule 2, page 1, Table 5 and VECC IR #13 (c)
[18] VECC IR #8 (a) and #10 (a)

systems[19] and large truck replacements[20], and the optimization of the capital planning process"[21]. The Application provides a projection of capital savings for the 2017-2028 period arising mainly "due to WCHE avoiding a financial system conversion, avoidance of constructing a new service centre in Mitchell Ontario, savings due to the consolidation of fleet and redundancy of vehicles, and IT infrastructure savings"[22]. These purported savings total roughly $2 M for the 12 year period.

VECC has a number of issues with the projected capital savings:

In VECC IR #14 (a) the Applicants were asked to provide a breakdown of the capital savings in each year 2018-2028 and in response the following details regarding the capital cost savings were provided:

- Avoiding the WCHEI financial conversion in 2017 - $300,000.
- Avoiding a new service centre in Mitchell - $180,000, which it claims was not included in the savings.
- Consolidation of fleet and redundancy of vehicles - $40,000 in each of 2018 and 2020. Also, the response claims that there is an additional $320,000 in each of 2021 and 2028 for large vehicle replacement that was not included in the savings
- No IT infrastructure capital savings were included in the projection nor were any other capital savings included in the projection.

VECC's first issue is that the capital savings listed by the Applicants and which are identified as being included in the projection only total $380,000 (i.e., the financial conversion avoidance and the consolidation/redundancy of vehicles). Furthermore, even including the new service centre avoidance and large vehicle replacement would only bring the total to $1.2 M still well short of the $2 M included in the projection.

VECC's second issue is that the response to VECC IR# 14 (a) (ii) indicates that the new operations centre was not budgeted for in the status quo and therefore not included in the savings. However, the response to VECC IR #14 d) suggests that the new service centre was included in EPTL's 2017 budget.

[19] For details see VECC IR #14 (b) (i) and (c)
[20] For details see VECC IR #14 (b) (iii) and (f)
[21] Staff IR #7 (b) (i)
[22] Exhibit B, Tab 6, Schedule 1, page 1 (Figure 8)

VECC's third issue is that for 2018 ETPL is renting facilities in Mitchell as it was required to vacate its former service centre in the municipality[23]. The Application already includes annual[24] savings of $100,000 annually due to avoidance of rental and operating costs at redundant facilities. If this $100,000 includes the lease payment for the operations centre in Mitchell[25], then also including the capital cost of new operations centre as "savings" would be double-counting.

In VECC's view, further clarification of the basis for the capital cost savings included in the cost projections of the amalgamated utility is required.

There are several instances throughout the Application[26] and IR responses[27] where the suggestion is made that the amalgamation will lead to reduced capital costs through improvements in asset management and capital planning through the adoption of best practices of the predecessor utilities and the rationalization of capital spending. VECC notes that these saving have not been quantified. However, VECC questions whether savings due to the adoption of "best practices" should be claimed as savings due to the amalgamation.

In VECC's view, all utilities should be continually striving to improve efficiencies and looking to "best practices" to assist them in doing so regardless of whether or not they are undergoing a "consolidation". In addition, since ETPL has been providing asset management and engineering design services to WCHEI[28], VECC assumes that there is already some standardization in terms of approach to asset management and capital planning. Finally, the Applicants state[29] that the amalgamation "will present more opportunities to leverage asset management and rationalized capital spending over a larger pool of projects". Again, in VECC's view, this does not necessarily lead to reductions in costs. What it will result in is a reprioritization of the projects that would have been considered by ETPL and WCHEI as stand-alone utilities. However, unless

[23] VECC IR #14 (d) & (e)
[24] Staff IR #7 (b) (ii)
[25] Garland IR #11 (d)
[26] Exhibit B, Tab 5, Schedule 1, page 2
[27] Staff IR #2 (b); Staff IR #7 (b) (i); and VECC IR #8 (b) & (c)
[28] VECC IR #1 (a) and VECC IR #8 (b)
[29] VECC IR #8 (c)

individual projects can be managed more cost-effectively by the amalgamated utility this will not lead to capital cost savings but merely a reprioritization of the projects concerned.

3.1.2 Cost vs. Price

The Application provides a comparison of the projected revenue requirements for both ETPL and WCHEI, each on a stand-alone basis, as well as for the amalgamated utility for the period 2017-2026 and states[30] that the "efficiency savings" (as discussed above) "will result in overall lower ETPL[31] electricity distribution rates, in comparison to the rates of the individual LDCs absent the consolidation proposed in the Application". However, the difference in the revenue requirements appears to be a direct result of the assumption that, without the amalgamation, WCHEI will re-base in 2019 and ETPL in 2023[32] leading to higher rate increases over the period[33].

VECC submits that the comparison does not, in any way, demonstrate the effect that the efficiency gains will have on future distribution rates. The Applicants have confirmed[34] that the projected revenue requirement for the "amalgamated utility" is not cost-based but rather based on the assumption that, given the Application proposes rebasing be deferred until 2028[35], annual IRM adjustments will occur through to 2026 and the amalgamated utility's revenue requirement has been adjusted accordingly. As a result, the 2019-2026 revenue requirements set out for the amalgamated utility do not reflect the specific efficiencies anticipated to occur as a result of the transaction.

VECC has also noted several issues with respect to the revenue requirements comparison set out in Figure 9:

- The Application itself indicates that the status quo projection for ETPL assumes the utility rebases in 2018. However, the interrogatory response[36] indicates that for

[30] Exhibit B, Tab 6, Schedule 1, pages 1-2 and Figure 9
[31] As an amalgamated utility
[32] Exhibit B, Tab 5, Schedule 1, page 1 and VECC IR #7 b)
[33] Implicit in the projected status quo revenue requirements appears to be an additional rebasing for WCHEI in 2025 giving rise to a 6% increase it the revenue requirement.
[34] VECC IR #16 (a)
[35] Exhibit B, Tab 7, Schedule 1, page 1 and VECC IR #7 (d)
[36] VECC IR #7 (b)

ETPL the status quo revenue requirement in 2019 is assumed to equal the revenue requirement in its current 2018 COS application (i.e., there is no allowance for an IRM adjustment in 2019).

- Similarly, in Figure 9, the Application assumes that the amalgamated utility's revenue requirement in 2019 is equal to the amount that ETPL has requested in its 2018 COS application[37] (i.e., again there is no allowance for an IRM adjustment in 2019)
- The interrogatory response outlining the basis for the projections states that ETPL's revenue requirement for 2019 is based on the revenue requirement in its current COS application before the Board (EB-2017-0038). However, neither the ETPL revenue requirement for 2018 ($10,785,164) nor the one for 2019 ($10,946,941)[38], as set out in Figure 9, match the revenue requirement requested in ETPL's current 2018 Rate Application[39] ($10,930,285).
- For the period up to 2024, the same annual IRM adjustments are used (where applicable) for ETPL, WCHEI and the amalgamated utility – 1.5%/annum. However, as shown in the table below, for the period after 2024, the annual IRM adjustment for ETPL under status quo scenario is assumed to be 2%; whereas for WCHEI and the amalgamated utility an annual IRM adjustment of 1.5% was used. This difference in assumptions will increase the calculated "savings" attributed to the amalgamation.

[37] VECC IR #7 (a)
[38] Exhibit B, Tab 6, Schedule 1, page 2, Figure 9
[39] EB-2017-0038, Exhibit 6, Tab 1, Schedule 7, page 1

				ANNUAL REVENUE REQUIREMENTS					
		ETPL - Stand Alone		WCHEI - Stand Alone		Combined		Amalgamated Utility	
		Total	Change	Total	Change	Utility		Total	Change
2017		$ 10,614,293		$ 2,416,936		$ 13,031,229		$ 13,031,229	
2018		$ 10,785,164	1.6%	$ 2,453,190	1.5%	$ 13,238,354		$ 13,236,354	1.6%
2019		$ 10,946,941	1.5%	$ 2,759,623	12.5%	$ 13,706,564		$ 13,436,929	1.5%
2020		$ 11,111,146	1.5%	$ 2,801,017	1.5%	$ 13,912,163		$ 13,638,483	1.5%
2021		$ 11,277,813	1.5%	$ 2,843,033	1.5%	$ 14,120,846		$ 13,843,061	1.5%
2022		$ 11,446,980	1.5%	$ 2,885,678	1.5%	$ 14,332,658		$ 14,050,706	1.5%
2023		$ 12,362,738	8.0%	$ 2,928,963	1.5%	$ 15,291,701		$ 14,261,467	1.5%
2024		$ 12,609,993	2.0%	$ 2,972,898	1.5%	$ 15,582,891		$ 14,475,389	1.5%
2025		$ 12,862,193	2.0%	$ 3,151,272	6.0%	$ 16,013,465		$ 14,692,520	1.5%
2026		$ 13,119,437	2.0%	$ 3,198,541	1.5%	$ 16,317,978		$ 14,912,908	1.5%
Sources:	Exhibit B, Tab 6, Schedule 1, page 2, Figure 9								

As a result, in VECC's view the analysis presented by the Applicants in Figure 9 does not even provide a clear picture of the price differences the customers of the amalgamated utility would experience during the rebasing period.

However, even if it did, the Board has indicated that "it is important for the OEB to consider the impact of the transaction on the cost structure of the consolidating entities both now and in the future"[40] when assessing whether a transaction "protects consumers with respect to price". More specifically, the Handbook states[41] that:

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

In this Application there is no acquiring and acquired utility but rather two utilities that are seeking to amalgamate. As result, it is VECC's view that the expected impact on the customers of both utilities must be given reasonable consideration.

[40] The Handbook, page 6
[41] Page 7

3.1.3 Current Cost Structures

The Application provides[42] a comparison of the 2014-2017 OM&A per customer for both ETPL and WCHEI as well as the combined utility. The comparison was updated for 2017 actual values in ETPL's interrogatory response and the results are set out below.

	ETPL			WCHE			Combined		
	OM&A	Customer Count	OM&A Per Customer	OM&A	Customer Count	OM&A Per Customer	OM&A	Customer Count	OM&A Per Customer
2014	$5,651,479.92	18,265	$ 309.42	$1,709,900.00	3,797	$ 450.33	$7,361,379.92	22,062	$ 333.67
2015	$5,856,835.19	18,434	$ 317.72	$1,762,372.00	3,812	$ 462.32	$7,619,207.19	22,246	$ 342.50
2016	$6,114,840.38	18,637	$ 328.10	$1,833,938.00	3,829	$ 478.96	$7,948,778.38	22,466	$ 353.81
2017	$6,226,933.00	19,156	$ 325.07	$1,677,121.00	3,745	$ 447.83	$7,904,054.00	22,901	$ 345.14

In all four years, the OM&A per customer for WCHEI is greater than that for ETPL. The result is that, absent any efficiency gains, the average OM&A per customer for the merged utility will be lower than that for WCHEI but higher than that for ETPL.

Similar relationships are also evident when one compares the overall revenue requirement per customer for EPTL, WCHEI and the combination of the two utilities for 2017.

2017 REVENUE REQUIREMENT PER CUSTOMER			
	ETPL	WCHEI	Combined Utility
Revenue Requirment	$ 10,614,293	$ 2,416,936	$ 13,031,229
# Customer	19,156	3,745	22,901
Rev Req/Customer	$ 554.10	$ 645.38	$ 569.02
Sources:	Exhibit B, Tab 6, Schedule 1, page 2, Figure 9		
	Exhibit B, Tab 5, Schedule 3, page 1, Figure 7		

[42] Exhibit B, Tab 5, Schedule 3, page 1, Figure 7 (2014-2016 are based on actual results whereas 2017 is based on projected values)

3.1.4 Price/Cost of Service to Former WCHEI Customers

ETPL current service area consists of a 14 non-contiguous communities[43]. However, the same rates are applied to all customers in a similar rate class (i.e., Residential, GS<50, GS>50, etc.). There is no indication that, after the deferral period, the former WCHEI customers will be treated any differently.

The Applicants have provided[44] OM&A forecasts through to 2028 for both ETPL and WCHEI based on the status quo. Based on the cost structure comparisons outlined in the previous section 3.1.4 and these forecasts (summarized below), it is evident that the amalgamation should lead to a materially lower cost structure (and price) for the former WCHEI customers even before any of the cost efficiencies are incorporated. As a result, it is VECC's submission that there are no issues in regards to the no-harm test (vis-à-vis price) for these customers.

	OM&A/CUSTOMER - WCHEI vs. COMBINED UTILITY						
	WCHEI				Combined Utility		
	OM&A	# Customers	OM&A/Cust.		OM&A	# Customers	OM&A/Cust.
2017	$ 1,870,617	3745	$ 499.50		$ 8,052,526	22901	$ 351.62
2018	$ 1,908,029	3782	$ 504.44		$ 8,376,622	23130	$ 362.15
2019	$ 1,946,190	3820	$ 509.44		$ 8,544,155	23361	$ 365.74
2020	$ 1,985,113	3858	$ 514.48		$ 8,715,038	23595	$ 369.36
2021	$ 2,024,816	3897	$ 519.58		$ 8,899,338	23831	$ 373.44
2022	$ 2,065,312	3936	$ 524.72		$ 9,077,125	24069	$ 377.13
2023	$ 2,106,618	3975	$ 529.91		$ 9,248,468	24310	$ 380.44
2024	$ 2,148,751	4015	$ 535.16		$ 9,433,437	24553	$ 384.21
2025	$ 2,191,725	4055	$ 540.46		$ 9,622,106	24799	$ 388.01
2026	$ 2,235,560	4096	$ 545.81		$ 9,814,548	25046	$ 391.85
2027	$ 2,280,271	4137	$ 551.21		$ 10,010,838	25297	$ 395.73
2028	$ 2,325,877	4178	$ 556.67		$ 10,211,056	25550	$ 399.65
Sources:	OM&A - Exhibit B,Tab 5, Schedule 2, page 1, Figure 5						
	Cusomer Count - 2017 - Exhibit B, Tab 5, Schedule 3, page 1, Figure 7. Escalated at 1% per annum per VECC IR #15 (e)						

3.1.5 Price/Cost of Service to Former ETPL Customers

However, for the former ETPL customers the inclusion of WCHEI's customers and status quo OM&A forecast would lead to an increase in the OM&A cost per customer unless the efficiency savings from the amalgamation can provide a sufficient offset. In

[43] Exhibit B, Tab 3, Schedule3, page 1
[44] Exhibit B, Tab 5, Schedule 2, page 1, Figure 5

their response to VECC IR #15 (e) the Applicants provided an analysis that suggests that in 2027 (after the deferred rebasing period[45]) the projected OM&A cost per customer for ETPL on a stand-alone basis would be $374.21 while for the amalgamated utility it would be $368.10 – for a savings of $6.11 per customer.

Unfortunately VECC has been unable to replicate the results presented in VECC IR #15 (e). The problem is the customer counts used for calculation. The response states that calculation assumed a 1% customer growth annually. Using the 2017 customer count values provided in the Application of 19,156 for ETPL and 22,901 for the combined WCHEI/ETPL utility (19,156 for ETPL and 3,745 for WCHEI) and escalating the values by 1% per annum yields a forecast 2027 customer count of 21,160 for ETPL and 25,297 for the combined utility. Using these values and the forecast OM&A costs for 2027 as referenced in the response (and shown in Figure 5 of the Application) yields an OM&A cost per customer of $365.34 for ETPL on a stand-alone basis and a slightly higher value of $366.57 for the amalgamated utility.

Similar results are obtained using 2028 forecast OM&A values and customer counts as shown in the following table.

OM&A/CUSTOMER - ETPL vs. COMBINED UTILITY vs. AMALGAMATED UTILITY									
	ETPL-Stand Alone			Combined Utility			Amalgamated Utility		
	OM&A	# Customers	OM&A/Cust.	OM&A	# Customers	OM&A/Cust.	OM&A	# Customers	OM&A/Cust.
2017	$ 6,181,909	19156	$ 322.71	$ 8,052,526	22901	$ 351.62	$ 8,052,526	22901	$ 351.62
2018	$ 6,468,593	19348	$ 334.34	$ 8,376,622	23130	$ 362.15	$ 8,265,211	23130	$ 357.34
2019	$ 6,597,965	19541	$ 337.65	$ 8,544,155	23361	$ 365.74	$ 8,251,631	23361	$ 353.22
2020	$ 6,729,924	19736	$ 340.99	$ 8,715,038	23595	$ 369.36	$ 8,216,538	23595	$ 348.23
2021	$ 6,874,523	19934	$ 344.87	$ 8,899,338	23831	$ 373.44	$ 8,295,838	23831	$ 348.11
2022	$ 7,011,813	20133	$ 348.27	$ 9,077,125	24069	$ 377.13	$ 8,398,625	24069	$ 348.94
2023	$ 7,141,849	20334	$ 351.22	$ 9,248,468	24310	$ 380.44	$ 8,566,598	24310	$ 352.39
2024	$ 7,284,686	20538	$ 354.70	$ 9,433,437	24553	$ 384.21	$ 8,737,930	24553	$ 355.88
2025	$ 7,430,380	20743	$ 358.21	$ 9,622,106	24799	$ 388.01	$ 8,912,688	24799	$ 359.40
2026	$ 7,578,988	20951	$ 361.75	$ 9,814,548	25046	$ 391.85	$ 9,090,942	25046	$ 362.96
2027	$ 7,730,567	21160	$ 365.34	$ 10,010,838	25297	$ 395.73	$ 9,272,761	25297	$ 366.56
2028	$ 7,885,179	21372	$ 368.95	$ 10,211,056	25550	$ 399.65	$ 9,458,216	25550	$ 370.19
Sources:	OM&A - Exhibit B,Tab 5, Schedule 2, page 1, Figure			Sources:					
	Cusomer Count - 2017 - Exhibit B, Tab 5, Schedule 3, page 1, Figure 7. Escalated at 1% per annum per								
	VECC IR #15 (e)								

As a result, for the former customers of ETPL the no-harm test does not appear to be strictly met based on a comparison of OM&A costs.

[45] In the response the Applicants have used 2027 as the "rebasing year" (i.e., both the ETPL status quo and the amalgamated utility OM&A costs referenced in the response are 2027 values per Figure 5 from the Application) whereas elsewhere the Applicants indicate (see VECC IR #7 (d)) 2028 will be the rebasing year.

In its interrogatory responses[46] the Applicants have also provided projections of the revenue requirement for the amalgamated utility at the time of rebasing in 2028 and comparative revenue requirement projections for 2028 for both ETPL and WCHEI on a stand-alone basis. Using the projected customer counts for 2028, these projections indicate that the revenue requirement per customer for ETPL on a stand-alone basis would be $638.69 as compared to $579.74 for the amalgamated utility

However, as noted in Section 3.1.2 (above) the 2028 revenue requirement projection for ETPL on a stand-alone basis is not "cost based" but rather is based on the application of a 2% per annum IRM adjustment to ETPL's forecast 2023 re-based revenue requirement. Furthermore, as also noted in Section 3.1.2, close to half of the capital savings forecasted over the 2018-2028 period are unexplained and there may also be some double counting (i.e., the savings associated with avoiding a new service centre in Mitchell) associated with the capital savings that have been documented. As a result, VECC submits that a comparison of the forecast 2028 revenue requirements provided for ETPL (on a stand-alone basis) and the amalgamated utility cannot be used as basis to claim that ETPL customers will benefit (in terms of price/cost structure) from the transaction.

However, in VECC's view sufficient capital savings have been documented (e.g., financial conversion savings and vehicle consolidation savings) to offset the small difference in OM&A cost per customer so as to satisfy the no-harm test (vis-à-vis price/cost) for these customers.

3.2 <u>Adequacy, Reliability and Quality of Service</u>

3.2.1 <u>Reliability</u>

The Application provides a comparison[47] of the reliability metrics for ETPL and WCHEI for the period 2012-2016. In terms of SAIDI, WCHEI's average performance over the five years is better than ETPL's. However, in terms of SAIFI the reverse is true. Confounding the comparisons is the fact that both utilities experienced significant (but

[46] VECC IR #16 (b)
[47] Exhibit B, Tab 5, Schedule 1, page 4, Figure 4

not "major") events during the period. For WCHEI it was a storm in 2013[48] while for ETPL it was ice damage in 2016[49]. In response to VECC IR #11 (a) the Applicants updated the comparison to include 2017 and the results were similar[50].

During the IR process VECC requested[51] that the Applicants provide the contribution to each utility's reliability metrics from i) scheduled outages, ii) tree contacts and iii) defective equipment – items over which utilities are typically viewed as having more control. Looking at the average results for four years of data provided, WCHEI performed better that ETPL in all three areas in terms of the impacts on both SAIDI and SAIFI.

However, VECC does not see any reason why WCHEI's reliability experienced by WCHEI's former customers should decline as a result of the transaction. This observation is based on the following:

- ETPL is currently providing Engineering Design and Asset Management services to WCHEI and will continue to do so after the transaction[52].
- The amalgamated utility plans on maintaining the current operations centre in Goderich and actually increase the number of operations staff and resource located there[53]. It is this centre that will provide functions such as construction and maintenance, trouble response, logistics and fleet services[54].
- In the event of a major event affecting reliability in the Goderich area, the amalgamated utility will be able to call on not only the increased staff/resource levels at the Goderich service centre but also resources from the other service centres in amalgamated utility.

[48] VECC IR #11 (b)
[49] Staff IR #6 (a) (i)
[50] Note – In the updated table the WCHEI values for 2013 have changed from those in the Application. VECC suspects that the values include in the IR response for WCHEI exclude the impact of the storm event that occurred that year which was information requested in VECC #11 (b)
[51] VECC IR #11 (c)
[52] VECC IR #1 (a)
[53] Exhibit B, Tab 5, Schedule 5, page 3
[54] Exhibit B, Tab 5, Schedule 1, page 2

- WCHEI does not currently have a SCADA or GIS system. Once amalgamated, ETPL will be able to merge WCHEI into its SCADA and GIS systems thereby giving existing WCHEI customers the benefit of these systems[55].

With respect to the former ETPL customers, the amalgamated utility will be maintaining the Ingersoll and Aylmer service centres and the communities serviced by these centre are unlikely to experience any change in service from a reliability perspective. Indeed, in the event of major event in these communities they will have also have the increased resources at the Goderich service centre to call upon.

The communities that could be impacted are those currently serviced out of ETPL's Mitchell service centre (i.e., Clinton, Dublin and Mitchell)[56] which the amalgamated utility plans on servicing from the Goderich service centre[57]. The following table sets out the impact of the transaction on travel times to these communities.

	Travel Times From Service Centre	
	Before Tranaction	**After Transaction**
Clinton	34-37 minutes	18-19 minutes
Dublin	12-14 minutes	35 minutes
Mitchell	0-5 minutes	40-45 minutes
Source:	Application, Attachment 4	
	VECC IR #6 (c)	

When the increase for Mitchell (the community most impacted by the transaction) was noted during the IR process, the Applicants responded[58] that even for Mitchell the response time will remain well below the one hour mandated by the OEB. The Applicants also noted that while the travel time has increased the resources that the

[55] VECC IR #8 (a)
[56] VECC IR #6 (c) - Attachment
[57] Application – Attachment 4
[58] VECC IR #6 (d)

amalgamated utility will be able to bring to bear when required to restore service will also be increased.

The issue of no-harm with respect to reliability of service is not clear and the Board will need to balance considerations of increased response time for selected EPTL communities versus the increase in resources that will be available to address reliability issues.

3.2.2 Quality of Service

Following the amalgamation, the former WCHEI customers will be folded into ETPL's CIS system and the call centre operations will be centralized at ETPL's Ingersoll location[59].

During the IR process VECC sought[60] information on the comparative performance of WCHEI and ETPL with respect to the Board's service quality metrics. Unfortunately, the response provided addressed only reliability metrics. In order to address this issue VECC has downloaded from the OEB's web-site[61] a comparison of the service quality metrics reported by these two utilities for the years 2014-2016. The comparative results are set out below.

[59] Staff IR #10 (a) & (b) and VECC IR #5 (b)
[60] VECC IR #12
[61] http://cf.oeb.ca/html/_performance/report_builder.cfm

	SERVICE QUALITY PERFORMANCE					
Distributor	New Residential/Small Business Services Connected on Time (Target: 90%)	Scheduled Appointments Met on Time (Target: 90%)	Telephone Calls Answered on Time (Target: 65%)	First Contact Resolution	Billing Accuracy (Target: 98%)	Customer Satisfaction Survey Results
ETPL						
2016	99.6%	100.0%	98.4%	99.5%	99.5%	89.0%
2015	98.4%	100.0%	98.4%	99.9%	99.5%	89.0%
2014	99.4%	100.0%	95.5%	99.7%	99.9%	100.0%
Average	99.1%	100.0%	97.4%	99.7%	99.6%	92.7%
WCHEI						
2016	100.0%	97.7%	98.5%	99.0%	99.8%	77.0%
2015	100.0%	100.0%	98.2%	98.0%	72.1%	76.0%
2014	100.0%	100.0%	98.3%	97.0%	99.9%	N/A
Average	100.0%	99.2%	98.3%	98.0%	90.6%	76.5%
Source:	http://cf.oeb.ca/html/_performance/report_builder.cfm					

As evidenced by the preceding table, the performance of the two utilities is reasonably similar over virtually all metrics[62], with no one utility performing better in all areas. Also of note is that fact that ETPL offers following services to its customers that are currently not offered to customers of WCHEI, but will be available to the latter following the transaction[63]:

• A mobile responsive web presentment solution,

• Ability to pay their bill via credit card,

• Integrated Voice Response system (ability to get bill/payment information 24/7 via automated telephone system), and

[62] The notable exceptions are with respect to: i) the Billing Accuracy results for 2015 – where WCHEI's performance was significantly below that of either the previous or subsequent years and ii) the Customer Satisfaction Survey where, again, the results for ETPL are materially higher than for WCHEI.

[63] Staff IR #10 (a)

• Automated outbound calling.

Overall, VECC does not view the transaction as creating any issues with respect to the no-harm test (vis-à-vis service quality). VECC also notes that the Application commits the amalgamated utility to meeting (if not improving) current customer service levels in the various communities served[64].

3.3 Other Considerations

3.3.1 LEAP Funding

One positive aspect of the Application, in terms of adequacy and quality of service, is the expected availability of LEAP funding. It is noted that for each of the last two years (2016 & 2017) WCHEI's LEAP funding has been depleted well before the end of the year and funds were not available during the balance of each year to assist customers. In contrast, in each year ETPL has had sufficient funds to assist all potentially eligible customers.[65]. The transaction will result in additional funds being available to assist WCHEI customers. What is not clear is whether this will impact the ability of all former ETPL customers who may require assistance to obtain it. This is an issue the Applicants may wish to address in their Reply.

3.3.2 CDM

For the 2011-2014 period, both ETPL and WCHEI fell short of meeting their assigned demand (MW) savings targets. However, ETPL more than exceeded its energy savings target for the period while WCHEI fell short in this area as well[66]. In terms of their current 2015-2020 targets, as of 2017, ETPL has achieved 73% of its target while WCHEI has achieved 47% of its target.

VECC does not see the transaction as impeding the utilities' efforts to meet their current CDM targets.

[64] Exhibit B, Tab 5, Schedule 5, page 5
[65] VECC IR #8 (f)
[66] VECC IR #8 (d) (i)

4. RATE MAKING CONSIDERATIONS

As noted in the Board's Handbook[67], the setting of rates for the "consolidated utility will eventually require the filing of a separate application with the OEB under Section 78 of the OEB Act for a rebasing of rates and typically takes place at some point in time following the OEB's approval of a consolidation. As a result, rate setting following consolidation is not addressed as part of the Application for approval of the transaction.

4.1 Deferred Rebasing Period

In order to encourage consolidations the Board provides consolidating entities with the opportunity to defer such rebasing for a period of up to 10-years in order to provide an opportunity to offset transaction costs with any achieved savings. However, the Handbook requires that distributors select a definitive timeframe for the deferred rebasing period but does not require evidence justifying the period select provided it meets certain minimum standards and is no greater than 10 years[68]. The Application regarding the amalgamation of ETPL and WCHEI is seeking approval for a 9 year deferred rebasing period from the date of closing of the proposed transaction[69], which falls within the norms set by the Board.

4.2 Rate Setting During the Deferred Rebasing Period

The Handbook also sets out various options available for setting rates during the rebasing period, depending upon the rate setting options that employed by the time of the closing of the transaction[70]. The Application proposes that:

- For former WCHEI customers, the approved May 1, 2018 rates (EB-2017-0093) will continue until their expiry and then be set in accordance with the Price Cap IR until the end of the nine year rebasing period.
- For the former ETPL customers, the rates in ETPL's current Cost of Service Application (EB-2017-0038) proposed to be effective May 1, 2018 will continue until

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[67] Pages 11-12
[68] Handbook, pages 11-12
[69] Exhibit B, Tab 7, Schedule 1, page 1
[70] Pages 13-15

their expiry and then be set in accordance with the Price Cap IR until the end of the nine year rebasing period.

In VECC's view the rate setting proposal put forward in the Application aligns with the requirement of the Handbook.

4.3 Earnings Sharing Mechanism (ESM)

The Handbook states[71] that "Consolidating entities that propose to defer rebasing beyond five years, must implement an ESM for the period beyond five years". The Handbook than goes on to state that "excess earnings are shared with consumers on a 50:50 basis for all earnings that are more than 300 basis points above the consolidated entity's annual ROE" and that "earnings will be assessed each year once audited financial results are available and excess earnings beyond 300 basis points will be shared with customers annually".

The Applicants have proposed[72] an earnings sharing mechanism that covers the years six through nine and includes a 50:50 sharing of earnings above 300 basis points. In this regard the proposal aligns with the expectations of the Board's Handbook. The proposed ESM also envisions crediting the ratepayers' share of the earnings to a newly proposed deferral account for clearance at the next applicable annual IRM application filing.

VECC's only issue regarding the proposed ESM is that there appears to be an inconsistency between when the Application states the ESM deferral account will be cleared (i.e., starting in year eight – immediately after the ROE outcome for year six has been determined in year seven) and the basis for the determination of the ROE (which the Application states will be based on the rules in effect at the end of the nine year rebasing deferral period)[73]. The Applicants may wish to clarify this point in their reply.

[71] Page 16
[72] Exhibit B, Tab 7, Schedule 2, page 1
[73] Exhibit B, Tab 7, Schedule 2, page 1, second and fourth paragraphs

5. CONCLUSIONS

5.1 No-Harm Test

As discussed in sections 3.1, VECC accepts that the Application meets the no-harm test with respect to price although the benefits to customers are not as significant as claimed.

With respect to reliability and quality of service, it is VECC's submission that there are communities (e.g., Mitchell and Dublin) where certain aspects of their service (i.e., response time) will be negatively affected by the transaction. The Board will need to balance this impact against the positive implications the transaction will have on other aspects of the reliability and service quality.

5.2 Rate Making Considerations

VECC submits that the Application's proposals with respect to the deferred rebasing period, the ESM mechanism and how rates will be set during the period are reasonable.

6. COSTS

VECC respectfully submits that it has acted responsibly and efficiently during the course of this proceeding and requests that it be allowed to recover 100% of its reasonably incurred costs.