



October 11, 2018

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Suite 2701
Toronto, ON M4P 1E4

**Re: Thunder Bay Hydro Electricity Distribution Inc. (Thunder Bay Hydro) and
Kenora Hydro Electric Corporation Ltd. (Kenora Hydro)
Corporation application under section 18, 60, 77(5) and 86 (1) of the *Ontario Energy
Board Act, 1998* and application for other related relief (EB-2018-0124)**

Dear Ms. Walli,

Pursuant to Procedural Order No. 2, enclosed is Thunder Bay Hydro and Kenora Hydro's reply to the submission of the Ontario Energy Board.

An electronic copy of this cover letter and the reply argument will be filed through the Ontario Energy Board's Regulatory Electronic System (RESS) concurrently.

Should the Board have any further questions, please do not hesitate to contact the undersigned at (807)-343-1054 or via email at bashby@tbhydro.on.ca.

Sincerely,

Signed in the original

Brittany J. Ashby

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REPLY SUBMISSION

THUNDER BAY HYDRO ELECTRICITY DISTRIBUTION INC. KENORA HYDRO ELECTRIC CORPORATION LTD

1. INTRODUCTION

Thunder Bay Hydro Electricity Distribution Inc. (“Thunder Bay Hydro”) and Kenora Hydro Electric Corporation (“Kenora Hydro”) filed a Merger, Amalgamation, Acquisition and Divestiture (“MAAD”) application (the “Application”) with the Ontario Energy Board (the “OEB”, or “Board”) on April 12, 2018, under sections 18, 60, 77(5) and 86 (1) of the Ontario Energy Board Act, 1998 S.O. 1998, c.15, Schedule B seeking approvals to amalgamate and continue operations of the two utilities together as “LDC Mergeco”.

Board Staff filed its submission on September 27, 2018 in accordance with Procedural Order No. 2. The Applicants note that Board Staff concluded in its submission, that the “No-Harm” test which the Board uses to consider MAADs applications has been satisfied. As well, the Applicants note that other than Board Staff, there were no intervenors to this proceeding which means that there is both no evidence which is in any way contrary to the evidence of the Applicants and there is no opposition to the Application. Accordingly, the Applicants submit that the record supports a finding that the “No-Harm” test has been met and that the Application is in the public interest and should therefore be approved.

2. OVERVIEW

Thunder Bay Hydro and Kenora Hydro (collectively referred to as “the Applicants”) are pleased to provide their reply submission in accordance with the Board’s direction as set out in Procedural Order No. 2, issued by the OEB on September 13, 2018. The Applicants have had the opportunity to review Board Staff’s submission and provide their responses within this reply submission.

1 The amalgamation transaction proposed within the MAADs Application (EB-2018-0124) is
2 expected to have a positive impact on both Thunder Bay Hydro and Kenora Hydro customers. In
3 concurrence with the Board Staff's submission, the Applicants submit that the Application should
4 be approved as filed because the proposed amalgamation transaction meets the Board's "No
5 Harm" test.

6
7 Board Staff have fully accepted the following proposal submission elements;
8 'Application Performance against the "No Harm" Test', 'Impact on Price, Economic Efficiency and
9 Cost Effectiveness', and the 'Impact on Financial Viability'. Board Staff have also accepted the
10 'LDC Mergeco Distribution Licence Application'. The only two elements raised by Board Staff
11 which require further discussion relate to the following:

- 12
13 1) Items of clarification regarding the 'Impact on Service Quality and Reliability';
14 2) The possible need for the establishing of a deferral account to capture the impact of
15 changes to accounting policies.

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17 Given Board Staff's support for the Application and its conclusion that the "No-Harm" test has been
18 satisfied, the Applicants limit their response to the above noted two items.

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20 **3. REPLY SUBMISSIONS**

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22 **3.3 Reply Submission: Impact on Service Quality and Reliability**

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24 In its submission Board staff requested that the Applicants provide clarification referring to
25 evidence *already on the record* with regards to the proposed reduction of two employees and
26 sustaining its current service level standards (page 11 and 12 of the Board Staff submission).

27

28 The Applicants disagree with Board Staff that the statements referring to "reductions in staff will be
29 subject to providing support from existing Thunder Bay staff" are contradictory. As noted on page
30 36 of the Application, "Customers are the operational priority and will continue to receive excellent
31 service" and "Adopting best practices and finding efficiencies while maintaining or improving
32 customer service will be a key priority". In other words, the amalgamation will provide opportunities
33 to review and select operational best practices from both regions giving consideration to reliability,

1 cost and risk impacts.

2

3 Throughout the Application, the Applicants have emphasized the expected efficiencies which will
4 be realized through better work practices and varying technological advancements as a merged
5 entity. On page 28 of the MAAD Application it is stated "LDC Mergeco shall maintain or improve
6 the service levels of its predecessor LDC's through the merging of technologies, system control,
7 adoption of best work practices, etc. Front line operations staff that currently responds to outages
8 and power quality issues is expected to continue to serve the communities that they serve at
9 present. The Applicants anticipate that response times will not decline."

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11 Further as noted in interrogatory response # 5, "It is anticipated that through attrition the number of
12 staff that are assigned to distribution-system related tasks in Kenora service-center will decline by
13 up to two from the previous eight employees. This reduction of two employees will be subject to
14 providing support for the Kenora service territory from existing Thunder Bay resources in functions
15 such as (but not limited to) *emergency crew dispatch, remote distribution system operation, capital
16 expenditure planning/ design/ project management, forestry operations, distribution maintenance
17 management, materials procurement, metering installations, underground locate coordination, fleet
18 management and new customer connection support.*"

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20 The Applicants do not believe that there should be any confusion about what is being proposed.
21 The Applicants believe that the following hypothetical examples should be of assistance providing
22 clarity. Currently Kenora Hydro uses its line crews to perform forestry related maintenance,
23 whereas Thunder Bay Hydro already has existing specialized resources that could potentially be
24 assigned to the Kenora district. Dedicated forestry resources which are assigned to forestry work
25 would in general be more efficient than assigning other existing staff to undertake forestry work on
26 an ad hoc basis when they could be assigned to their dedicated tasks. This same work planning
27 philosophy can also be true for services like dedicated metering resources, and the coordination of
28 underground locates which are already are housed within Thunder Bay Hydro thereby allowing for
29 the reduction of Kenora Hydro resources to perform these tasks. Once the transition to a single
30 LDC is complete and the full extent of the resources that Thunder Bay can make available to
31 support the Kenora service area becomes fully appreciated, the certainty of whether this will lead
32 to a reduction of one or two employees will be known.

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1 The Handbook indicates that distributors should “deliver improved reliability performance without
2 an increase to cost, or maintain the same level of performance at a reduced cost.” The Applicants
3 do not anticipate the service levels to be impacted by the reduction in staff as the offerings to
4 Kenora customers will be enhanced by system upgrades, and best practice sharing of Thunder
5 Bay Hydro’s experience and the statements referring to a “staffing reduction subject to providing
6 support...” simply acknowledges that should the Applicants expect or experience a decrease in
7 service levels or reliability the proposed decrease in staff level may not transpire. Therefore the
8 Applicants do not agree with Board staff that there are any contradictions. It is assumed that the
9 foregoing provides clarification and that the Applicants and Board staff are in agreement that the
10 impact on service quality and reliability is satisfied.

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1 **3.6 Reply Submission: Other Matters**

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3 In its submission Board staff argues that accounting policy changes in areas such as capitalization
4 and depreciation can have a material impact on the revenue requirements approved over the
5 deferred rebasing period. Board staff submits that the Applicants should be ordered to establish a
6 deferral account that captures the annual difference over the deferred rebasing period between
7 revenue requirements calculated using pre-amalgamation accounting policies and the revenue
8 requirement calculated using the new accounting policies.

9

10 The Applicants are in agreement with Board staff that this is a reasonable request. Should the
11 Board determine that the establishment of a deferral account should be ordered, the Applicants
12 request that the tracking and deferral be restricted to annual material differences only (materiality
13 would be in accordance with the *Board's Chapter 2 Filing Requirements* which would be \$50K as
14 distribution revenue for Kenora is less than \$10 million) over the deferred rebasing period. Further,
15 the Applicants request that the revenue requirement be based on actual annual costs. The
16 deferred amount will be paid or collected to /from Kenora Hydro customers.

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1 **CONCLUSION**

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3 The Applicants agree with Board staff submission that the proposed Amalgamation Transaction
4 will cause no harm relative to the Boards statutory objectives, including in particular with respect to
5 the impacts of the proposed Amalgamation Transaction on price and quality of service to
6 customers and the cost effectiveness, economic efficiency and financial viability of the electricity
7 distribution sector. It appears that the submission of the Board staff regarding the two employee
8 complement was misunderstood in context, and has been clarified in this reply submission paper
9 in section 3.3. The Applicants are not opposed to the ordering of a deferral account to capture
10 material differences between accounting policies pre-amalgamation and post-amalgamation based
11 on actual transactions as discussed in section 3.6. The Applicants submit that the amalgamation
12 transaction reasonably satisfies the Board's 'No Harm' test and is in agreement with the OEB
13 Board Staff submission. On this basis, the Application should be approved as filed.

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15 All of which is respectfully submitted this 11th day of October, 2018.

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22 **Brittany J. Ashby**
23 **Supervisor, Business & Regulatory Affairs**