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File 95393

VIA RESS FILING and COURIER

Ms. Kirstin Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: Application by Veridian Connections Inc. and Whitby Hydro Electric for approval to amalgamate and continue operations as a single new local electricity distribution company (EB-2018-0236)

Attached please find the Submissions of the Power Workers' Union in connection with the above-noted proceedings. An electronic copy has been filed through the Board's RESS filing system, and two paper copies will follow by courier delivery.

Yours very truly,
PALIARE ROLAND ROSENBERG ROTHSTEIN LLP

Richard P. Stephenson
RPS:pb

Attach.

Doc 2728055 v1

IN THE MATTER OF Sections 18, 60, 77(5), 86(1)(c) and 86(2)(b) of the Ontario Energy Board Act, 1998 (the Act), S.O. 1998, c. 15, (Schedule B), as amended; and

AND IN THE MATTER OF an application for approvals to amalgamate Veridian Connections Inc. and Whitby Hydro Electric Corporation and form one single electricity distributor.

SUBMISSIONS OF THE POWER WORKERS' UNION

I. INTRODUCTION

1. Veridian Connections Inc. ("Veridian LDC") and Whitby Hydro Electric Corporation (Whitby LDC) (collectively, "the Applicants") filed an application on July 30, 2018 under Sections 18, 60, 77(5), 86(1)(c) and 86(2)(b) of the Ontario Energy Board Act, 1998 (the Act), S.O. 1998, c. 15, (Schedule B), for approval to amalgamate and continue operations as a single electricity distribution company, referred to as LDC Mergeco.

2. The Application is the result of a merger evaluation process that began in April 2016. The evaluation was initiated and undertaken by the parent companies of the Parties: Veridian Corporation ("Veridian Holdco") and Whitby Hydro Energy Corporation ("Whitby Holdco"). The application of merger has received the approval of the Applicants' respective shareholders and principals. The Proposed Transaction was approved by all five shareholders of Veridian Holdco and Whitby Holdco, viz., The Corporation of the Town of Ajax, The Corporation of the City of Belleville, The Corporation of the Municipality of Clarington, The Corporation of the City of Pickering and The Corporation of the Town of Whitby.

3. If this Application is approved by the Board, the current shareholders of Veridian Holdco and Whitby Holdco will become the ultimate shareholders of LDC Mergeco. The targeted closing date of the Proposed Transaction is February 28, 2019.

4. Upon completion of the Proposed Transaction, LDC Mergeco will be wholly owned by a parent company created by the merger of Veridian Holdco and Whitby Holdco: "Merged Holdco". This company will in turn be owned by the following Municipal Corporations with a voting share interest as follows:[1]

- The Corporation of the Town of Ajax: 21.828%
- The Corporation of the City of Belleville: 9.044%
- The Corporation of the Municipality of Clarington: 9.248%
- The Corporation of the City of Pickering: 27.88%
- The Corporation of the Town of Whitby: 32%

5. The Applicants propose two steps for the consolidation:[2]

    1. Veridian Holdco and Whitby Holdco will amalgamate to form Merged Holdco which will be owned by the parties noted above in the percentages set out above.
    2. Veridian LDC and Whitby LDC will amalgamate to form LDC Mergeco.

6. The Applicants seek the following specific approvals by the Board:

- Leave for Merged Holdco to acquire control of Veridian Holdco and Whitby Holdco;
- Leave for Veridian LDC to amalgamate with Whitby LDC to form LDC Mergeco;
- Issuance of a distribution licence to LDC Mergeco;
- Leave for the transfer of the current and any future rate orders and rate riders of Veridian LDC and Whitby LDC to LDC Mergeco;

[1] Application page 3
[2] Application, page 16

- Approval for LDC Mergeco to continue to track costs to existing deferral and variance accounts;
- Cancellation of the Distribution Licences of Veridian LDC (ED-2002-0503) and Whitby LDC (ED-2002-0571) upon the issuance of the Distribution Licence to LDC Mergeco; and
- An Accounting Order establishing a deferral account to track any material differences between the revenue requirement calculated using pre-merger accounting policies and the revenue requirement calculated using post-merger accounting policies.

II. SUBMISSIONS OF THE POWER WORKERS' UNION

7. The Power Workers' Union ("PWU") submits that the Application should be approved as filed because the Proposed Transaction meets the Board's 'no harm' test and will generate benefits to customers as well as shareholders of the Applicants. The PWU also submits that any job losses resulting from the amalgamation should not impact the current service levels provided to customers in each existing service territory of the Applicants. Similarly the Applicants should ensure continuity of staff knowledge and expertise in both existing service territories of the Applicants.

8. When considering applications for consolidation, the Board's practice is to apply its "no harm" test which informs the Board whether the Proposed Transaction will have an adverse impact on the achievement of the Board's statutory objectives, including the following two major objectives which are particularly relevant to the review of consolidations in respect to distribution companies:[3]

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

[3] Ontario Energy Board, Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016

9. The evidence indicates that the Proposed Transaction will cause no harm with respect to impact on price, quality and reliability of service to customers, and the cost effectiveness, economic efficiency and financial viability of the electricity distribution sector.

10. To demonstrate "no harm" to ratepayers with respect to price, an Applicant must present evidence that it is reasonably expected that the underlying cost structure to serve customers after the consolidation of distributors will be no higher than it otherwise would have been.

11. In this respect, the Applicants' evidence indicates that there are benefits to be realized as a result of the proposed consolidation transaction during and after the proposed 10-year rebasing deferral period.

12. The Applicants have made a reasonable assumption that customers of both utilities will realize savings because the Proposed Transaction will avoid cost-of-service applications during the 10-year deferral period:[4]

> **Currently, Veridian LDC is on a PCIR rate-setting mechanism and Whitby LDC is on an AIRI rate-setting mechanism.**
>
> **Absent a merger, Veridian LDC is scheduled to file a COS rate rebasing application for 2019 rates as per the normal five year cycle within the PCIR rate-setting framework.**
>
> **As agreed in the Settlement Proposal filed in Whitby LDC's 2018 AIRI application (EB-2017-0085/EB- 2017-0292) absent a merger, Whitby LDC would be required to "file a COS application as soon as reasonably practical". If such a filing were to occur, it is projected that it would result in rate increases greater than under the AIRI methodology, which would continue under the Proposed Transaction.**

13. The total forecasted OM&A savings from the merger of Veridian LDC and Whitby LDC over the ten-year rebasing deferral period approximates $48.8M, comprised of $33M from OM&A labour cost synergies and $15M from OM&A non-labour synergies.[5] Taking transaction/integration costs of $6.7 M, the Proposed Transaction is forecast to deliver approximately $42M of net savings over the first 10 years following consolidation. These savings are expected to be both sustainable and will not impact operational effectiveness. OM&A savings will continue after the 10 year deferral period

[4] Application, page 20

[5] Application, pages 32-33

and are forecasted to provide LDC Mergeco customers with almost $6.6M in annual savings, or approximately an 11% reduction compared to the status quo.[6]

Table 10: OM&A Cost Synergies[7]

(in 000's)

(in 000's)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
OM&A Labour Costs Synergies	$ -	$ -	$ 1,601	$ 3,530	$ 3,642	$ 3,706	$ 3,769	$ 4,182	$ 4,251	$ 4,320	$ 4,389	$33,390
OM&A Non-labour Costs Synergies	$ -	$ 115	$ 646	$ 1,205	$ 1,782	$ 1,823	$ 1,864	$ 1,911	$ 1,957	$ 2,007	$ 2,058	$15,367
Total OM&A Synergies	$ -	$ 115	$ 2,246	$ 4,735	$ 5,424	$ 5,528	$ 5,633	$ 6,093	$ 6,209	$ 6,327	$ 6,447	$48,756
Transition Costs	$ -	$ 3,988	$ 2,691	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,679
Net Synergies	$ -	$ (3,873)	$ (445)	$ 4,735	$ 5,424	$ 5,528	$ 5,633	$ 6,093	$ 6,209	$ 6,327	$ 6,447	$42,076

14. The Application indicates that the forecast OM&A cost savings will be realized to a large extent from labour cost reductions through staff attrition. The Applicants undertook a review of the demographic profile of Veridian LDC and Whitby LDC staff and the result has shown that during the 10 year rebasing deferral period, 109 employees at the time of the review representing approximately 38% of current staff were expected to retire.[8] This level of retirement has led the Applicants to conclude that a significant portion of the reduction in LDC Mergeco's staffing requirements relative to the current staffing levels at Veridian LDC and Whitby LDC can be reached through natural attrition.

15. While the PWU appreciates the Applicants' observation that the current demographic profile of staff presents an opportunity to generate synergies, it is submitted that the Applicants should exercise caution so that any job losses resulting from the amalgamation will not degrade the current service levels provided to customers in each existing service territory of the Applicants. Similarly the Applicants should

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[6] Application, page 22
[7] Application, page 33
[8] Ibid.

ensure continuity of staff knowledge and expertise in both existing service territories of the Applicants.

16. The forecast OM&A synergies are expected to lower OM&A cost per customer for the merged utility over the 2019-2028 period compared to the status quo. Due to the nature of service areas served by the two utilities, Veridian LDC's current and forecast OM&A cost per customer is much lower than that of Whitby LDC. This means the two utilities are not expected to benefit equally from the expected OM&A synergies. However, as the chart below shows, forecast OM&A cost per customer for Mergeco is significantly lower than that of Whitby LDC throughout the 10 year rebasing deferral period and the same is true with respect to Veridian LDC but for the first two years (2019 and 2020) of the rebasing deferral period. Therefore, the proposed merger will lower OM&A costs per customer for both utilities relative to OM&A costs that would have otherwise existed absent the merger.

Forecast OM&A per Customer for LDC Mergeco (2019 to 2028)[9]

	Veridian			Whitby			Mergeco		
	OM&A ($000's)	Customers	OM&A per Customer	OM&A ($000's)	Customers	OM&A per Customer	OM&A ($000's)	Customers	OM&A per Customer
2019	31,848	126,435	$ 251.89	14,504	44,341	$ 327.11	50,225	170,776	$ 294.10
2020	32,922	129,842	$ 253.56	14,903	45,095	$ 330.49	48,271	174,937	$ 275.93
2021	34,009	133,173	$ 255.37	15,313	45,861	$ 333.90	44,587	179,034	$ 249.04
2022	34,862	134,693	$ 258.83	15,727	46,595	$ 337.52	45,165	181,288	$ 249.13
2023	35,682	135,841	$ 262.67	16,143	47,294	$ 341.34	46,297	183,136	$ 252.80
2024	36,672	138,045	$ 265.65	16,571	48,004	$ 345.21	47,611	186,049	$ 255.91
2025	37,607	139,724	$ 269.15	17,010	48,724	$ 349.12	48,524	188,448	$ 257.49
2026	38,566	141,424	$ 272.70	17,461	49,455	$ 353.07	49,818	190,879	$ 260.99
2027	39,549	143,146	$ 276.29	17,924	50,196	$ 357.07	51,146	193,343	$ 264.54
2028	40,558	144,890	$ 279.92	18,399	50,949	$ 361.12	52,510	195,839	$ 268.13

17. Based on these OM&A cost savings, it is anticipated that at the end of the 10 year deferral period when rate rebasing will take place for both the Veridian LDC and Whitby LDC rate zones, distribution rates will be approximately 3% and 11% lower respectively than what would be the case under the status quo.[10] Similarly, Veridian

[9] SEC 6
[10] SEC 3

LDC rates are expected to be 0.8% lower on average and Whitby LDC rates are expected to be 6.7% lower, on average, over the 10 year deferral period as a result of the amalgamation.[11] In SEC 3, the Applicants provided the following chart which demonstrates these reductions in distribution rates:

Table 5: Distribution Revenue per Customer by LDC – Proposed Transaction vs Status Quo[12]

	Deferred Rebasing Period										Post Deferred Rebasing Period
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Veridian LDC											
Standalone	$453.15	$499.07	$506.25	$513.65	$521.19	$522.07	$532.42	$540.83	$549.38	$558.06	$556.53
Mergeco LDC	$452.92	$497.81	$503.17	$509.29	$515.66	$521.87	$528.39	$535.06	$541.87	$548.84	$536.87
Rate Savings ($)	0.23	1.26	3.08	4.37	5.53	0.20	4.03	5.77	7.51	9.22	19.66
Rate Savings (%)	0.1%	0.3%	0.6%	0.9%	1.1%	0.0%	0.8%	1.1%	1.4%	1.7%	3.5%
	Average Deferred Rebasing Period							0.8%			
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Whitby LDC											
Standalone	$557.76	$566.68	$575.74	$584.95	$594.31	$598.90	$608.48	$618.22	$628.11	$638.15	$658.55
Mergeco LDC	$524.61	$531.31	$538.10	$544.99	$551.97	$559.04	$566.20	$573.45	$580.79	$537.06	$585.12
Rate Savings ($)	33.15	35.37	37.64	39.97	42.34	39.86	42.28	44.77	47.31	41.10	73.43
Rate Savings (%)	5.3%	6.2%	6.5%	6.8%	7.1%	6.7%	6.3%	7.2%	7.5%	6.4%	11.2%
	Average Deferred Rebasing Period							6.7%			

18. Similarly, a 17 year forecast of distribution revenue per customer (2019-2035) indicates that the Proposed Transaction will result in a 3.8% reduction rate compared to the rates that would have been had the merger not taken place.[13]

Table 1: Consolidated distribution revenue per customer

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Mergeco	471.53	506.45	512.12	518.46	525.04	531.46	538.17	545.00	551.98	561.38	549.45	558.24	567.17	576.25	585.47	593.03	602.89
Status Quo	480.31	516.50	524.05	531.98	540.07	541.89	552.08	560.88	569.82	578.90	583.13	592.43	601.88	611.48	621.24	625.03	637.49

Table 2: Annual percentage reduction in distribution revenue per customer under Merger

Annual %age	-1.8%	-1.9%	-2.3%	-2.5%	-2.8%	-1.9%	-2.5%	-2.8%	-3.1%	-3.0%	-5.8%	-5.8%	-5.8%	-5.8%	-5.8%	-5.1%	-5.4%
17 year Average	-3.8%																

[11] Ibid.

[12] Ibid.

[13] SEC 16

19. The Applicants have proposed a 50:50 Earnings Sharing Mechanism ("ESM") for earnings in excess of 300 basis points above the deemed Return on Equity for years six through ten. The proposed ESM, which is a Consolidation Policy requirement, is expected to provide further protection for ratepayers.

20. With respect to reliability and quality of electricity service, there is no evidence that suggests the Proposed Transaction would cause any harm. The 2016 Scorecards for Veridian LDC and Whitby LDC show high rankings and trends in customer service and reliability.[14] The Proposed Transaction is expected to create an opportunity to improve these levels even more for the benefit of customers. The evidence indicates that the Applicants have a plan during the transition period to identify complementary strengths across the organizations and combine them for adoption of best practices and leverage of best systems such as:[15]

- 24/7 control room extended to Whitby service area
- Access to greater resources when responding to major outage events
- Adoption of best practices from each LDC to support asset management planning
- Customers will benefit from combined technical resources and economies of scale to support:
    - Distribution system monitoring and reporting
    - Ability to deploy technological advances such as smart grid and emerging technologies (storage, etc.)
    - Risk management and mitigation of threats related to cyber security

21. The Applicants retained Navigant Consulting Limited ("Navigant") to undertake an independent third party review of the Proposed Transaction including the Applicants' forecast synergies following amalgamation. Navigant has summarized the results of its review as follows:[16]

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[14] Attachments K and L
[15] Application page 24
[16] Application, Attachment M, page 3

- **Navigant is confident that the management determined synergies can be achieved with reasonable and diligent leadership supported by a comprehensive post-merger implementation plan and team**
- **Navigant has determined that NewCo has a high likelihood of achieving the management-determined synergies in each functional area with low risk to current service quality**
- **The proposed level of NewCo costs and employees compares well against existing LDCs in Ontario with similar service territories and operational scope**

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

All of which is respectfully submitted.