BY EMAIL and RESS

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Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2018-0236 – Veridian/Whitby MAADs

We are counsel for the School Energy Coalition ("SEC"). Pursuant to Procedural Order #3 in this matter, this letter constitutes SEC's submissions on the Application.

Overview

SEC has long considered Veridian to be one of the better-managed electricity distributors in Ontario. It performs well on most operating metrics, yet also has rates for residential and non-residential general service customers that are well below the averages around the province (typically 90-95% of the provincial average). While some of that is specific to its service territories and system configuration, Veridian's consistent position as having below-expected costs on the Board's benchmarking analysis is an indicator that at least some of the good rate performance is because of good management.

In this case, Veridian is proposing to merge with Whitby, which has a contiguous service territory with many similar operating features, and also relatively good benchmarking results (but higher rates – see below). Both are also in areas of high potential growth, with the Pickering, Ajax and Whitby area primed for development over the next decade.

This merger thus appears to be a natural fit and, despite the somewhat low estimates of cost savings (see below), seems likely to benefit the customers of both distributors. It also will likely position the merged Veridian/Whitby as a more attractive merger partner for other east-of-Toronto distributors during that same period. In some respects, this kind of merger is the paradigm that the province, and the Board, has been looking to when they establish policies encouraging distributor consolidation.

SEC therefore submits that, subject to our comments below, this is a merger that will benefit customers, and should be approved by the Board.

Comparative Performance

SEC believes that it is appropriate to compare Veridian and Whitby on the basis of cost, reliability, and customer service.

Cost. Formal comparison of distributor cost performance is carried out by the Board through the use of the benchmarking model. That model shows that both Veridian and Whitby have costs that are consistently just slightly below expected costs. They are both in cohort III (0.30%) for benchmarking purposes.

SEC also uses a comparative rates model to compare the cost performance of distributors. Although it doesn't adjust for some of the factors that the econometric model does, it provides a different perspective that aligns with what the customers actually experience. The SEC model calculates the total delivery bill for a typical customer in the residential, GS<50, and GS>50 classes. That excludes Global Adjustment and Group 1 accounts. It includes fixed and variable charges, LV charges, Tx charges, and Group 2 recoveries. For 2018, the comparison between Veridian and Whitby looks like this:

Annual Delivery Bill - 2018 Rates

(monthly charge, volumetric rate, Group 2, LV, Tx)

Utility	*Residential*	*GS<50*	*GS>50*
	700 kwh	*2500 kwh*	*150 KW*
Veridian	$408.36	$1,009.44	$17,244.78
Whitby	$535.56	$1,430.16	$20,419.20
Percent Excess	31.15%	41.68%	18.41%

Compared to other distributors in the province, Veridian has relatively low general service rates. Whitby, on the other hand, tends to be above the provincial averages.

In every merger, one of the merger partners has higher rates than the other, and SEC is often concerned that, while there may be overall savings, the customers of the lower cost utility will end up with higher rates when they are eventually harmonized. This is, for example, an ongoing problem where high cost large utilities like Hydro One seek to acquire lower cost small utilities.

In this case, it would appear that, while Veridian has lower rates, the expected cost savings will be sufficient that customers of both distributors should end up with lower bills over time. It is likely that the primary benefits of the merger will go to the Whitby customers[1], but the evidence demonstrates, we believe, that the customers of both distributors will benefit.

Reliability. Table 6 in the Application[2] shows the comparative reliability statistics of Veridian and Whitby. It demonstrates that Whitby's reliability has generally been better than Veridian, particularly in outage duration.

	From 2016 OEB Distributor Scorecard						
	2012	2013	2014	2015	2016	Target	2017
SAIDI - System Average Interruption Duration Index							
Veridian	1.19	1.45	1.97	1.62	1.24	1.43	1.07
Whitby	0.96	0.93	1.89	1.4	0.99	1.14	0.69
SAIFI - System Average Interruption Frequency Index							
Veridian	2.07	2.09	1.72	2.13	1.29	1.81	1.07
Whitby	1.29	0.87	2.32	1.65	1.23	1.35	1.23

OEB Staff followed up on that question in an interrogatory[3]. SEC has reviewed the response, and agrees generally that differences due to undergrounding and rural component are the primary reasons for the relative reliability performance.

SEC also notes that the 2017 industry average for SAIDI is 1.39, and for SAIFI is 1.04[4]. Thus, both distributors are well below the SAIDI average, and slightly above the SAIFI average.

SEC therefore is not concerned that the merger will have adverse impacts on reliability. As the Applicants note in the interrogatory response, the 24/7 control room and the greater local resources available for responses will likely have a positive impact on reliability. SEC agrees.

Customer Service. The Applicants note[5] that both merger partners have good customer service metrics. The Application attaches their respective 2016 Scorecards[6].

SEC has reviewed the relative performance of the two merger partners for 2017. The customer service results are as follows[7]:

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[1] Which the merging parties acknowledge. See SEC#14, Attach 1, p.21.
[2] P. 25.
[3] Staff#10.
[4] 2017 Yearbook, Loss of Supply and Major Event Adjusted.
[5] Application, p. 24.
[6] Appendix K and L respectively.
[7] 2017 Yearbook figures.

Service Quality Requirements For the year ended December 31	Veridian Connections Inc.	Whitby Hydro Electric Corporation	Industry Average
Low Voltage Connections *(OEB Min. Standard: 90%)*	98.62	95.60	98.43
High Voltage Connections *(OEB Min. Standard: 90%)*	100.00	100.00	99.92
Telephone Accessibility *(OEB Min. Standard: 65%)*	80.83	87.93	87.14
Appointments Met *(OEB Min. Standard: 90%)*	99.56	99.46	99.14
Written Response to Enquiries *(OEB Min. Standard: 80%)*	99.95	100.00	98.72
Emergency Urban Response *(OEB Min. Standard: 80%)*	100.00	100.00	97.12
Emergency Rural Response *(OEB Min. Standard: 80%)*	100.00	100.00	98.47
Telephone Call Abandon Rate *(OEB Standard: not exceed 10%)*	1.83	0.91	2.00
Appointments Scheduling *(OEB Min. Standard: 90%)*	93.12	66.63	96.99
Rescheduling a Missed Appointment *(OEB Standard: 100%)*	100.00	50.00	98.74
Reconnection Performance Standards *(OEB Min. Standard: 85%)*	100.00	100.00	99.67
New Micro-embedded Generation Facilities Connected *(OEB Min. Standard: 90%)*	100.00	91.89	99.51
Billing Accuracy *(OEB Min. Standard: 98%)*	99.92	99.88	99.80

The 2017 data demonstrates that both merger partners are in fact generally good performers when it comes to customer service. While Veridian's telephone response, and Whitby's appointment scheduling, are below appropriate levels, these are areas on which the merged entity can be expected to focus. The merger should provide more resources to do that. While the Board should, in our view, continue to monitor those areas in the future (as it does today for all LDCs), SEC is confident that the merged company will bring those areas up to standard relatively quickly.

SEC also notes that school boards have schools in both the Whitby and Veridian (Ajax, Pickering) service territories. Those school boards expect to benefit from a common customer service relationship over that part of the school boards' footprint.

Based on our comparative analysis of the two utilities on the three key outcomes most important to customers, SEC concludes that no harm is likely to come to the customers in those areas, and the more likely result is that those areas will improve.

Cost Reductions and Efficiencies

The Applicants have indicated that they anticipate OM&A reductions of $6.6 million by the end of the ten year deferred rebasing period. Those savings are set out in the following table[8]:

Veridian-Whitby OM&A Table

Year	Veridian	% Inc.	Whitby	% Inc.	Total	% Inc.		Amalco	% Inc.
2013	$25,742		$10,971		$36,713				
2014	$26,203	1.79%	$10,593	-3.45%	$36,796	0.23%			
2015	$26,422	0.84%	$11,407	7.68%	$37,829	2.81%			
2016	$27,446	3.88%	$11,861	3.98%	$39,307	3.91%			
2017	$27,564	0.43%	$12,229	3.10%	$39,793	1.24%		$39,793	
2018	$30,368	10.17%	$14,178	15.94%	$44,546	11.94%		$44,547	11.95%
2019	$31,848	4.87%	$14,504	2.30%	$46,352	4.05%		$50,225	12.75%
2020	$32,922	3.37%	$14,903	2.75%	$47,825	3.18%		$48,271	-3.89%
2021	$34,009	3.30%	$15,313	2.75%	$49,322	3.13%		$44,587	-7.63%
2022	$34,862	2.51%	$15,727	2.70%	$50,589	2.57%		$45,165	1.30%
2023	$35,682	2.35%	$16,143	2.65%	$51,825	2.44%		$46,297	2.51%
2024	$36,672	2.77%	$16,571	2.65%	$53,243	2.74%		$47,611	2.84%
2025	$37,607	2.55%	$17,010	2.65%	$54,617	2.58%		$48,524	1.92%
2026	$38,566	2.55%	$17,461	2.65%	$56,027	2.58%		$49,818	2.67%
2027	$39,549	2.55%	$17,924	2.65%	$57,473	2.58%		$51,146	2.67%
2028	$40,558	2.55%	$18,399	2.65%	$58,957	2.58%		$52,510	2.67%
2029	$41,592	2.55%	$18,886	2.65%	$60,478	2.58%		$53,847	2.55%

SEC was concerned at the outset of this process that the OM&A savings were overstated by inflating the status quo forecasts for Veridian and Whitby. The growth in OM&A in the period leading up to the merger, and thereafter, are different.

However, SEC believes that the Applicants' response to SEC's interrogatory #1 fairly sets out reasons for the acceleration of total OM&A after 2017. As with all status quo forecasts, they cannot be tested in any reasonable way for accuracy. They will never happen. That having been said, the Applicants' forecast of much higher growth in the next ten years is a sensible one, and the impacts on overall OM&A appear to be in line with those growth forecasts. OM&A per customer grows at a much more normal rate[9].

SEC also notes that the estimates of staff attrition and resulting efficiencies appear to be conservative, given that 38 management and 71 non-management staff are expected to retire during the deferred rebasing period[10]. While certainly most of those individuals will have to be

[8] SEC#1, as corrected by the Applicants in the response. The Applicants agree with these numbers.
[9] PWU#5; SEC#6.
[10] PWU#3.

replaced, SEC would expect that the Applicant will have more than enough room to maximize staffing efficiency, particularly given its high expected customer growth levels.

SEC also notes that the Applicants have assumed for the purposes of their business case (and this Application) that there will be no cost savings on the capital side. Both of the Peer Review Reports for the municipal owners note that this is unlikely to be true[11], and we believe that the Applicants have tacitly admitted throughout the interrogatory responses that there will likely be some capital savings.

This appears to us to be “under promise, over deliver”, rather than any attempt to present incorrect or incomplete evidence. There are ample OM&A savings to justify the merger. The fact that the Applicants are not as advanced in their analysis of capital savings, while not optimal, should not be a concern to the Board.

SEC therefore concludes that this merger will result in cost efficiencies that ultimately will be available to benefit customers.

Other Issues

There are four other issues raised by the Application that SEC wishes to address.

Future ICMs. The Applicants have identified two projects that will likely be the subject of ICM applications during the deferred rebasing period. They are described in more detail in response to interrogatories[12]. With those two exceptions, the Applicants appear to expect that they will be able to manage their normal capital spending within the existing rates, as escalated by the formula.

SEC has no concerns about the information on ICMs, which appears to be sufficient for the Board’s purposes in this Application.

Distribution System Plan. SEC asked if the Applicants would support a condition that their combined DSP be filed by December 31, 2020[13]. In response they indicated that they prefer not to have a condition, but if the Board wishes to impose one, it should be by reference to the closing date (and any other pertinent factors).

SEC agrees, and submits that the Board should direct the merged utility to file a consolidated DSP as soon as possible after closing the transaction, but in any case within 24 months of that closing.

Accounting Policy Changes. The Applicants expect that, as a result of harmonizing the accounting policies of Whitby with those of Veridian, amounts currently included in rates for OM&A will instead be capitalized and added to rate base. The Applicants originally requested a

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[11] SEC#14, Attach 1, p. 18 and Attach 2, p. 10.
[12] SEC#5.
[13] SEC#4.

variance account to record the impact, but then determined that the impact is small, so withdrew that request[14].

SEC does not agree. It would appear that the additional amount capitalized, net of depreciation, will be more than $100,000 per year on average[15]. In fact, it will vary from year to year, depending on the composition of the capital program. The record does not show what those variations are forecast to be, and the Board has no further information on which to assess this.

The Applicants have done a calculation showing, not the impact on rate base, or on the customers, but the impact on the distributor of the accounting change. In their calculation, it is assumed that they will not have a deferral account. The additional revenue will thus be taxable, and they will also be entitled to additional return on the rate base funds (although the funds have been collected from customers).

In our submission, this is an incorrect calculation. The net impact of the accounting change is that rate base will be about $1.1 million higher at the end of the deferred rebasing period as a result of the accounting change. If that is to be returned to customers, as would normally be expected, then there is no impact on PILs or cost of capital[16]. That only arises after the money has been refunded to customers.

SEC therefore submits that the Applicants should be directed to record the rate base differential in Account 1576 during the deferred rebasing period, in the same manner as was done in the conversion to IFRS. Rate base will be higher at rebasing, but the net amount collected for that higher rate base will be refunded to customers, and both the distributor and the customers will be whole.

Refusals. SEC was surprised that the Applicants refused interrogatory requests for background documentation[17]. While we would have expected some redactions to those documents, to the extent that they involved negotiating strategies or legal advice from counsel, the blanket refusals were not expected.

These are merger partners doing an apparently well-planned and beneficial merger. It is likely that the contents of the requested documents would, if anything, support the merger. They would certainly assist the Board and parties, by providing further information about things like capital savings, reliability impacts, cost of capital, dividends/cash flow, and other items going forward.

SEC recognizes that some aspects of the merger process should be confidential. On the other hand, the Board benefits from the fullest transparency possible, and that is particularly true where its function is to identify any potential harm to the customers. In our view, in this case the Applicants have erred on the side of being insufficiently transparent.

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[14] Staff#27.
[15] SEC#10. $170,037 of additional capitalization, less $61,595 of additional depreciation.
[16] There is only PILs if the amounts are collected from customers, but there is no offsetting deduction. If the net amount goes into a deferral account, there is no increase in taxable income. There is only cost of capital if the utility has to fund the additional rate base. Until the money is refunded to customers, the customers are funding the additional rate base, not the utility.
[17] SEC#12, #13, and #14.

SEC does not believe there is any realistic action the Board can take in this respect. However, given that there were refusals, we believed it would be inappropriate to ignore them, i.e. implicitly saying those refusals are OK.

Conclusion

SEC therefore submits that the Application should be approved, subject to the various comments set forth above.

SEC submits that it has participated responsibly in this proceeding, and requests that the Board order reimbursement of its reasonably incurred costs for so doing.

All of which is respectfully submitted.

Yours very truly,
SHEPHERD RUBENSTEIN PROFESSIONAL CORPORATION

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties