**CONFIDENTIAL**

# REPORT TO THE BOARD OF DIRECTORS

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| Submitted by | John G. Basilio |
| Subject | 2019-23 Preliminary Financial Plan |
| Item # | 4.1.2 |
| Meeting Date | December 14, 2018 |

☐For Information ☒For Approval

Please find attached the following:

- Presentation: 2019-2023 Alectra Financial Plan;
- Report: Alectra Financial Plan – 2019-2023;

Management is presenting a 2019-2023 Financial Plan ("2019 Plan") including indicative 2018 forecast results. This cover report principally focusses on changes relative to the approved 2018-2022 Financial Plan ("2018 Plan").

Management is seeking the approval of the Board of Directors for the 2019 budget year. The remaining 2019 Plan years are presented for information.

The 2019 Plan was developed using "zero-based budgeting" with input from each department/ business unit. This "bottom-up" approach ensures full capture of all elements of the operating plan.

The 2018 Plan identified challenges with respect to structural cost changes relative to the 2017 Plan. These challenges were addressed by Management with the result that the adverse impact of such were fully mitigated. The 2019 Plan demonstrates that Operating expenditures are, in fact, favourable to the 2018 Plan, principally as a result of measures introduced by Management.

This notwithstanding, the 2019 Plan results for fiscal years are significantly below the 2018 Plan results for the following reasons:

- Unexpected adverse Ontario Energy Board ("OEB") decision on Alectra Utilities 2018 ICM/ IR rate application that has implication to outcomes for similar future rate applications. The result is a significant overall decline in forecast distribution revenue relative to the 2018 Plan;
- OEB changes to customer service rules that have adverse implication to previous service charge revenue forecasts;
- [redacted]
- Higher depreciation costs resulting from: i) a shift in the capital plan towards faster amortizing Information Technology assets; ii) changes in annual depreciation from in-service assets as a result of refinements to depreciation calculations in the course of harmonizing processes.

The result is a significant decline in net income relative to the 2018 Plan. [redacted]

The revenue challenges in the LDC signal increasing political and regulatory risks regarding customer rates and real return expectations for regulated distribution companies in Ontario. In the view of Alectra management, the 2018 Alectra rate application decision of the OEB was inconsistent with its decision on the Alectra merger application and associated OEB policies and principles regarding distributor consolidation. This notwithstanding, the OEB is not bound by its own policies or precedent decisions, which creates obvious risk for LDCs and their ability to deliver sustainable service to customers balanced with fair returns to shareholders.

The 2019 Plan assumes that Alectra will be able to successfully negotiate a collective agreement with the PWU and achieve outcomes in line with the merger business case. Achievement of planned synergies and financial results will be at risk if Alectra cannot negotiate a collective agreement that allows for staff relocation, operational changes and wage increases that are consistent with the assumptions underlying the 2019 Plan.

[redacted]

Management has taken the following action to address these adverse events:

- [redacted]
- Advocacy through direct and indirect means with government, the OEB, industry associations, and other means such as speaking engagements, panel representation, etc.;
- Stakeholder communication and ongoing development of communication plans;
- Commencement of business optimization investigations in 2019 post-integration.

[redacted]

[redacted]

[redacted]

A significant contributor to the unfavourable variance in the 2019 Plan is the result of a change in the assumed timing of settlements associated with the resolution of the collective agreement between Alectra and Power Workers Union from 2018 to 2019. The most significant components of such settlements are Voluntary Severance Packages but may also include retroactive payments and other amounts. [redacted] At this time, Management is assuming that the collective agreement and retroactive payments are resolved in 2018 with voluntary severance and relocation costs being resolved in 2019.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]:

[redacted]

[redacted]

**Motion**

The Board of Directors approves the 2019 Budget and receives the 2020 through 2023 forecast results for information.