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October 31, 2019

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Alectra Utilities Corporation ("Alectra Utilities")
Incentive Regulation Mechanism ("IRM") Application for 2020 Electricity Distribution Rates and Charges (OEB File No. EB-2019-0018)
Alectra Utilities Response to the OEB Request for Further Information**

We are counsel to Alectra Utilities in the above-referenced proceeding. The following is in response to a letter from the OEB, issued to Alectra Utilities on October 28, 2019. The OEB's letter requested further information on the reasons for permanently redacting two parts of a report that was filed on October 16, 2019 following the OEB's motion decision. In particular, the referenced report is the *Report to the Board of Directors regarding 2019-2023 Preliminary Financial Plan*, dated December 14, 2018 (the "Report") and the OEB requested further information on the reasons for permanently redacting the following two parts of the Report:

1. Page 2, the paragraph starting with "The outlook may..." up to the word "results", and

2. Page 5, the two paragraphs under the table starting with the words "The significant..." up to the words "ICM applications".

Upon further review, Alectra Utilities has determined that the two referenced sections of the Report were inadvertently redacted and may be disclosed on the public record. The revised public version of the Report is provided in the **Appendix "A"** below. Alectra Utilities will send a revised confidential "OEB Only" version of the Report to the OEB, if requested.

Yours truly,

Jonathan Myers

cc: Indy Butany-DeSouza, Alectra Utilities
Charles Keizer, Torys LLP
All Parties

Appendix 'A'

Revised Public Version of the Report

CONFIDENTIAL

REPORT TO THE
BOARD OF DIRECTORS

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.

The outlook may improve to the extent that future rate applications yield better than assumed results [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]

The significant variances are explained as follows:

Distribution Revenue

Distribution revenue is challenged in 2019 to 2022 as a result of: i) lower than expected recoveries on incremental capital expenditures from applications to the OEB for ICM applications; ii) lower revenue attributable to the OEB's decision on Alectra's capitalization policy; iii) lower customer growth; and iv) lower fixed distribution revenue due to the reclassification of general service customers due to reduced consumption and demand.

These unfavourable conditions are mitigated somewhat by i) higher forecast consumption and demand; ii) higher LRAM based on the latest energy savings forecast; and iii) higher regulated cost of capital and inflationary adjustments under Custom Incentive Rate Update and ICM applications.

[redacted]

[redacted]

[redacted]

Motion

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