Shepherd Rubenstein

Fred Zheng
Fred@shepherdrubenstein.com
Dir. 416-483-3300

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Our File: EB20210280

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Nancy Marconi, Acting Registrar

Dear Ms. Marconi:

Re: EB-2021-0280 Brantford Power Inc. and Energy+ Inc. MAADs Application

We are counsel for the School Energy Coalition ("SEC"). Pursuant to Procedural Order No. 1, these are SEC's submission on the Application.

Overview

Brantford Power Inc. ("BPI") and Energy+ Inc. ("Energy+") (collectively the "Applicants") filed a MAADs application with the Ontario Energy Board ("OEB") on November 1, 2021 (the "Application"). The Application requested, *inter alia*, the approval of the amalgamation of BPI and Energy+ into a single electricity distribution company ("LDC Amalco" and the "Proposed Transaction").

The Applicants have the burden to show that the Proposed Transaction satisfies the "no harm" test. The "no harm" test assesses whether the proposed transaction will have an adverse effect on the attainment of the OEB's statutory objectives as set out in section 1(1) of the Ontario Energy Board Act, principally, protecting customers with respect to "prices and the adequacy, reliability and quality of electricity service."[1] The Proposed Transaction should only be approved if it will have no adverse effect on customers. [2]

In general, SEC supports the amalgamation of electricity distributors where it can be demonstrated that the consolidation benefits customers through cost reduction, without negatively affecting reliability and service quality. Electricity distributors serving customers in nearby geographic areas like the Applicants are natural fit for amalgamation.

The Applicants have provided sufficient evidence in the Application, Technical Conference, and subsequent Undertaking Responses to demonstrate that the Proposed Transaction are likely to benefit customers in both service territories. SEC therefore submits that, subject to our comments below, the

[1] *Ontario Energy Board Act, 1998,* section 1(1)1
[2] Handbook to Electricity Distributor and Transmitter Consolidations, pages 3-4.

Proposed Transaction will benefit or at least cause no harm to the customers, and should be approved by the OEB.

The Applicants also seek approval to record certain amounts in Account 1592 - Sub-account CCA Changes for the BPI service territory beginning in year 2027. SEC submits the OEB should reject this specific approval.

Rates & Cost Structure

Both Energy+ and BPI have similar existing base distribution rates.[3] Even with the higher relative customer growth expected for Energy+ compared to BPI,[4] the forecast distribution revenue per customer in year 11 for each distributor in the stand-alone scenario remain close (within 2.5%).[5] The forecast savings, as a result of the transaction, are more than sufficient to ensure that customers of both BPI and Energy+ will have lower rates after the deferred rebasing period, compared to if there was no amalgamation.[6]

With that said, if actual savings achieved are not sufficient and the costs of LDC Amalco are higher for customers of either Energy+ and BPI, as compared to a status-quo scenario, those excess costs are to be borne by the shareholder and not ratepayers.[7]

Cost Savings – OM&A. The Applicants anticipated synergies from the Proposed Transaction will result in OM&A cost reductions of $3.97 million by year 11, as indicated in Table 6 of the Application.[8]

OM&A	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Brantford Power	$ 13,192	$ 14,146	$ 14,664	$ 14,878	$ 15,176	$ 15,480	$ 15,789	$ 16,105	$ 16,427	$ 16,756	$ 17,091
Energy+	$ 20,645	$ 21,057	$ 21,179	$ 21,452	$ 21,881	$ 22,319	$ 22,765	$ 23,221	$ 23,685	$ 24,159	$ 24,642
Total BPI and E+ (Stand-Alone)	$ 33,837	$ 35,203	$ 35,843	$ 36,330	$ 37,057	$ 37,799	$ 38,554	$ 39,326	$ 40,112	$ 40,915	$ 41,733
Net (Costs) / Synergies	$ (331)	$ 1,680	$ 3,411	$ 3,461	$ 3,530	$ 3,602	$ 3,673	$ 3,747	$ 3,821	$ 3,899	$ 3,976
LDC Amalco	$ 34,168	$ 33,523	$ 32,432	$ 32,869	$ 33,527	$ 34,197	$ 34,881	$ 35,579	$ 36,291	$ 37,016	$ 37,757

SEC believes the anticipated OM&A reduction is achievable. In fact, SEC expects the Applicants to achieve a greater level of savings. Calculated based on the numbers in the Table above, SEC notes that from year 3 to year 11, the synergies forecast for each year remains the same level at 9.5%. Synergies and cost savings of amalgamations usually materialize years after the initial stage of the consolidation. As discussed below, LDC Amalco's cost saving strategy relies on reducing staffing levels which usually materialize in long term. As such, SEC expects OM&A cost savings, in terms of a percentage of total stand-alone OM&A costs, to increase over the years and eventually achieving OM&A savings higher than anticipated in the Application.

SEC notes that a major source of cost savings will be through reduced staffing levels. The Applicants expect to achieve those savings from employee attrition and planned retirement. In Undertaking JT1.10, the Applicants provided a table summarizing eligible retirements in each area of responsibility.[9]

[3] Application, p.48
[4] See Undertaking Response JT 1.4, Excel Spreadsheet, Rows 73-74
[5] Application, p.32; Undertaking Response JT 1.4, Excel Spreadsheet, Rows 82, 94
[6] Application, p.48
[7] *Decision and Order* (EB-2018-0270), April 30, 2020, p.23
[8] Application, p.30 Table 6
[9] Undertaking Response JT1.10

Area of Responsbility	Currently Eligible	Eligible Within Next 5 Years	Eligible > 5 Years	Total
Administration	0	1	1	2
Billing	0	2	0	2
Customer Care	4	2	1	7
Engineering	1	2	1	4
Executive	3	1	1	5
Finance	0	1	1	2
ITS	0	1	0	1
Operations	3	2	5	10
Total	**11**	**12**	**10**	**33**

Although there are 33 total eligible retirements in the next ten years, 10 of them are Operations positions. As indicated in the Technical Conference, the Applicants will backfill many of these Operations positions, as they should, especially those positions responsible for distribution systems, in order to maintain the service quality and reliability. As such, SEC believes that the LDC Amalco needs long term plans other than planned retirement, and rely on diverse human resources strategies to reduce staffing levels. With that said, SEC believes there is room for the Applicants to achieve its anticipated reduction in staffing levels while maintaining or improving current service quality.

Cost Savings – Capital Expenditures. The Applicants have indicated they do not anticipate the Proposed Transaction would result in net savings in capital expenditures during the deferred rebasing period. However, SEC notes that the amalgamation of Energy+ and BPI may present LDC Amalco with an opportunity to achieve greater capital expenditure reductions than those contemplated in the Application. Although the Applicants have identified programs in the General Plant investment category, such as costs related to GIS and ERP systems as areas where capital expenditure savings may materialize, SEC notes other areas of potential savings from which ratepayers may benefit.

Both legacy LDCs invested in new office buildings in recent years. Energy+ invested in a new administrative office in downtown Cambridge (Southworks project)[10] and BPI invested in the office building (150 Savannah Oaks Dr.) in Brantford[11]. As the Applicants anticipate to reduce staffing levels and consolidate management teams, SEC expects LDC Amalco to efficiently utilize the office space in these two administrative buildings. Although BPI has already made arrangements to share the office building with Energy+ and a third-party tenant, SEC expects the Proposed Transaction would further streamline the office space occupancy and result in the ability to lease out further space.

Reliability and Quality of Service

SEC's initial concern is that there is a potential that as a single distributor sharing resources, while Energy+ service territory may see an improvement in reliability, it will be at the expense of reliability in the BPI service territory. As demonstrated in the Application, BPI has historically relatively superior reliability as compared to Energy+.[12]

[10] *Decision and Order* (EB-2021-0018), December 21, 2021, 0.8
[11] *Decision and Order* (EB-2019-0031), January 23, 2020, p.1
[12] Application, p.27 Table 5

Description	2016	2017	2018	2019	2020	Average
SAIDI						
BPI	0.45	0.29	0.68	0.62	0.26	0.46
E+	0.63	1.53	0.46	0.92	0.71	0.85
SAIFI						
BPI	1.24	1.07	0.89	1.1	1.12	1.08
E+	1.27	2.18	1.19	1.53	1.38	1.51

Based on the evidence, SEC accepts that this is unlikely to happen and that the Proposed Transaction ought to have neutral or positive effect on reliability and service quality in both service territories.

The Applicants explained that the relatively superior reliability of BPI is because the service territory of Energy+ is 80 percent or more rural and has lower customer density, which results in more frequent and longer outages.[13] The Applicants' evidence is that LDC Amalco is expected to maintain or improve the adequacy, reliability and quality of electricity service in each service territory.[14] It plans to maintain the existing operations centres located in each service territory.[15] The Applicants have also stated that LDC Amalco will commit to cost saving strategies that does not affect the quality and reliability of services.[16]

SEC believes the cost reduction activities contemplated in the Application should not cause harm to customer reliability. LDC Amalco's capital expenditure savings plans are confined to the general plant investment category and will not result in reductions to investments in distribution assets. The OM&A saving activities of LDC Amalco should not impact reliability either. Currently, vegetation management activities and forestry work of the legacy LDCs are outsourced to third parties, and LDC Amalco does not plan any reduction in forestry spending or management.[17] In addition, SEC believes the combined level of staffing will allow LDC Amalco to improve its response capabilities in the event of a large-scale outage.[18]

Account 1592 - Sub-account CCA Changes

In BPI's 2022 rebasing proceeding, the OEB approved a settlement proposal that included a smoothing adjustment to the test year CCA deduction, to account for the planned phase-out of the Accelerated Investment Incentive ("AII") during the then expected 5-year rate period.19 Essentially, BPI's CCA amounts included in its 2022 base rate PILs amounts were amortized over the 5-year IRM and DSP period (2022-2026).20 The result was that the approved PILs expense included in rates was higher than would have otherwise been the case. As a result of the proposed amalgamation, the issue that arises, is that since the Applicants are seeking a 10-year deferred rebasing period, the smoothing adjustment is now insufficient to recover its PILs expense as it is based on a 5 year, not 10-year, phase-out calculation. The Applicants seek to record, beginning in 2027 through to the end of the

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[13] Technical Conference Transcript, p.7
[14] Technical Conference Transcript, p.8
[15] Technical Conference Transcript, p.7
[16] Technical Conference Transcript, p.9, 47
[17] Technical Conference Transcript, p.78
[18] Technical Conference Transcript, p.8
[19] Application, p.21. The issue does not arise for Energy+ since it has not rebased since the creation of the Account 1595 –Sub-Account Accelerated CCA and so no accelerated CCA is built into its PILs expense.
[20] Technical Conference Transcript, p.31; See also EB-2021-0009 Settlement Proposal, p.20-21

deferred rebasing period in 2031, the difference in the in DVA Account 1592 - PILs and Tax Variances, *Sub-account CCA Changes*.[21] It estimates that the annual amount to be recorded in each of those 5 years (2027-2031) will be $0.157M, for a total principal balance of $0.785M.[22]

SEC submits the OEB should deny this request.

The amounts at issue are not material and that is sufficient reason to reject the request. LDC Amalco's materiality threshold is $0.295M.[23], the forecast annual amount of $0.157M is substantially below that amount. It is not credible for the Applicant to say in its evidence that the "impact…beyond 2026 is expected to be significant to the operating results of LDC Amalco".[24]

Aside from the materiality issue, more concerning is that the Applicants' proposal is an indirect way to asymmetrically adjust the base rate during the deferred rebasing period, which is unfair and inconsistent with the OEB's MAADs policy framework.

The policy framework gives distributors the choice to defer rebasing after an amalgamation for up to 10 years, allowing them to keep any savings achieved, net of any additional costs, during that period. The rate adjustments during that period are limited to those available under Price Cap IR. It is unfair to allow the Applicants to seek an additional rate adjustment, albeit indirectly through access to a variance account, for additional costs when no similar accounts are being put in place to capture savings to customers.

The impact of the expected PILs under-recovery is entirely a function of the decision of the Applicants to amalgamate, and more importantly, to choose a deferred rebasing period of 10 years, which is optional.[25] LDC Amalco could choose to rebase earlier, but it would need to pass on the savings achieved to its customers and not wait until 2032. SEC accepts that all else being equal, LDC Amalco will under-recover its PILs expense over its proposed deferred rebasing period. At the same time, it is clear from the evidence that over the deferred rebasing period LDC Amalco will significantly over-recover. The evidence, is that Applicants expect to achieve, net of integration costs, a savings of $1.68M beginning in year 2, and approximately $30.5M through the end of the deferred basing period.[26] In contrast, the entire amount Applicants forecasts it will under-recover in PILs, as a result of the CCA smoothing adjustment embedded in BPI rates, incorporating only the 2022 to 2026 AII phase-out, is $0.785M.[27]

Additionally, the Applicants are not proposing symmetrical treatment for other amortization included in base rates. Consistent with the OEB's Filing Requirements, built into the base rates of both BPI and Energy+, are its one-time cost of service regulatory costs which are amortized over 5-years ($170,199 per year for Energy+ $71,127 per year for BPI).[28] The amortization period is based on the regular schedule between distributor cost of service applications (Energy+ 2019-2023 and BPI 2022-2026).[29]

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21 Application, p.21
22 Undertaking Response JT 1.6
23 Technical Conference Transcript, p.97
24 Application, p.21
25 Handbook to Electricity Distributor and Transmitter Consolidations, p.12
26 Application, p.30
27 Undertaking Response JT 1.6
28 Undertaking Response JT 1.7
29 Technical Conference Transcript, p.41-42; Filing Requirements For Electricity Distribution Rate Applications – Chapter 2 – Cost of Service, p.34

Since the costs will remain in base rates after the amalgamation, LDC Amalco will over-recover one-time cost of service regulatory costs of the legacy utilities.

One-Time Regulatory Cost Amoritization Over-Recovery							
	2024	**2025**	**2027**	**2028**	**2029**	**2030**	**2031**
Energy+	$170,199	$170,199	$170,199	$170,199	$170,199	$170,199	$170,199
BPI			$71,127	$71,127	$71,127	$71,127	$71,127
Total	***$170,199***	***$170,199***	***$241,326***	***$241,326***	***$241,326***	***$241,326***	***$241,326***

On an LDC Amalco-wide basis, the over-recovery in on-time regulatory costs is larger than the under-recovery in PILs, yet no deferral or variance account is being requested to benefit ratepayers.[30] This is another reason to deny the requested approval.

Conclusion

SEC submits that the Application should be approved, subject to the comments set forth above, with respect to the proposal with respect to the use of Account 1592 - Sub-account CCA Changes, related to BPI's CCA adjustment beginning in 2027.

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

All of which is respectfully submitted.

Yours very truly,
Shepherd Rubenstein P.C.

Fred Zheng

Digitally signed by Fred Zheng
DN: cn=Fred Zheng, o, ou, email=fred@shepherdrubenstein.com, c=CA
Date: 2022.02.17 11:55:05 -05'00'

Fred Zheng

cc: Ted Doherty, SEC (email)
Interested Parties

[30] Technical Conference Transcript, p.42