

Ms. Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

May 9, 2022

**EB-2022-0006 – Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.
Application for Leave to Amalgamate
Pollution Probe Submission**

Dear Ms. Marconi:

In accordance with Procedural Order No. 2 for the above-noted proceeding, please find attached Pollution Probe's Submission.

Respectfully submitted on behalf of Pollution Probe.



Michael Brophy, P.Eng., M.Eng., MBA
Michael Brophy Consulting Inc.
Consultant to Pollution Probe
Phone: 647-330-1217
Email: Michael.brophy@rogers.com

Cc: Kitchener-Wilmot Hydro Inc. (via: manninga@kwhydro.ca)
Waterloo North Hydro Inc. (via: asingh@wnhydro.com)
Kitchener Power Corp. (via: jvanooteghem@kwhydro.ca)
Waterloo North Hydro Holding Corporation (via: rgatien@wnhydro.com)
John A.D. Vellone, BLG (via: jvellone@blg.com)
All Parties (via email)
Richard Carlson, Pollution Probe (via email)

ONTARIO ENERGY BOARD

**Kitchener-Wilmot Hydro Inc. and Waterloo North Hydro Inc.
Application for Leave to Amalgamate**

POLLUTION PROBE SUBMISSION

May 9, 2022

**Submitted by: Michael Brophy
Michael.brophy@rogers.com
Phone: 647-330-1217
28 Macnaughton Road
Toronto, Ontario M4G 3H4**

Consultant for Pollution Probe

Summary and Background

Kitchener-Wilmot Hydro Inc. (Kitchener-Wilmot Hydro or KWHI) and Waterloo North Hydro Inc. (Waterloo North Hydro or WNHI) (jointly, the Applicants) applied to the Ontario Energy Board (OEB) on January 31, 2022 under sections 18, 60, 77(5), 78 and 86(1)(c), 86(2)(b), of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15, Schedule B*, for approval to amalgamate and continue operations as a single electricity distribution company.

If approved by the OEB the merged utility (to be named and currently referred to as MergeCo) will serve over 157,000 customers in the City of Kitchener, the City of Waterloo, the Township of Wellesley, the Township of Wilmot, and the Township of Woolwich.

According to the Applicants, the proposed merger will bring together a larger group of stakeholders that collectively have common interests and objectives concerning energy and emission reductions. This will provide more focused resources to facilitate and support increased collaboration across communities, stakeholders and operating groups and support the development and implementation of projects that will help communities meet their energy and emission reduction objectives¹.

Rate Rebasing Deferral Term and Rate Zones

The Applicants have requested the OEB approve a ten-year rate rebasing deferral term which represents the maximum potential deferral period under the OEB Handbook and the Consolidation Policy. Pollution Probe has no directional concern with the Applicants asking the OEB for the maximum allowable deferral period, but there are several issues that would need to be mitigated resulting from a long deferral period. In general, the longer the deferral period, the larger the potential lack of transparency and coordination. If the OEB or the Applicants put the right conditions or commitments in place, it should not be difficult to overcome the issues that a longer deferral period create. While the OEB has determined that allowing a longer deferred rebasing period is appropriate to incent consolidation, there must be an appropriate balance between the incentives provided to utilities and the protection provided to customers.

The pace of municipal energy and emission plan activities and also the pace of technology and consumer adoption continues to accelerate and there will be significant changes over the proposed ten-year rebasing period. The Applicants have mentioned their focus on grid support and EVs. A broad range of distributed energy resources (DERs) will continue to advance over the coming years. Enabling non-utility DERs and utility solutions will require increased coordination and enhancements to traditional

¹ Pollution Probe IR#5

distribution resource planning. The status quo tools will not be sufficient to meet future needs.

Both KWHI (EB-2019-0049) and WNHI (EB-2020-0059) have recently filed a Distribution System Plans (DSP) with the OEB. In this context, KWHI and WNHI plan to file a combined Business Plan and DSP as part of its next Cost of Service application in 2033². That is a significant amount of time before there is an integrated DSP available for the OEB or stakeholders. The Business Plan and DSP is not just a critical internal utility documents, but public document that provides transparency and the ability for customers, municipalities and other stakeholders to understand the utility's priorities and align planning and implementation efforts (e.g. energy and emission plans) in a cost-effective manner. Without transparency there are significant lost opportunities for collaboration and alignment.

The Applicants indicate that they will use current asset management practices and good business planning until such time as merged operations and practices can be set. The MergeCo will work towards combining and maintaining best practices into the new company³. KWHI's current Distribution System Plan goes to 2024 and WNHI's current Distribution System Plan goes to 2025⁴. Minimizing the period where no DSP is in place is preferred.

It is recommended that the OEB consider a condition that requires the MergeCo to publish an integrated Business Plan and DSP prior to the end of the deferral period. Pollution Probe suggests that filing and publicly releasing the integrated Business Plan and DSP prior to the end of the five-year mark would be reasonable to provide a reference point for all stakeholders prior to filing an updated MergeCo Business Plan and DSP in 2033.

This still provides a gap from when the current DSPs expire, but the gaps should be manageable. This has the added benefit of aligning with the requirements for an incremental capital module (ICM) application should the MergeCo decide to file one (not currently proposed). The Applicants may wish to include a counterproposal and rationale in their reply submission for the OEB to consider.

The benefits of maintaining two separate rate zones for an additional 10 years following the end of the Deferred Rebasing Period (the "Special Request") is unclear. In order to promote greater joint efficiencies following the rebasing deferral period, moving toward an integrated treatment across all MergeCo customers would seem appropriate.

² Pollution Probe IR#5

³ Pollution Probe IR#6

⁴ Staff IR# 16

There will be an incremental administrative burden to continue two separate rate zones over an additional 10 years. The Applicants indicated that they are willing to assume this voluntarily and have accounted for this in the proposed merger plan. Customers were not informed of the plan that rate harmonization would take place over 10 years from 2033 to 2042⁵.

The onus is on the Applicants to clarify and provide clear benefits for this proposal in order to satisfy the OEB when deciding on this request. It may also be appropriate to defer this decision until the rebasing application for the MergeCo.

Efficiencies, Metrics and Scorecards

The merger as proposed by the Applicants is intended to provide efficiencies and enhanced service outcomes for consumers and communities served. The Applicants note that integration and system costs may be high in the early years, but that these should lead to economies of scale and more efficient modern processes. By the end of the deferral period the MergeCo should either have reduced costs and/or increased the level of outcomes (measured by scorecard and other metrics) achieved for the same level of rate payer investment.

A comprehensive summary of these strategic investments, efficiencies and outcomes should be included in the rebasing application to demonstrate the value the merger achieved.

Pollution Probe is aware that SEC has also analyzed the utility metrics and therefore to reduce duplication Pollution Probe has avoided detailed discussion of the utility metrics in this submission. This should not be interpreted as the metrics and performance being any less important. In fact, metric tracking over the course of a merger is even more important to understand the efficiencies gained through merger optimization. Cases where utilities have failed to properly track results over an extended period result in poor benchmarking and challenges when preparing for the next rebasing application. The Applicants have confirmed that metrics will be no less stringent than they currently are.

Accounting and Capitalization

The Applicants indicate that accounting and capitalization policies are the same for each utility. The rates of depreciation differ slightly in some areas. As part of IFRS, depreciation rates are estimates that are reviewed by management each year. LDC

⁵ Staff IR# 3

MergeCo will review depreciation rates in 2022 and will apply any changes in estimate, if necessary, on a prospective basis⁶.

For asset investment over the deferral period, it should be clear what amortization period the MergeCo intends to use for joint assets such as new systems or joint investment in other capital infrastructure. This is not an issue in cases where the Applicants have the same amortization period. However, where the amortization period differs, the Applicants should outline the approach they intend to use. Best practice and OEB direction is consistently focused on optimal decision making that achieves the best consumer/system outcomes in a cost-effective manner. The merger provides an opportunity to broaden planning and decision making in a manner that achieves more for less, compared to status quo decision making by separate utilities. The capital plan(s) are the largest source of rate payer funding for the MergeCo over the rebasing deferral period and clarity in decision making that drives optimal integrated decisions is important.

Customer, Community and Public Interest Issues

One of the challenges created by a merger like the one proposed is ensuring continuity of focus on the activities important to the communities and consumers served. Even when there is a committed intention to maintain or improve engagement, partnering and outcomes, meeting those commitments can be difficult when responsible staff, processes and systems are in flux. Customers and community stakeholders that use to have established contacts can struggle when the existing contacts and processes are no longer current. These issues can also be compounded by the length of the rebasing deferral period since a long deferral period provides less OEB and stakeholder visibility and could incent cutting corners on engagement and supporting the outcomes of local energy and emission plans.

The Applicants indicated that all leadership and support provided in community energy and emissions planning will be maintained through the proposed merger as the leadership of both organizations support increased collaboration across communities, stakeholders and operating groups. The merger will enable resources to focus on innovation and new technologies to help build awareness amongst stakeholders and provide additional support for the development and implementation of project⁷.

⁶ SEC IR# 14

⁷ Pollution Probe IR#1

There are also legal requirements for utility support and customers to report energy and/or greenhouse gas emissions and provide Conservation and Demand Management plans. The Applicants are correct that Ontario Regulation 397/11 was revoked pursuant to Section 11 of the [Green Energy Repeal Act, 2018](#) effective January 1, 2019. The requirements remain in place and the regulation was moved to the Electricity Act when the Green Energy Act was repealed. The updated number is [O. Reg. 507/18](#), and it would be of value for the Applicants to provide information to impacted customers on how it intends to support them in meeting these requirements during and after the proposed merger. Similar requirements exist under O. Reg. 20/17.

The Applicants indicated that the proposed merged entity will maintain or enhance its support for energy and emissions reporting and reductions requirements for the municipalities and all broader public sector (including university) buildings served. The enhanced support may include more focused resources to perform outreach, engagement and education to stakeholders, facilitate collaboration amongst stakeholders, and support the development and implementation of projects to support stakeholder emission reduction targets. Additionally the MergeCo initiatives may include automated fault detection and restoration, grid support for additional electrification and rate base EV chargers⁸.

The Applicants indicated that the leadership team of KWHI and WNHI support local community energy and emission related committees and organizations including, but not limited to: ClimateActionWR, ChargeWR, TransformWR, Sustainable Waterloo Region, WR Community Energy, REEP Green Solutions. The CEO of KWHI is the past Chair and the CEO of WNHI is the current Chair of WR Community Energy. The Applicants have committed that the merged utility support of local organizations and participation on related committees will at a minimum continue at the current levels. Pollution Probe supports that commitment as a minimum standard and encourages the LDC MergeCo to leverage economies of scale and efficiencies to increase the effectiveness of outcomes to these community initiatives.

The Applicants have identified that the minority shareholder townships will continue to have representation on the Board of Directors and that this governance structure has a long-standing history of collaboration among the communities⁹. This governance process should help to ensure that community energy and emissions planning and delivery is integrated and effective. Pollution Probe recommends that scorecard metrics be considered to track these outcomes including KWs of DER and progress toward net zero emission objectives. The merger has the potential to simplify coordination and

⁸ Pollution Probe IR#1

⁹ Pollution Probe IR#2

increase effective support for integrated community energy and emissions initiatives such as WR Community Energy.

The Applicants also indicated that additional innovation and new technologies that LDC MergeCo may explore include but are not limited to an enhanced user portal that provides greater functionality and support for customers for managing their energy usage and costs, electrification technologies including electric vehicle charging, energy storage, space and water heating and cooling, and renewable energy generation. A one window approach to information and energy management is a best practice approach. Access to data in a format that can be shared and used also aligns with the Ministry of Energy Green Button initiative supported by the OEB. Pollution Probe supports setting the merger expectation that innovation and enhancements to existing systems, processes and communication channels will be advanced in a tangible manner over the rebasing deferral period and beyond.

The Applicants indicated that they are not currently participating in any distribution rate funded CDM activities. The merger will see a continued evaluation of opportunities to undertake activities including considering CDM in system planning and CDM activities addressing regional needs as outlined in the Conservation and Demand Management Guidelines for Electricity Distributors EB-2021-0106. Pollution Probe encourages the Applicants to include resources and coordination to ensure that their customers have access to best practice CDM information and programs. IESO has a wide range of programs that could be promoted to customer and work could be done with area municipalities to update processes to better integrate energy considerations into the review and approval process for development applications¹⁰. During a merger process redesign is an essential time to ensure that these objectives are integrated into the new processes and metrics.

The Applicants indicate that at present, the proposed merged entity does not have a net-zero emission commitment as technology for certain aspects of their business is still not reliable¹¹. This has not been a barrier for best practice utilities and the municipalities that they serve since net zero emission goals are future oriented with many net zero targets as far out as 2050 and some as early as 2030. Some organizations already have pathways to reach net zero goals using today's available technology and more pathways open up every year. Technology, cost-effectiveness and consumer adoption is advancing quickly and setting a clear net zero commitment early in the merger will

¹⁰ One example for Waterloo Region is the Community Energy Investment Strategy - <https://wrcommunityenergy.ca/wp-content/uploads/2020/01/Community-Energy-Investment-Strategy.pdf>

¹¹ Pollution Probe IR#7

actually make merger decisions more efficient since it provides a compass to help make efficient future focused decisions, particularly during the integration of Business Plans and DSPs. Delaying that commitment to after merger decisions are made could result in duplication and rework.

It is recommended that the Applicants and MergeCo prioritize consideration of a net zero emission commitment as early as possible in the process to simplify decision making through the merger process in a future focused manner.

The Applicants indicated that the proposed merged entity will continue to focus on decreasing its energy and emissions footprint while exploring innovation and new technologies that will enable the proposed merged entity to move towards a net-zero emission commitment.