

Ontario Energy Board
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Application Form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*

For Office Use Only	
Application Number	EB -
Date Received	

PART I : GENERAL INFORMATION

1.1 Nature of Application

1.1.1 Application Type

- For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))
- For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))
- For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))
- For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))
- For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

1.1.2 Notice under section 80 or 81 of the Act

Is a notice of proposal required under section 80 or 81 of the Act?

- Yes
- No

If yes, the applicant must also file a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" with the Board.

1.2 Identification of the Parties

1.2.1 Name of Applicant

Legal name of the applicant: Chapleau Public Utilities Corporation

Name of Primary Contact:

Mr. <input checked="" type="radio"/>	Mrs. <input type="radio"/>	Last Name	First Name	Initial
Miss <input type="radio"/>	Ms. <input type="radio"/>	Morin	Alan	
Other <input type="radio"/>		Title/Position		
		General Manager		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Chapleau	Ontario	Canada	POM 1K0
Phone Number	Fax Number	E-mail Address	
705-864-0111	705-864-1962	amorin.puc@chapleau.ca	

1.2.2 Other Party to the Transaction (if more than one attach a list)

Name of the other party: Chapleau Energy Services Corporation

Name of Primary Contact:

Mr. <input type="radio"/>	Mrs. <input checked="" type="radio"/>	Last Name	First Name	Initial
Miss <input type="radio"/>	Ms. <input type="radio"/>	Cyr	Jennifer	
Other <input type="radio"/>		Title/Position		
		Manager of Finance		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Chapleau	Ontario	Canada	POM 1K0
Phone Number	Fax Number	E-mail Address	
705-864-0111	705-864-1962	jcyr.puc@chapleau.ca	

1.3 Description of the Business of Each of the Parties

- 1.3.1 Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").

Between 2012 and 2017 Chapleau Public Utilities Corporation (CPUC) operated as a virtual utility; while CPUC operated as the regulated distributor and owned the distribution system, it retained its affiliate Chapleau Energy Services Corporation (CESC) to provide the services necessary to maintain and run the distribution system. CESC also provided outside services to various other customers.

Both CPUC and CESC are located in the Municipality of Chapleau, Ontario, population of approximately 2000. The Township of Chapleau was the sole shareholder of both the CPUC and CESC.

- 1.3.2 Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.

Located within the Sudbury District, the CPUC service area totals 14.3 square kilometers. CPUC serves approximately 1250-metered rural, small commercial, forestry and Canadian Pacific Railway loads within the Township boundaries. The distribution service area within the Town of Chapleau is located in central Northeastern Ontario. The nearest cities are Sault Ste. Marie, Timmins, and Sudbury, but all are more than a two-hour drive away. CESC is not a regulated distributor so does not have a "geographic territory".

- 1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

CPUC's Customers by Class are as follows:

Residential – 1047
<50 – 149
>50 – 12
Sentinel – 9 customers, 22 connections
Street Light – 1 customer, 328 connections
USL - 4

CESC has no distribution customers.

- 1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

The service area did not change after the transaction, it is still the original CPUC service area (see 1.3.2).

- 1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

The organizational charts of the former CESC, former CPUC and amalgamated CPUC (Amalco) are attached.

1.4 Description of the Proposed Transaction

- 1.4.1 Please provide a detailed description of the proposed transaction.

As a result of the cessation of operations of CESC CPUC needed to find an alternative way to obtain the services it required to maintain and operate its distribution system. Because CESC was an affiliate of CPUC, wholly owned by the same municipal shareholder that wholly owns CPUC, the simplest options for CPUC to obtain the necessary resources in order to continue to maintain and run its system was to either a) directly transfer the assets of CESC to CPUC, or b) amalgamate with CESC, with the effect that the assets of CESC and CPUC would be held together within Amalco.

In either case the net result was the effective transfer of the assets that CPUC had been accessing to maintain and run its distribution system. CPUC's shareholder ultimately decided to effect the transfer through an amalgamation.

1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

No consideration was given, the two entities simply amalgamated.

The assets and liabilities were transferred from CESC and CPUC to the new CPUC as follows:

CESC:

Assets:

Cash and investments \$557,189
Accounts receivable - \$11,411
Inventory - \$41,261
Prepaid expenses - \$1,722
Capital assets - \$104,610 (Net book value)

Liabilities:

Accounts payable - \$46,438
Amounts owing to the ultimate parent company (The Township of Chapleau) - \$62,980

CPUC

Assets:

Cash and cash equivalents - \$409,729
Accounts receivable - \$181,946
Unbilled revenue - \$404,526
Short term investments - \$263,272
Inventory - \$37,889
Prepaid expenses - \$6,100

Due from related parties - \$83,981

Capital assets - \$1,079,634 (net book value)

Regulatory assets - \$1,352,488

Liabilities:

Accounts payable - \$491,264

Payments in lieu of taxes - \$4,126

Customer deposits - \$20,584

Shareholder equity - \$2,084,240

Regulatory liabilities - \$1,219,351

- 1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

Attached.

- 1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

2018 Budget attached.

1.5 Documentation

- 1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

Neither party has publicly filed annual reports, proxy circulars, prospectuses or other information with the securities commissions or similar authorities.

Both parties send financial reports each year to its shareholder. Copies of the 2016 and 2017 reports are provided as attachment for 1.5.1.

- 1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

Attached are the resolution from the Township and the Articles of Amalgamation.

- 1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

CPUC operates under Electricity Distribution Licence ED-2002-0528. It is CPUC's understanding that the licence will have to be transferred to Amalco on approval of the amalgamation by the OEB.

1.6 Consumer Protection

- 1.6.1 Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.

There is no change to the control of the assets.

- 1.6.2 Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.

The amalgamation has no impact on prices to the consumers. Whether the transfer of the assets and personnel had been facilitated by either a direct asset transfer or indirectly through amalgamation, the practical effect on CPUC's customers is identical. CPUC would no longer be charged for the use of CESC resources; instead CPUC would incur the costs of those resources directly. Whether through an asset transfer or amalgamation, the effect on CPUC's customers was going to be an increase in gross costs, because instead of being allocated a portion of the total costs of CESC, with CESC bearing the cost of any shortfall in the amounts recovered from CPUC and any non-CPUC related revenue that CESC was able to generate, CPUC had to become directly responsible for the full gross costs of the assets and personnel it used to maintain and operate its system. This cost increase is partially offset by the generation of other revenue from the non-CPUC customers of CESC that continue to require service and use Amalco as their service provider; to the extent that such other revenue opportunities have persisted into the forecast test period Amalco has included those forecast revenues as an offset to its requested test year revenue requirement.

There is no impact to the adequacy, reliability and quality of electrical service as a result of the transaction. The equipment and personnel from CESC will continue to provide the same level of service as part of Amalco.

- 1.6.3 Please describe the steps, including details of any capital expenditure plans, that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

The operational safety and system integrity did not change after the transaction; the amalgamation was simply a vehicle for the transfer of assets, assets that CESC was already using through its use of CESC as a service corporation.

- 1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

Capital planning has not changed as a result of the amalgamation. No quality or reliability was affected by the transaction. The Service Center remains operational from the same location with no changes as a result of the amalgamation.

- 1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

A rate harmonization process will not be required in this case.

- 1.6.6 If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five-year limit set by the Board.

No proposal for rebasing is necessary in this case; the consolidated entity is in the midst of a rebasing application for the 2019 test year which accounts for the amalgamation.

- 1.6.7 Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.

The only costs incurred in the transaction were legal fees of \$3,929.85. No financing was needed.

- 1.6.8 Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.

No changes were required in the impact on the total bill – see details in question 1.6.2.

- 1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

The benefits of the transaction to the customers relate to the elimination of the Virtual Utility structure. The result is more transparency in rate costs without the affiliate, as there is no need to maintain a methodology for the allocation of costs between affiliates. There are no additional costs as per 1.6.2; the amalgamation itself has no impact on the costs to customers.

1.7 Economic Efficiency

- 1.7.1 Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.

The transaction has had no impact on economic efficiency and cost effectiveness. The service territory remains the same, the customers did not change, IT services are the same, accounting remains the same and there are no changes to customer service.

1.8 Financial Viability

- 1.8.1 Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.

There were no valuations completed for the transaction; all assets, liabilities and equity accounts were transferred over at the net book value.

Given that both entities were related by virtue of a common shareholder, the assets were transferred over at the net book value as of the date of amalgamation. It was determined that there was not a significant differential between the book value of the assets and the fair value as of the date of amalgamation given the age of the assets transferred over to Amalco. Therefore, this process was deemed appropriate.

- 1.8.2 If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.

The assets were transferred at book value.

1.8.3 Please provide details of the financing of the proposed transaction.

Financing was not required as assets were transferred at book value.

1.8.4 If the proposed transaction involves a leasing arrangement, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.

There are no leasing arrangements in the transaction.

1.8.5 Please outline the capital (debt /equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.

Neither CPUC nor CESC had any debt at the time of the transaction.

1.8.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.

There are no potential liabilities associated with the proposed transaction.

1.9 Other Information

1.9.1 If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.

The Township of Chapleau, Resolution 20-296, is attached.

Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.

None.

1.9.2 Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.

The calculation of net metering thresholds is not applicable in this case.


1.9.3 Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.

As noted in various parts of this application, it is important to understand that the amalgamation of CPUC and CESC, which requires leave of the Board under s. 86 of the OEB Act, does not itself have any material impact on CPUC's customers. It is not the amalgamation of two regulated distributors seeking to combine their distinct distribution systems. The amalgamation of CPUC and CESC is simply the vehicle for the transfer of assets that were already being used for the maintenance and operation of CPUC's distribution system to Amalco so that Amalco could continue to operate the distribution system in view of the cessation of operations of CESC as a service company. In the absence of the amalgamation CPUC would have had to transfer assets from CESC to CPUC in a manner that would not have required leave of the Board with the same impact on CPUC's cost of service. Alternatively, had CPUC been unable to obtain the assets from CESC, CPUC would have had to purchase assets in the market at the same or higher cost to customers.

PART II : CERTIFICATION AND ACKNOWLEDGMENT

2.1.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual	Print Name of Key Individual Alan Morin	Title/Position General Manager
	Date Apr 5, 2019	Company Chapleau Public Utilities Co.

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.)