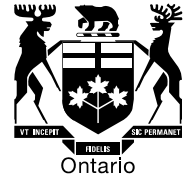


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BY E-MAIL

February 28, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Board Staff Submission
Application by Lakeland Power Distribution Ltd. and Parry Sound Power
Corporation for an Order of the Board granting leave to Amalgamate and
related matters
Board File Numbers: EB-2013-0427 and EB-2013-0428**

In accordance with Procedural Order No. 2, please find attached Board staff's submission respecting the above referenced application.

Yours truly,

Original Signed By

Gona Jaff
Project Advisor, Licensing and Performance Reporting

Attachment

cc: Applicants



ONTARIO ENERGY BOARD

Board Staff Submission

**APPLICATION BY LAKELAND POWER DISTRIBUTION LTD AND PARRY
SOUND POWER CORPORATION FOR LEAVE TO AMALGAMATE AND
RELATED MATTERS**

EB-2013-0427/ EB-2013-0428

February 28, 2014

INTRODUCTION

Lakeland Power Distribution Ltd. (“LPDL”) and Parry Sound Power Corporation (“PSPC”), both licensed electricity distributors (the “Applicants”), have jointly filed an application with the Ontario Energy Board (the “Board”), received on December 12, 2013, seeking leave to amalgamate LPDL and PSPC and address licensing matters resulting from the proposed amalgamation. Specifically,

- LPDL and PSPC seek leave of the Board to amalgamate LPDL and PSPC pursuant to section 86(1)(c) of the *Ontario Energy Board Act, 1998* (the “Act”). Board file number: **EB-2013-0427**.
- If the Board grants LPDL and PSPC leave to amalgamate, upon closing of the proposed transaction, the Applicants seek to amend LPDL’s electricity distribution licence pursuant to section 74 of the Act to include in LPDL’s service area the area currently served by PSPC, and PSPC requests that its electricity distribution licence be canceled pursuant to section 77(5) of the Act. Board file number: **EB-2013-0428**.

The Board issued its Notice of Application and Hearing on December 19, 2013. No intervention requests were filed with the Board.

On January 30, 2014, the Board issued Procedural Order No. 1 in which it indicated that the Board will proceed with the application by way of a written hearing and made provision for interrogatories (“IRs”) and submission by Board staff and reply submission by the Applicants. By way of Procedural Order No. 2, issued on February 3, 2014, the Board extended the timelines for filing of responses to IRs and submissions. Board staff filed IRs on February 6, 2014 and the Applicants provided responses to the IRs on February 21, 2014. Board staff is filing this submission pursuant to Procedural Order No.2.

RELEVANT REGULATORY PRINCIPLES

The Board’s decision in RP-2005-0018/EB-2005-0234/EB-2005-0254 and EB-2005-0257 established the scope of issues that the Board will consider in determining applications for leave to acquire shares or amalgamate (“Merger, Amalgamation, Acquisitions and Divestitures” or “MAAD”) under section 86 of the Act and ruled that the “no harm” test is the relevant test. The “no harm” test is a consideration of whether the proposed transaction would have an adverse effect relative to the status quo in relation to the Board’s statutory objectives. These objectives are set out in section 1 of the Act. According to the no-harm test, if the

Lakeland Power Distribution Ltd. and Parry Sound Power Corporation

proposed transaction would have a positive or neutral effect on the attainment of the statutory objectives, then the application should be granted.

The Board's policy on key rate-making issues that may be associated with consolidation in the electricity distribution sector is set out in a report of the Board titled "Rate-making Associated with Distributor Consolidation" issued July 23, 2007 (the "Report"). In the Report, the Board stated that "distributors that apply to the Board for approval of a consolidation transaction may propose to defer the rate rebasing of the consolidated entity for up to five years from the date of closing of the transaction". The Report also indicates that a "distributor will be required to specify its proposal for rate rebasing as part of the MAAD application". With respect to rate harmonization, the Report indicates that "the issue of rate harmonization in the context of a consolidation transaction is better examined at the time of rebasing". Nevertheless, the Report indicates that parties should indicate in the MAAD application "whether they intend to undertake a rate harmonization process after the proposed transaction is completed and, if they do, to provide a description of the plan".

SUBMISSION

Board staff submits that the application should be approved as filed. The Board's statutory objectives include, among others, protection of the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service, and the promotion of economic efficiency and cost effectiveness. In Board staff's view, as discussed below, the evidence in this proceeding supports the Applicants' assertion that the proposed transaction will not have an adverse effect relative to the status quo in relation to the Board's statutory objectives.

The Applicants estimate that the proposed amalgamation would result in net annual savings of approximately \$354,000. This estimate includes capital expense savings through improved purchasing and better utilization of crews, ability to raise capital at a lower rate, reduction in staff related costs, and other operational efficiencies¹. The information provided by the Applicants in response to Board staff IR No. 2.2 shows that the risk of not achieving the expected efficiencies is minimal. Furthermore, the Applicants state that the estimated transaction cost of \$280,000 will be financed through the productivity gains associated with the transaction and will not be recovered through rates. Therefore, Board staff submits that the evidence reasonably demonstrates that the distribution systems of LPDL and PSPC will likely

¹ See Applicants' response to Board staff IR No. 1.1.

Lakeland Power Distribution Ltd. and Parry Sound Power Corporation

be operated in a more efficient and cost effective manner as a result of the proposed amalgamation.

The evidence also indicates that the proposed amalgamation will not have an adverse impact on reliability or quality of service. Specifically, the Applicants state that the amalgamated entity expects to continue with the capital plans submitted in each of the Applicants' respective cost of service application. In response to Board staff IR No. 4.1, the Applicants confirmed that no projects will be adversely affected by the proposed amalgamation. The Applicants further indicate that the amalgamation creates an "opportunity to complete capital projects with a larger team, more efficiently, with less contractor labour and improved scheduling". According to the application, service levels will be maintained or improved. The Applicants state that response time to certain areas will be improved as those areas will be serviced from a closer operations centre. Board staff submits that the Applicants provided adequate information to show that the proposed amalgamation will have a positive or neutral effect on reliability and quality of service.

With respect to the amalgamated entity's rates, the Applicants propose to defer the rate rebasing of the amalgamated entity to 2018, which is within the five-year limit set by the Board in the Report. The Applicants indicated that they plan to harmonize LPDL and PSPC's rates at the time of rate rebasing of the amalgamated entity. Until that time, the Applicants propose to retain the two separate rate schedules for customers in each of the service areas.

Based on the evidence, Board staff concludes that the proposed amalgamation will not have an adverse effect relative to the status quo in relation to the Board's statutory objectives and therefore meets the no-harm test. Accordingly, Board staff submits that the application should be approved as filed. Board staff also submits that the Applicants' proposal for rebasing the rates of the amalgamated entity is consistent with the provision of the Report.

All of which is respectfully submitted.