

Minister of Energy

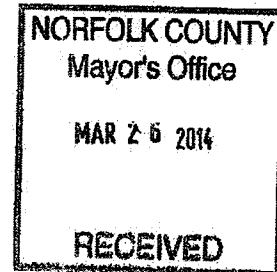
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MAR 20 2014

Mr. Joe Barile  
Regulatory, Legal and Human Resources Advisor  
Essex Power Corporation  
200-2199 Blackacre Drive  
Oldcastle ON NOR 1L0

Dear Mr. Barile:

The Premier has forwarded your letter detailing your concerns related to Hydro One's involvement in consolidation of local distribution companies in Ontario, and in particular its purchase of Norfolk Power Distribution. I am pleased to respond.

In the current environment of rising costs, I believe it is imperative that we seize on savings opportunities for ratepayers through improved efficiency in the electricity system and the local distribution sector in particular. With that objective in mind, I released an updated Long Term Energy Plan (LTEP), *Achieving Balance*, in December 2013. It sets out the province's plan of action for the energy sector, including strategies for mitigating increases in electricity rates. In particular, I committed to working with the province's local distribution companies (LDCs) to ensure they operate more efficiently and produce savings that will benefit Ontario's ratepayers. This expectation builds on the findings of the Ontario Distribution Sector Review Panel's 2012 report that recommended consolidating LDCs in order to improve efficiency, reduce borrowing cost, and allow for a more co-ordinated approach to asset management.

Our government will not legislate forced consolidation. However, I am committed to finding efficiencies in the sector and delivering savings to ratepayers. I believe the best way to do that is by working with LDCs. LDCs know their companies and customers and are in the best position to deliver sector savings in the context of their own operations. As you know, the majority of LDCs are municipally owned. Any decision to sell or acquire local electricity assets is determined by the municipal shareholder, based on its interests.

When a municipality chooses to sell its LDC, it is not only selling assets but also future earnings that it would otherwise receive from its utility. Sale prices are set at a level that compensates for these foregone revenues. Sellers and buyers are likely in the best position to evaluate potential efficiencies, estimate long-term cash flows, and identify a reasonable purchase price for the LDC based on this information.

.../cont'd

*Maureen  
Copy to Council,  
Mike and  
Jody (for NP  
Board)  
DNT  
28/3/14*

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I recognize that Hydro One, as the largest distributor in the province, has an important role to play in the sector. As you noted in your letter, Hydro One was the successful bidder for the purchase of Norfolk Power after a four-month competitive process. As a commercial entity with an independent Board of Directors, I expect Hydro One to make investment decisions that are rational, and will provide benefits to its shareholder and to ratepayers.

As part of Hydro One's offer, it has proposed to lower Norfolk Power's rates by 1 per cent and freeze them at that level for the next five years. After that period of time, the Ontario Energy Board (OEB) would be responsible for ensuring the rates for former Norfolk Power's customers are an accurate reflection of the costs to service these customers.

The OEB is independently reviewing the Norfolk transaction. The OEB's application review process is transparent and designed to promote the interests of consumers with respect to prices and the reliability and quality of electricity service. Furthermore, any LDC seeking to recover transaction costs, or harmonize rates between their existing and newly acquired territories, is subject to OEB approval.

The government is always interested in hearing from sector experts regarding ways to reduce consumer costs and deliver reliable electricity supply.

Thank you for taking the time to share your views.

Sincerely,



Bob Chiarelli  
Minister

c: Hon. Kathleen Wynne, Premier  
His Worship Dennis Travale, Mayor, Norfolk County

**From:** Joe Barile

**Sent:** Tuesday, May 21, 2013 1:32 PM

**To:** 'dvaiciunas@sympatico.ca'; 'tvanderheide@bluewaterpower.com'; 'jkoosterhof@gmail.com'; 'jhoward@orangevillehydro.on.ca'; 'ajmaes@vanten.com'; 'gdick@orangevillehydro.on.ca'; 'marytrose@marytrose.com'; 'pmarley@midlandpuc.on.ca'; 'j.tackaberry@wasagadist.ca'; 'r.bucknall@wellingtonnorthpower.com'; 'rtyrrell@orangevillehydro.on.ca'; 'kmcallister@orilliapower.ca'; 'lisa.milne@westario.com'; 'sherwood@cwhydro.ca'; 'r.hayhurst@sympatico.ca'; 'jwilkinson@orpowercorp.com'; 'dfee@orpowercorp.com'; 'michelpoulin@hydrohawkesbury.ca'; 'aphydro@hawk.igs.net'; 'embrunhydro@magma.ca'; 'maryjocorkum@miltonhydro.com'; 'jalbert@hchydro.ca'; 'brian.eileensnyder@gmail.com'; 'jtheoret@lusi.on.ca'; 'proofspositive@yahoo.ca'; 'georges@innisfilhydro.com'; 'conrad@ntl.sympatico.ca'; 'rossmcm@woodstockhydro.com'; 'carswell@woodstockhydro.com'; 'dyce@cwhydro.ca'; 'jrosszuj@centrewellington.ca'; 'slhydro@tbaytel.net'; 'Jim Huntingdon'; 'slund@town.tillsonburg.on.ca'; 'brianm@shec.com'; 'JGuilbeault@peterboroughutilities.ca'; 'rosborne@ascent.ca'; 'sfilice@sttenergy.com'; 'bzehr@festivalhydro.com'; 'maston@wellingtonnorthpower.com'; 'imckenzie@brantcountypower.com'; 'eglasbergen@brantcountypower.com'; 'rpeever@wellandhydro.com'; 'aubreyford@live.ca'; 'gcecksters@rogers.com'; 'cwhite@eriethamespower.com'; 'psmuk@aol.com'; 'doug@nowire.ca'; 'nclement@erhydro.com'; 'twilcox@northbayhydro.com'; 'chec@onlink.net'; 'ldonivan@brokerlink.ca'; 'Miles Thompson'; 'apalimaka@bluewaterpower.com'; 'frankk@shec.com'; 'pferguson@nmhydro.ca'; 'clitschko@lakelandpower.on.ca'; 'jwalsh@rslu.ca'; 'westport@rideau.net'; 'Gord Eamer'; 'Doug@grimsbypower.com'; 'lasowskif@miltonhydro.com'; 'jsanderson@whitbyhydro.on.ca'; 'askidmore@haltonhillhydro.com'; [asasso@enwin.com](mailto:asasso@enwin.com); [Jim.Hogan@entegrus.com](mailto:Jim.Hogan@entegrus.com); 'maudet@elkenenergy.com'

**Cc:** Raymond Tracey; Richard Dimmel; Janis McVittie

**Subject:** LDC MADD Intervention (HONI purchase of Norfolk)

Essex Powerlines would like to gauge the level of interest of a group of like-minded LDC's to intervene in Hydro One's MADD application with respect to the purchase of Norfolk Power.

### Background

As all of you may already be aware, Norfolk Power Distribution Inc. ("NPDI") was recently purchased by Hydro One Networks Inc. ("HONI"). HONI was the successful proponent in the RFP process initiated by NPDI.

HONI has agreed to pay approx. \$93 million (inclusive of the assumption of NPDI debt) to purchase NPDI. HONI claims they intend to ONLY rate base \$54 million and that a 1% rate reduction will be granted to Norfolk customers for the first five years.

HONI has indicated in their MAAD application that the acquisition of Norfolk aligns with the recommendation of the Sector Review report for consolidation.

### Initiative

While we support that the consolidation of LDCs in a given regional location may lead to lower cost of service and possible short-term rate decreases, we do not support the consolidation led by the highest cost of service LDC (HONI) paying significant premiums (almost 2x rate base) to

purchase LDCs. We view this as basically forcing regionalization which will more than likely not result in any long-term savings to electricity ratepayers and possibly put Ontario taxpayers on the hook for further poor investment decisions.

### Principles

We recognize that the OEB MAAD approval is based on a very narrow interpretation of the “no harm” test. That is, customers are no worse off after the transaction than they were prior to it. As such, the premium paid over rate base will likely be an excluded consideration. However, should the “no harm” test be applied with a broader interpretation in order to consider the likelihood of rates eventually being harmonized and former Norfolk customers seeing an increase in rates and a decrease in service levels?

We also recognize that OEB may look at the sale as a commercial transaction, so they may not concern themselves with the amount of the premium paid or the other commercial elements of the sale.

However there are still real and substantial issues that need to be brought to the forefront in this matter.

Many utilities have repeatedly raised alarm bells with respect to the huge investments they need to make for infrastructure renewal programs and their limited ability to secure funding for them.

The recent Ontario Distribution Sector Review Panel report also talks about “putting the consumer first”.

This raises some very pertinent questions which include, but are not limited to, the following:

1. Why is it that Hydro One can very easily source the necessary funds for what appears to be a very over-inflated investment in Norfolk Power yet not have sufficient funds for proper re-capitalization on their current assets that impact the reliability of supply to many other LDCs and their customers in the Province?
2. With all the need for infrastructure investment (this includes Hydro One service territory) and the need to “put the consumer first” with respect to lowering electricity rates as noted in the recent Ontario Distribution Sector Review Panel Report, how can consolidation led by significant premiums meet the aforementioned Provincial objective?
3. How will this merger impact other LDCs? If artificially inflated values are paid for LDC assets by the Provincial LDC, this will naturally deter other consolidations from occurring among municipally controlled LDCs where real value for regionalized electricity customers would have occur.

4. HONI claims that its price for Norfolk is justified based on synergies and savings it will realize from the merger. HONI acquired 80 plus utilities in the first round of consolidation yet remains the highest cost LDC service provider in the province. In fact the OEB itself in previous rate filings have clearly stated that HONI has been unsuccessful in finding operational savings. In the purchase offer for Norfolk HONI guarantees jobs to all Norfolk employees as new HONI employees where job pay rates are significantly higher, this will add even more upward pressure to rates.

The Province is looking at new energy policy to "lower electricity rates" yet they are supporting that the highest cost LDC service provider acquire the lower cost LDCs at premiums significantly above rate base values. This approach and the numbers don't add up again and there is a need to assess whether this is the "model of consolidation" the "electricity rate payers" want to adopt.

#### Next Steps

This e-mail is being sent to you in order to canvass your possible interest in participating in seeking/making submissions as a group intervenor to HONI's MADD Application relating to its purchase of NPD. Depending on the number of LDC's interested in participating, we will establish a budget for the cost and a methodology to assess this cost (likely based on number of customers).

The request for intervenor status will be based on the following:

- 1) As an electricity distributor in Ontario, we have a vested interest in the approval of this MAAD application as further purchases by Hydro One will artificially inflate the value of LDCs and could adversely affect efforts to regionalize with the lowest cost distributors rather than the highest cost.
- 2) Continued Hydro One acquisitions will ultimately raise rates to acquired ratepayers due to harmonization with higher Hydro One tariffs in the long term.
- 3) The premium paid will ultimately affect Ontario taxpayers who for the most part are electricity ratepayers if synergies aren't realized.

These are just a few of the questions and issues that should be raised during this MAAD application and there will be others that we would like the opportunity to discuss. We are looking to raise the awareness of the long term effect of these types of purchase/consolidations to the Ontario Energy Board and the Government of Ontario. We think that this opportunity should not be missed as all of our futures could depend on the outcome.

To this end and for your review we have attached our response to the Ontario Minister of Energy with respect to the Ontario Sector Review Panel Report.

Your thoughts and suggestions with respect to the above initiative would be appreciated in order that we can move forward in this matter.

Regards,

**Joe Barile,**  
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