May 5, 2014

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St., Suite 2700
Toronto, ON, M4P 1E4

via RESS and courier

Dear Ms. Walli:

RE: Review of the Board's Policies and Processes to Facilitate Electricity Distributor Efficiency: Service Area Amendments and Rate-Making Associated with Distributor Consolidation

Board File No.: EB-2014-0138

The Ontario Energy Board ("Board" or "OEB") has invited comments on a March 31, 2014 Staff Discussion Paper ("Discussion Paper") on the Review of the Board's policies related to service area amendments ("SAA") and rate-making associated with merger, amalgamation, acquisition and divestiture ("MAADs") transactions.

These are the comments of the Coalition of Large Distributors ("CLD") comprising Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, Hydro Ottawa Limited, PowerStream Inc., Toronto Hydro-Electric System Limited and Veridian Connections Inc. This submission has been filed via the Board's web portal and the requisite three (3) paper copies have been sent to the Board by courier.

General Comments

The CLD appreciates this opportunity to provide input on potential changes to the Board's SAA and MAADs regulatory requirements that may facilitate local distribution company ("LDC") efficiency improvements. The Board's review of the SAA and MAAD policies is timely in light of the many changes occurring in the industry and the evolving complexity of the local electricity distribution business. The rapidly changing LDC business model requires regulations and policies that explicitly recognize the confluence of these challenges and remove legal and regulatory barriers where doing so is in the long term interest of ratepayers and industry stakeholders.

The CLD notes that the Board is exploring how changes to these policies might better support efficiency gains by distributors through economies of scope, economies of scale or consolidation[1]

[1] Discussion Paper, p.4.

and further, that the Board has become more consumer-centric in its approach to regulating LDCs.[2] The CLD supports the OEB's and the government's expectations related to distributor efficiencies[3] and believes that the comments and suggestions in this submission, if implemented, will facilitate distributor efficiencies to the benefit of consumers. Having fewer LDCs will also make it easier for the Board to conduct consultations and implement new policies.

With respect to SAAs, the CLD recommends that the Board establish clear roles and responsibilities that incumbent and applicant distributors must assume when initiating or responding to contested and non-contested SAAs and timeframes within which said roles must be fulfilled.

With respect to MAADs, the CLD recommends that the Board provide incentives that will encourage LDCs to act on and engage in consolidation activities in a manner that results in long-term sustained operational and organizational efficiencies and provincial benefits.

Service Area Amendments

Generally speaking, the CLD believes that the principles embodied within the existing regulatory framework for treatment of SAAs have been effective in addressing SAA applications brought before the Board. Principles such as the reliance on economic efficiency and optimal use of infrastructure and maintenance of public interest have provided, and will continue to provide, an appropriate framework to guide SAA applications. The CLD notes that, generally, the application of the Board's SAA Policy[4] has led to SAAs where infrastructure has been built on existing, well-developed, local distribution assets often provided over looped, rather than radial, systems.

Since the issuance of its SAA Policy, however, the Board has made several other policy determinations that serve to inform the framework within which SAAs are conducted. Among these determinations was the Board's introduction of a more structured regional infrastructure planning approach coupled with new requirements to consult municipal and community groups in infrastructure planning. The Board also introduced the Renewed Regulatory Framework for Electricity ("RRFE"), the four performance outcomes of which are customer focus, operational effectiveness, public policy responsiveness and financial performance.

The CLD observes that the OEB's Regional Infrastructure Planning ("RIP") process is a useful tool for identifying where service area amendments have the potential to result in the most economically efficient solution for the customer and for ratepayers. Where such SAA applications are identified in RIP planning groups, these applications should be filed as a joint application, expedited on an uncontested basis and processed pursuant to specified timelines, by means of the Delegated Authority powers of the Board.

The CLD recognizes that there are, however, inherent limitations to the RIP process in terms of identifying all eligible SAA scenarios. The policy must provide a process for dealing with contested SAAs on an expedited basis. To this end, the CLD recommends that the Board establish timelines for the treatment of uncontested and contested SAAs including for the following scenarios.

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[2] Rosemary T. Leclair's Speech to the Ontario Energy Network, April 28, 2014.
[3] Discussion Paper, p.4.
[4] RP-2003-0044 Decision with Reasons, February 27, 2004.

	Uncontested	Contested
1	Two distributors agree to eliminate an existing long term load transfer ("LTLT") through a joint SAA application	A distributor wishes to eliminate an existing LTLT through a proposed SAA application that is not supported by the second affected distributor
2	Two distributors agree to SAAs to accommodate a service connection to a new customer or development that is currently outside the service area boundaries of one of the distributors, and no existing distribution customers are affected by the proposal	A distributor wishes to amend its service area to serve a new customer currently located in an area adjacent to its existing service area; the proposal is not supported by the second affected distributor, and no existing distribution customers are affected by the proposal
3	Two distributors agree to SAAs to accommodate a service connection to a new customer or development that is currently outside the service area boundaries of one of the distributors, and existing distribution customers would be transferred under the proposal	A distributor wishes to amend its service area to serve a new customer currently located in an area adjacent to its existing service area; the proposal is not supported by the second affected distributor and existing distribution customers would be transferred under the proposal

This consultation includes the following issues: the examination of whether an LDC has an obligation to serve and a right of exclusivity in its service territory; whether economic efficiency and customer needs should form the basis of Board policy; and the test for determining the public interest.

The CLD submits that LDCs should be considered the default distributor in their own service territory and be given the first right of refusal. In the event that an LDC cannot supply the customer in an economically efficient manner, the Board should provide for competing offers from adjacent LDCs.

Alternatively, where a connection to a customer is neither economically nor technically feasible within a reasonable timeframe, that connection may be provided by an adjacent distributor pursuant to the Board's existing LTLT policy. Put another way, the CLD supports the continuance of LTLT arrangements in situations where they continue to represent the least cost, least disruptive solution for end-use customers.

The CLD suggests that existing LTLT arrangements be permitted to remain if both the physical and geographic distributor together certify to the Board their acceptance and confirmation of the arrangement as being in the best interest of the end-use customer(s). In situations where such joint certification is not provided, the Board should consider the facts of each LTLT arrangement individually, and render decisions on these existing arrangements on a case-by-case basis.

Responses to Discussion Paper Questions

Open for Competition Approach

1. *What are the benefits of an "open for competition" approach to un-serviced areas?*

Response

The Discussion Paper defines an un-serviced area as a portion of the Incumbent Distributor's service area where service is not currently provided by that distributor and where a prospective customer wishes to locate. The CLD recommends that the Board also establish policies to deal with 'under-serviced areas' in which there is either no existing distribution infrastructure, or where the existing distribution infrastructure is inadequate to meet the supply and reliability requirements of a prospective customer or customers. An under-serviced area may include former radial systems that need to be rebuilt or converted to a loop system for higher reliability.

The CLD recognizes that there may be some benefits of adopting an open for competition approach in un-serviced areas provided that:

- there is clear guidance provided to parties as to conditions giving rise to a deemed un-serviced or under-serviced area (*i.e.*, not already part of an LDC's publicly-stated expansion plan and written connection requests received, *etc*.);
- eligible entities are known; and
- application criteria and timeframes are articulated within Board policy and known to all.

The CLD recommends that only proposals that ensure the lowest connection and long term costs to all customers be considered, having regard to the principle of economic efficiency. The CLD recommends that if the OEB is contemplating that non-LDC entities be permitted to compete for customers in an LDC's service territory, that the Board hold a full policy proceeding to examine the licence conditions for said entities and the obligations they would be required to meet.

With respect to un-serviced and under-serviced areas, the CLD believes that clear parameters should be set to clarify the scope of what constitutes such areas. The CLD recommends further that clear measures be set to ensure that LDCs' long term regional, municipal and community planning processes are not undermined nor do they become a vehicle through which transmitters may obtain a competitive advantage in distribution planning in carrying out their duties as lead transmitters in OEB regional planning processes.

2. *How would the Board implement such an approach in light of section 28 of the Electricity Act, 1998 and existing licence conditions?*

Response

LDCs have an implied obligation to serve customers within their service territory. This obligation originates from section 28 of the *Electricity Act, 1998* ("Electricity Act") that a distributor "shall" connect a building to its distribution system **<u>if</u>** a) the building lies along any of the lines of the distributor's distribution system; **<u>and</u>** b) the owner, occupant or other person in charge of the building requests the connection in writing. (Emphasis added).

The Electricity Act requires that a distributor connect a customer if the building is within its distribution system AND a written connection request is received from the customer. This language suggests clearly, that both conditions must exist simultaneously in order for the section 28 obligation to serve to apply. Thus, an obligation to serve requirement cannot be said to exist if the owner/occupant of the unconnected building does not lie along any of the lines of the distribution system and does not request service from the distributor in whose service territory the unconnected building is located. Despite this LDCs generally endeavor to serve all customers within their service territory to avoid inefficiencies caused by overlapping and embedded service areas.

Current distribution licence conditions require further that an offer to connect a building be extended upon being requested to do so. LDC licences prohibit a distributor from connecting or offering to connect unless the LDC is expressly permitted to do so by the *Ontario Energy Board Act, 1998* ("OEB Act"), a regulation created under the OEB Act, or a Board Code. In this regard, it is worth noting that section 6.5.5 of the Distribution System Code allows distributors to provide offers to connect to customers residing in the distribution service area of another distributor by means of an LTLT. The CLD recommends that this continue.

3. *Under an "open for competition" approach: (i) how will the Board ensure that all prospective new customers will receive an offer to connect on fair and reasonable terms?*

Response

The CLD recommends that the LDC within whose territory the building resides be given a "first right of refusal" opportunity to estimate costs associated with connecting customers regardless of whether or not the customer has explicitly provided a request in writing to the incumbent distributor. To ensure all new customers receive an offer to connect on fair and reasonable terms, the CLD recommends that the Board establish a process through which offers from competing LDCs are reviewed pursuant to an expedited Board process designed to confirm that both offers reflect the true costs of the respective service connections.

4. *Under an "open for competition" approach: (ii) how should the interests of Incumbent Distributors and their ratepayers be taken into consideration?*

Response

The CLD believes that with a "first right of refusal" and opportunity to estimate connection costs the interest of the incumbent distributor and its rate payers will be considered. The CLD notes also, that by adhering to principles upholding economic efficiency and customer need, the interests of the distribution system and all ratepayers will be considered.

5. *What criteria should be used by the Board and what type of evidence would be necessary?*

Response

The CLD supports the continued use of economic efficiency including optimal use of infrastructure as the primary consideration when determining SAAs.

6. *How can the Board ensure that the proposed change would not adversely affect overall economic efficiency in the sector?*

Response

By ensuring that optimal use of existing infrastructure occurs and by ensuring that any investment in infrastructure to reach new customers results in the best long-term value for all ratepayers, the Board can be ensured that overall economic efficiency in the sector will not be adversely affected. This entails that regional planning initiatives have due regard for least cost solutions for distribution as they do for transmission and that regional and municipal planning account for the total cost of doing business. This cannot be adequately emphasized as competition among LDCs introduces opportunities to game the system typically at a cost to the entire system. These are precisely the scenarios that long-term planning is intended to prevent.

7. *How should the Board assess the impact on existing and future customers in terms of cost and the reliability and quality of electricity service?*

Response

The CLD proposes that any anticipated impacts on existing or future customers be assessed in the application process, on a case-by-case basis.

8. *How should the Board assess the impact on existing and future customers in terms of cost and the reliability and quality of electricity service?*

Response

The Board can be satisfied that connections will occur within a timely manner by establishing timeframes for connections and by treating processes for resolving contested SAAs on an expedited basis.

Alignment of LDC boundaries with municipal boundaries

1. *Should the Board's SAA policy facilitate SAAs that have the effect of aligning a distributor's service area with municipal planning boundaries and, if so, in what way?*

Response

The CLD recommends that where possible distributors' distribution service territories should align with municipal boundaries and the Board's distribution policies should encourage rather than discourage such alignment where such alignment is economically efficient. Alignment should be encouraged in order to reduce customer confusion, eliminate or reduce cross-subsidies and to better facilitate municipal and community energy planning.

In the RP 2003-0044 proceeding, the Board noted that it "does not regard [municipal] alignment to be inherently beneficial."[5] The Board noted further,

[5] RP-2003-0044 Decision with Reasons, para. 241.

> "It is not unlikely that the pursuit of efficiencies will lead to the continuing consolidation of the distribution industry in Ontario, and any alignment of service areas to specific municipalities will be increasingly irrelevant. In the interim local distribution companies will profit from early knowledge respecting development in areas contiguous to the highly developed distribution systems."[6]

The CLD notes that LDCs have pursued and continue to pursue efficiencies through many vehicles. Significant cost efficiencies through consolidation, however, will not be derivable until legal and regulatory barriers that impede consolidation are addressed in a comprehensive manner.

2. *What are the benefits and risks of such an approach for Incumbent Distributors, Applicant Distributors and their respective ratepayers?*

Response

The benefits of aligning municipally-owned distributors with their municipal boundaries are many. Ratepayers residing within a municipality not aligned with the municipal distributor have the most to gain particularly in the form of lower rates and in some cases better service reliability. The Board's position in the RP-2003-0044 decision is instructive in this regard,

> "Each market participant must accept the interdependence which is fundamental to the system"[7]

and that,

> "[w]hether they want to or not, all customers of the system are accordingly dependent on each other for the control of rates. Costs not paid by one customer, must be made up for by another."[8]

The CLD believes, however, that other mechanisms can be used to distribute costs across the sector in a manner that does not result in next door neighbours having a 25-30% rate difference. Put another way, customers in high density areas of a distribution system should not be required to subsidize its low density customers. Other solutions should be explored.

3. *What role should municipal planning, community energy plans and regional planning have in the SAA process?*

Response

The CLD believes that municipal planning and community energy planning groups should be guaranteed a voice in any SAA process that seeks to align the municipal boundaries with a municipal distributor's service area boundary since they represent the interests of the ratepayers and stakeholders in the municipal area.

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6 *Ibid*.
7 *Ibid*. para. 230.
8 *Ibid*. para. 226.

Rate-Setting Associated with MAADs

Reference is made earlier in this submission to the many changes occurring in the electricity industry. Increasing and shifting customer expectations, the need for access to capital and the emergence of new technologies and innovation will have significant impacts on the traditional 'poles and wires' business as customers move partially or fully 'off grid'.

Despite the changing environment, the acceleration of distribution sector consolidations has not occurred. The CLD notes that the realization of efficiency gains sought by the Minister in the order of $1.2 billion over the next ten years[9] relies heavily on economies of scale because in the absence of consolidations, efficiency gains are not maximized. LDCs will need to be significantly larger in order to operate effectively due to economies of scale, in an environment of change and innovation. Having fewer LDCs will also make it easier for the Board to conduct consultations and implement new policies.

In order to have fewer, larger distributors, however, the regulatory framework needs to provide incentives that will encourage LDCs to act on and engage in consolidation activities in a manner that results in sustained operational and organizational efficiencies and provincial benefits. These incentives should include:

- reduction or elimination of the productivity/stretch factor for five years after a merger;
- full recovery of all transition and transaction costs for the merger;
- ability for the merged entity to rebase its Capital Expenditure in the interim on an annual basis;
- retention by Shareholders (who engage in consolidation) of a portion of the savings after rebasing;
- regulatory provisions that permit the sharing of operational functionalities (*e.g.*, billing systems, metering, CDM programs, 24/7 emergency response functions) for the purpose of testing the potential for a successful merger; and
- a fair return on investment that recognizes the risks and costs of the path to a successful merger.

New Rebasing Deferral Period

Consolidations allow LDCs to build valuable scale resulting from efficiencies and savings. However, the current MAADs framework does not recognize that the realization of scale benefits requires sufficient incentives for shareholders to assume the related risks of entering into these transactions. This needs to be rectified if consolidation is to be encouraged for the ultimate benefit of consumers and the province.

In the current MAADs framework, an LDC is permitted to retain any synergy savings for the benefit of the shareholder up to the end of the first five (5) years post-merger ("Rebasing Deferral Period"). These savings typically allow for recovery of transaction and integration costs that the shareholder has incurred. Following the Rebasing Deferral Period, (or sooner, subject to the LDC's

[9] Discussion Paper, p.4.

rebasing needs), the synergy savings are converted from shareholder benefits to consumer benefits since the costs of the functions are spread out over more customers. Once this occurs, shareholders no longer participate in the continuing future benefits that accrue to consumers.

Furthermore, the shareholder may not have recovered fully its transaction or integration costs during the Rebasing Deferral Period, or may have just broken even.

This is a significant disincentive to LDCs considering mergers.

For a merger to occur the incentive has to be attractive enough to allow the recapture of all costs involved in a merger, including costs related to the assumption of the related risks of entering into these transactions.

Accordingly, the CLD recommends that the Rebasing Deferral Period be extended for a term not to exceed 10 years ("New Rebasing Deferral Period"), within which following a MAADs transaction, LDCs may bring forward a prudently considered capital rebasing application in any year within the 10-year Deferral Period. The CLD believes that the New Rebasing Deferral Period will provide LDCs with the flexibility needed to better manage the financial risk to LDCs inherent in the existing five-year provision.

The CLD recommends further, that as an additional incentive to consolidation, the productivity and stretch factors either be reduced or eliminated for the consolidated entity during the New Rebasing Deferral Period.

Balanced Benefits and Costs of Consolidation

The current regulatory framework lacks an appropriate balance between consumer needs and the need of shareholders to make incremental and necessary capital investments between rate applications.

Similarly, an imbalance between consumer and shareholder interests exists with regard to consolidations: while affected consumers are guaranteed benefits in perpetuity from merger savings, shareholders bear the full burden of transaction and implementation costs.

When filing a MAADs application, the merging entities are required to clearly demonstrate benefits to affected ratepayers. Under existing OEB rate-making policy LDC shareholders bear all transaction and integration costs incurred in connection with a MAADs transaction; such costs are not recoverable from LDC ratepayers in any circumstances.

OEB rate-making policies associated with distributor consolidation permit LDC shareholders to benefit from any cost reductions arising from a merger during the Rebasing Deferral Period. However, within the context of an IRM framework, shareholders may not have recovered fully all transaction and implementation costs and otherwise realized a meaningful benefit during this five-year period.

In addition, the existing framework does not allow for annual rebasing for capital or recovery of costs. As such, under the RRFE, the Board has allowed for a Custom IR application submission.

To sum, OEB rate-making policies create an imbalance of risks and benefits from consolidation between shareholders and ratepayers resulting in an economic disincentive for shareholders to consolidate LDCs – specifically, risk erosion of LDC shareholder returns, and potentially unrecovered transaction and implementation costs. This problem represents a significant barrier that should be removed if the desire is to encourage mergers and acquisitions.

The CLD believes that the Board's role must remain neutral as to outcomes, by applying the no-harm test. The OEB's rate-making policy should balance the benefits and costs of consolidation between consumers and shareholders and also take into account the broader provincial benefits. Prudently incurred transaction and implementation costs should be fully recoverable in rates; recognized and factored into the OEB's MAADs application process; and taken into account when the OEB is assessing whether or not to approve a merger.

The CLD also recommends the implementation of a sharing mechanism over a 10-year period. Post transaction, all synergy savings are utilized to recover transaction and integration costs as a first priority. Once transaction and integration costs have been recovered, synergy savings are shared equally, on a 50-50 percentage basis between customers and shareholders, over the balance of the remaining 10 years.

As an alternative, assuming the ability to rebase capital expenditures under an annual option, the CLD favours a higher level of permitted return on equity ("ROE") for a 10-year prescribed period, for entities that merge or acquire another LDC. Transaction and integration costs will be recovered first before the higher ROE level is permitted to be earned by the merged entity.

While both recommendations provide for an incentive to consolidate, the benefit of using a higher ROE is that it may be simpler to administer and is exogenous to the transaction, thereby not requiring any validation of claimed synergy savings.

Responses to Discussion Paper Questions

1. *What are the merits and risks of allowing a consolidated entity to set its own rebasing deferral period? Should the Board establish a "default" minimum deferral period and, if so, what should the length of that deferral period be?*
2. *Should the consolidated entity be required to elect its rebasing deferral period at the time of the MAADs application (as is the case under the 2007 Policy), or should the entity be allowed to address this at a later date and, if so, when? What information should a consolidated entity provide to support its proposed rebasing deferral period?*

Response:

The risks inherent in allowing a consolidated entity to set its own rebasing deferral period are minimal. As noted in the Discussion Paper, LDCs already have demonstrated their ability to prudently determine rebasing needs following MAADs transactions by bringing forward within the existing framework, necessary rebasing applications[10].

The CLD believes strongly that allowing a consolidated entity to set its own rebasing deferral period following a MAADs transaction will provide LDCs with the flexibility needed to manage their own, unique circumstances.

In order to provide an effective incentive to consolidation, the Board should not establish a "default" minimum deferral period but rather, assuming the ability to rebase capital expenditures, the consolidated entity should be allowed to elect its rebasing deferral period within a reasonable time period following a MAADs application. There is low risk in this approach because rates would be the same as if no merger had occurred, subject to the Board's existing rate making

[10] Discussion Paper, p.12.

provisions. Benefits are that this will encourage more mergers – there is no benefit to customers if mergers do not take place.

At the time of the rebasing application, the consolidated entity would be required to prove the rates being applied for are just and reasonable, in accordance with the Board's Filing Requirements for Electricity Rate Distribution Applications, to wit:

> "An application to the Board by a regulated company must provide sufficient detail to enable the Board to make a determination as to whether the proposals are reasonable. The onus is on the applicant to substantiate the need for and reasonableness of the costs that are the basis of proposed new rates. A clearly written application that demonstrates the need for the proposed rates, complete with sufficient justification for those rates, is essential to facilitate an effective regulatory review and a timely decision. The filing requirements provide the minimum information that applicants must file for a complete application. However, applicants should provide any additional information that is necessary to justify the approvals being sought in the application"[11]

3. *Once a consolidated entity has proposed a rebasing deferral period, should it be required to wait for the entire period before applying for a rebasing of its rates, or should it be allowed to apply for rebasing at any time within the proposed period? What are the merits and risks of each approach?*

   Response

   No; a consolidated entity should not be required to wait for the entire rebasing deferral period before applying for rebasing of rates. Such an approach only increases the risks inherent in a merger, acts as a disincentive to mergers and is likely to promote the status quo. LDCs need the flexibility to prudently manage their operational affairs. Please refer to the CLD's response to questions 1 and 2, above.

   There is no merit in requiring LDCs to wait to rebase. The Cost of Service process provides adequate safeguards to ensure rates are fair, just and reasonable.

   A disincentive to mergers is the inability to incorporate increased capital spending requirements into rates between rebasing. The rebasing deferral period, which is supposed to allow the utility to recoup its costs and a share of the benefits of merger savings, may not be sustainable due to the need to reflect increased capital requirements in rates.

   For the rebasing deferral to be an effective incentive, the merged LDCs need a mechanism to file for rate adjustments to reflect increased capital requirements before rebasing. The CLD recommends a less onerous form of ICM to address this situation.

4. *In the case of a distributor that is on Custom IR at the time of consolidation, how should its rates be set for the duration of the rebasing deferral period following completion of the Custom IR period?*

   Response

   As mentioned in response to questions 1 and 2 above, in order to provide a meaningful incentive to consolidation, a consolidated entity should be allowed to set its own rebasing deferral period

[11] *Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications*, Last Revised on July 17, 2013, p.2.

following a MAADs transaction. The CLD believes further, that a distributor on Custom IR at the time of consolidation should not be required to rebase the merged entity, in order that the benefits of the incentives to have merged not be eroded. Rather, the merged entity should be allowed to remain on Custom IR during the rebasing deferral period with the ability to rebase capital expenditures.

5. *What are the merits and risks of the suggestion that a newly consolidated entity apply for new rates under the Custom IR option that recognize both costs and projected efficiency savings, (e.g. an efficiency carryover to allow the distributor to recoup transaction costs)? Is this complimentary to or a substitute for an approach that allows the deferral of rebasing?*

Response

The proposal that a newly consolidated entity be required to apply under the Custom IR option for new rates that recognize both costs and projected efficiency savings may bear some merit. It may serve to pass on savings to customers more quickly and may provide greater certainty to LDCs for recovery of costs. LDCs could sustain a shorter rebasing period if provision is made for the recovery of actual costs. The CLD recognizes that the time and cost to prepare and defend a Custom IR rate application is considerable; the Board may want to consider the suitability of a modified Custom IR which makes reference where possible to evidence filed in the previous Custom IR application.

However, for reasons cited above, this option must be complementary to, and not a substitute for, any approach that allows the deferral of rebasing.

The risks associated with such an approach relate to the timing of the potential Custom IR application. Absent the option to bring forward a rebasing application at its own discretion, there is a chance that all of the costs associated with the MAADs application may not be known at the time of application. A merger is a complex undertaking with many factors and no guarantees regarding when expected savings will be realized.

If, in the Board's discretion, this option were a substitute for the rebasing deferral approach, as an incentive the merged entity should be allowed to recover all reasonable costs associated with achieving a successful merger.

6. *What are the merits and risks of using a modified ICM (which allows broader eligibility of expenditures) to address the recovery of capital investments during any rebasing deferral period? How should the Board evaluate an ICM request under this scenario to ensure that any financing is for investments that are incremental to the capital amount built into rates?*

Response

ICM is a means by which LDCs may recover increases in capital requirements not already in rates and as noted in response to question #3 above, is among the instruments available to the Board that would provide a meaningful incentive to LDCs to pursue consolidations. However, ICM has proven to be inadequate to address the capital needs of LDCs whose capital spend exceeds depreciation. Such LDCs should be allowed to remain on Custom IR with the option to rebase capital expenditures.

The CLD thanks the Board for this opportunity to provide submissions and looks forward to participating in the next steps for this consultation following consideration by the Board of stakeholder comments received on the Discussion Paper.

Yours truly,

[original signed by Colleen Richmond]

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