

# LakelandPower

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October 19, 2015

Ontario Energy Board  
P.O. Box 2319  
27th Floor, 2300 Yonge Street  
Toronto, Ontario  
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Attention: Ms. K. Walli, Board Secretary

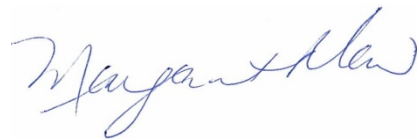
**Re: Lakeland Power Distribution Ltd. (LPDL)  
2016 IRM Electricity Distribution Rate Application,  
Response to 2014 Return on Equity Performance  
OEB File No. EB-2015-0086**

Dear Ms. K. Walli:

Please find accompanying this letter, two copies of Lakeland Power's (LPDL's) Responses to Board letter on Lakeland's 2014 ROE Performance. The PDF version has been submitted using RESS. Board staff and the intervenor have been copied on this filing.

Should there be any questions, please contact me at the number above.

Respectfully Submitted,



Margaret Maw  
Chief Financial Officer  
Lakeland Power Distribution Ltd.

Lakeland Power Distribution is in receipt of a letter from the Board on its 2014 ROE (Return on Equity) Performance in conjunction with its 2016 IRM Rate Application EB-2015-0086.

The basis of the letter states that LPDL earned 357 basis points above the target ROE upon which its rates were established. The effect of the overearning is estimated at \$.20 per month per residential customer or approximately \$26 K.

LPDL would like to address this difference. On July 1, 2014, LPDL merged with Parry Sound Power. The effect and rationale for this merger was to improve the efficiency of the combined entity, ultimately resulting in a benefit to its respective rate payers. The merger garnered a number of synergy savings as outlined in LPDL's MAAD application EB-2013-0427 decision of March 27, 2014. It was the belief that any efficiency gains that resulted from consolidation could be retained by the LDC for up to five years (new policy is up to ten years).

In the MADD application, it was identified that LPDL expected synergy savings in excess of \$300 K annually with transition costs equal to approximately one year's projected savings. In 2014, LPDL realized some of the synergy savings however, approximately \$250 K of the transition costs were not incurred until 2015. This resulted in lower than normal expenses due to synergy savings without offsetting transition costs.

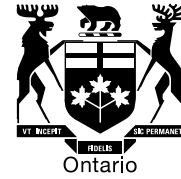
At the same time, capital spending for Parry Sound was delayed due to the merger, resulting in lower net book value. The capital plans submitted in Parry Sound Power's previous COS rate application were delayed to 2015 due to lack of resources, both financial and human.

A clarification note, the deemed ROE rate used to determine the over earning was 8.93% which was the rate for Lakeland Power only. The ROE rate for Parry Sound rate order was 9.58% which on a weighted average basis, would have lowered the overearning amount.

2014 was a short year for the new entity and a period of flux. We ask that Board Staff take this into consideration during its evaluation of the 2016 rate application.

# Appendix A

MADD Application Decision and Order  
EB-2013-0427  
EB-2013-0428  
March 27, 2014



**EB-2013-0427**  
**EB-2013-0428**

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** an application by Lakeland Power Distribution Ltd. and Parry Sound Power Corporation under Section 86(1) (c) of the *Ontario Energy Board Act, 1998* seeking an order for leave to amalgamate;

**AND IN THE MATTER OF** an application by Lakeland Power Distribution Ltd. and Parry Sound Power Corporation under section 74 of the *Ontario Energy Board Act, 1998* seeking an order to amend the distribution licence of Lakeland Power Distribution Ltd.;

**AND IN THE MATTER OF** a request by Parry Sound Power Corporation under section 77(5) of the *Ontario Energy Board Act, 1998* seeking the cancellation of its distribution licence.

**BEFORE:** Christine Long  
Presiding Member

Ken Quesnelle  
Vice-Chair

## **DECISION AND ORDER**

**March 27, 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, received on December 12, 2013, seeking leave to amalgamate LPDL and PSPC and address licensing matters resulting from the proposed amalgamation. Specifically,

- The Applicants 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 its service area the area currently served by PSPC and to include PSPC’s identified Conservation and Demand Management (“CDM”) targets, 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 (the “Notice”) on December 19, 2013. The Notice was published in the affected service areas as directed by the Board on January 8, 2014. No one responded to the Notice.

The Board has proceeded by way of a written hearing. Board staff participated in the hearing by way of filing interrogatories (“IRs”) and a submission supporting the proposed transaction. The Applicants filed responses to Board staff’s IRs and filed a letter with the Board indicating that they agree with the submission of Board staff and will therefore not file a reply submission.

For the reasons set out below the requested relief is granted.

## **BACKGROUND**

LPDL owns and operates an electricity distribution system within the geographic territory and municipal boundaries of the Town of Bracebridge, the Town of Huntsville, the Town of Sundridge, the Village of Burk’s Falls, and the Municipality of Magnetawan, as described in its electricity distribution licence (ED-2002-0540). PSPC owns and operates an electricity distribution system within the geographic territory and municipal boundaries of the Town of Parry Sound, as described in its electricity distribution licence (ED-2003-0006).

PSPC is currently 100% owned by Parry Sound Hydro Corporation which in turn is wholly owned by the Town of Parry Sound. LPDL is currently 100% owned by Lakeland Holding Ltd. The shares of Lakeland Holding Ltd. are held by five municipalities as follows: the Town of Bracebridge (65.11%), the Town of Huntsville (25.13%), the Town of Sundridge (4.33%), the Village of Burk's Falls (3.96%), and the Municipality of Magnetawan (1.47%).

Upon approval and completion of the proposed transaction, the shares of Lakeland Holding Ltd. will be held by six municipalities as follows: the Town of Bracebridge (54.97%), the Town of Huntsville (21.22%), the Town of Sundridge (3.66%), the Village of Burk's Falls (3.34%), the Municipality of Magnetawan (1.24%), and the Town of Parry Sound (15.57%).

In their application, the Applicants stated that there will be cost savings and operational efficiencies by amalgamating the two distributors. The Applicants further stated that service levels will be maintained or improved. Currently, the rates charged for the delivery of electricity to customers in the LPDL and PSPC service areas are not equal. The Applicants propose to harmonize the two rates at the time of rate rebasing of the amalgamated entity, which the Applicants propose to defer to 2018. Until that time, the Applicants propose to retain the two separate rate schedules for customers in each of the service areas.

The Board notes that the Notice was published in the affected service areas and no objections were received in respect to the proposed transaction.

## **BOARD FINDING**

The full record of this proceeding is available for review at the Board's offices. While the Board has considered the full record, the Board has summarized and referred only to those portions of the record that it considers helpful to provide context to its findings.

### **The "No Harm" Test**

Section 86(1) (c) of the Act provides that no transmitter or distributor, without first obtaining an order from the Board granting leave, shall amalgamate with any other corporation.

In determining whether to approve this application, the Board has been guided by the principles set out in the Board's decision in the combined MAADs proceeding (Board File Numbers RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257). In that decision, the Board ruled that the "no harm" test is the relevant test when the Board considers applications for leave to acquire shares or amalgamate under section 86 of the Act. The "no harm" test involves consideration of whether the proposed transaction would have an adverse effect relative to the status quo in relation to the Board's statutory objectives. If the proposed transaction would have a positive or neutral effect on the attainment of the statutory objectives, then the application should be granted. The statutory objectives to be considered in this application are those set out in section 1 of the Act, namely:

1. to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service; and
2. to promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry.

In their application, the Applicants stated that the proposed transaction meets the "no harm" test established by the Board and provided the following information in support of the proposed transaction:

- The projected net synergy savings from the proposed transaction are expected to be in excess of \$300,000 annually, and transition costs are expected to be equal to approximately one year's projected net synergy savings.
- Transaction costs will be financed through the productivity gains associated with the transaction.
- Capital expense savings through improved purchasing and better utilization of crews are expected to average approximately \$50,000 to \$100,000 annually.
- The amalgamated entity expects to continue with the capital plans/asset management plans submitted in the Applicants' respective cost of service applications.

- Certain areas will be serviced from a closer operations centre, reducing travel time by more than 25% in those areas.
- A complete GIS mapping and conversion to SCADA for the PSPC service territory will be undertaken.
- The proposed transaction will:
  - enhance the amalgamated entity's ability to raise capital at a lower cost going forward; and
  - create an opportunity to complete capital projects with a larger team, more efficiently, with less contractor labour and improved scheduling.

The Board notes that in their interrogatory responses, the Applicants provided a well-delineated account of where they expected to achieve efficiencies through the proposed amalgamation. The Board also notes that while not having equal distribution rates at present, the two distributors have distribution rates that are somewhat comparable. Therefore, the Board does not anticipate that the proposed amalgamation will result in operational costs that are vastly different. The Applicants have also provided evidence which highlights the operational efficiencies they anticipate achieving.

Based on the evidence in this proceeding, the Board finds that the proposed amalgamation will not have an adverse effect relative to the status quo in relation to the Board's statutory objectives. Accordingly, the Board finds that the proposed amalgamation meets the "no harm" test.

Given that the Board is granting leave to amalgamate, the Board finds that it is in the public interest to cancel PSPC's electricity distribution licence and amend LPDL's distribution licence to include in its service area the area currently served by PSPC and include PSPC's CDM targets when the transaction closes.

### **Rate Rebasing and Rate Harmonization for the Amalgamated Entity**

The Board Report on Rate making Associated with Distributor Consolidation, issued on July 23, 2007 (the "Board Report"), permits an amalgamated utility to



defer rebasing for a period of up to five years following the closing date of the transaction.

The Board finds that the Applicants' proposal, to defer rate harmonization and rebasing the rates of the amalgamated entity to 2018, is acceptable. This proposal is consistent with the Board Report referenced above.

### **Net Metering Thresholds**

The current net metering thresholds for LPDL and PSPC are 436 kW and 195 kW, respectively. The Applicants submitted that there are no special circumstances that warrant using a different methodology to determine the net metering threshold. The Board accepts that there are no special circumstances present in this regard and will therefore add together the net metering thresholds for LPDL and PSPC to determine the net metering threshold for the newly amalgamated utility.

### **THE BOARD ORDERS THAT:**

1. The Applicants are hereby granted leave to amalgamate LPDL and PSPC pursuant to section 86(1)(c) of the Act.
2. The Board's leave to amalgamate shall expire 18 months from the date of this Decision and Order. If the transaction has not been completed by that date, a new application for leave to amalgamate will be required in order for the transaction to proceed.
3. The Applicants shall promptly notify the Board of the completion of the transaction.
4. Once the notice referred to in paragraph number 3 above has been provided to the Board, the Board will amend the electricity distribution licence of LPDL to include the service areas formerly served by PSPC and to include PSPC's CDM targets.

5. Once the notice referred to in paragraph number 3 above has been provided to the Board, the Board will cancel the electricity distribution licence of PSPC (ED-2003-0006).
6. Once the notice referred to in paragraph number 3 above has been provided to the Board, the net metering threshold for the newly amalgamated entity will be 631 kW.

All filings to the Board must quote file numbers, EB-2013-0427 and EB-2013-0428, be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>. If the web portal is not available parties may email their documents to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 7 paper copies.

All communications should be directed to the attention of the Board Secretary at the address below, and be received no later than 4:45 p.m. on the required date.

With respect to distribution lists for all electronic correspondence and materials related to this proceeding, parties must include the Case Manager, Gona Jaff at [gona.jaff@ontarioenergyboard.ca](mailto:gona.jaff@ontarioenergyboard.ca) and Board Counsel, Maureen Helt at [maureen.helt@ontarioenergyboard.ca](mailto:maureen.helt@ontarioenergyboard.ca).

**ADDRESS**

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**DATED** at Toronto March 27, 2014

**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary