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BY E-MAIL

October 7, 2016

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

Dear Ms. Walli:

**RE: OEB STAFF SUBMISSION
APPLICATION BY ENERSOURCE HYDRO MISSISSAUGA INC.,
HORIZON UTILITIES CORPORATION AND POWERSTREAM INC.
EB-2016-0025**

In accordance with the OEB's directions, please find attached OEB staff's submission with respect to the above referenced application.

Yours truly,

Original Signed by

Judith Fernandes
Project Advisor
Applications Division

Attachment

cc: All Parties to the Proceeding



ONTARIO ENERGY BOARD

OEB Staff Submission

EB-2016-0025

October 7, 2016

1 INTRODUCTION

Enersource Hydro Mississauga Inc. (Enersource), Horizon Utilities Corporation (Horizon), and PowerStream Inc. (PowerStream), (the applicants) filed an application with the Ontario Energy Board (OEB) on April 18, 2016 under section 86 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) (the Act) seeking approval of the following:

- a) Amalgamation of Enersource, Horizon, and PowerStream to form LDC Co.
- b) LDC Co. share purchase and amalgamation with Hydro One Brampton Networks Inc. (Hydro One Brampton) and continuing as LDC Co.
- c) Enersource Holdings Inc. share purchase of Enersource
- d) Transfer of PowerStream's existing shares of Collus PowerStream Utility Services Corp to LDC Co.
- e) Transfer of Hydro One Brampton's distribution system to LDC Co.

The applicants are also seeking approval for the transfer of the electricity distribution licences and rate orders for each of the applicants and Hydro One Brampton to LDC Co. under section 18 of the Act. On September 16, 2016, the applicants amended the relief sought in their application, requesting an additional approval from the OEB for an electricity distributor licence to enable LDC Co. to own and operate the distribution systems serving the former Enersource, Horizon, PowerStream and Hydro One Brampton service areas.

2 RELEVANT REGULATORY PRINCIPLES

2.1 The No Harm Test

In its assessment of applications relating to consolidation transactions, the OEB has applied the no harm test. The no harm test was first established by the OEB in 2005 in the Combined Decision¹, and has been considered in detail in several recent OEB decisions. The *Handbook to Electricity Distributor and Transmitter Consolidation* (Handbook) issued by the OEB on January 19, 2016 confirmed that the OEB will continue to apply the no harm test.

The Handbook states that the OEB considers whether the no harm test is satisfied based on an assessment of the cumulative effect of the transaction on the attainment of its statutory objectives. If the proposed transaction has a positive or neutral effect on the attainment of these objectives, the OEB will approve the application.

The statutory objectives to be considered are those set out in section 1 of the Act:

- 1 To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
 - 1.1 To promote the education of consumers.
- 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.
- 3 To promote electricity conservation and demand management in a manner consistent with the policies of the Government of Ontario.
- 4 To facilitate the implementation of a smart grid in Ontario.
- 5 To promote the use and generation of electricity from renewable energy sources in a manner consistent with the policies of the Government of Ontario, including the timely

¹ RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257

expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

The OEB recognizes in the Handbook, that while it has broad statutory objectives, in applying the no harm test, the OEB has primarily focused its review on impacts of the proposed transaction on price and quality of service to customers, and the cost effectiveness, economic efficiency and the financial viability of the consolidating utilities.

The OEB considers this an appropriate approach, given the performance-based regulatory framework under which regulated entities are required to operate and the OEB's existing performance monitoring framework. There are a number of instruments in place, such as codes and licences which ensures regulated utilities continue to meet their obligations with respect to the OEB's statutory objectives relating to conservation and demand management, implementation of smart grid and the use and generation of electricity from renewable resources.

2.2 OEB Policy on Rate-Making Associated with Consolidation

The OEB policies on rate-making associated with consolidation are set out in a report entitled *Rate-making Associated with Distributor Consolidation*, issued July 23, 2007² (the 2007 Report) and a further report issued under the same name on March 26, 2015 (the 2015 Report). The Handbook consolidates information provided in these two reports and identifies the key rate-making considerations expected to arise in a consolidation transaction. To encourage consolidations, the OEB has introduced policies that provide consolidating distributors with an opportunity to offset transaction costs with any achieved savings. The 2015 Report permits consolidating distributors to defer rebasing for up to ten years from the closing of the transaction. The 2015 Report also states that consolidating entities deferring rebasing for up to five years may do so under the policies established in the 2007 Report. The extent of the deferred rebasing period is at the option of the

² Report of the Board on Rate-making Associated with Distributor Consolidation, July 23, 2007

distributor and no supporting evidence is required to justify the selection of the deferred rebasing period. Consolidating entities, must, however, select a definitive timeframe for the deferred rebasing period.

The Rate-setting mechanisms during the deferred rebasing period are clarified in the Handbook. The OEB requires consolidating entities that propose to defer rebasing beyond five years to implement an earnings sharing mechanism for the period beyond five years to protect customers and ensure that they share in any increased benefits from consolidation during the deferred rebasing period. The Handbook also confirms that an Incremental Capital Module (ICM), an additional mechanism to allow adjustment to rates for discrete capital projects is available for distributors that are under the Price Cap IR rate-setting option. Details of the ICM can be found in the OEB reports on new policy options for the funding capital investments.³ The ICM is not available for distributors under the Custom IR rate-setting option.

As set out in the Handbook rate-setting following a consolidation will not be addressed in an application for approval of a consolidation transaction unless there is a rate proposal that is an integral aspect of the consolidation, e.g. a temporary rate reduction. Rate-setting for a consolidated entity will be addressed in a separate rate application, in accordance with the rate setting policies established by the OEB.

³ [OEB Report for the Funding of Capital Investments](#) and [OEB Supplemental Report for the Funding of Capital Investments](#)

3 SUBMISSIONS

3.1 The No Harm Test

OEB staff submits that the evidence in this proceeding reasonably demonstrates that the amalgamation of Enersource, Horizon, PowerStream and Hydro One Brampton to form LDC Co. meets the no harm test.

Price, Economic Efficiency and Cost Effectiveness

The applicants submit that the proposed consolidation is expected to deliver material electricity ratepayer savings relative to the *status quo*⁴, i.e., in the absence of a consolidation. Ratepayers of LDC Co. are expected to enjoy lower rates through the ten year rebasing deferral period in comparison to the *status quo* and are also expected to experience greater savings in comparison to the *status quo* from the time of the first anticipated rebasing. The applicants submit that distribution costs to LDC Co.'s customers will continue to be lower than they would have been not only over the ten-year rebasing deferral period but permanently, through an enduring reduction in the cost structure of LDC Co. relative to its predecessor entities.

The applicants have projected that overall anticipated savings net of transaction costs (approximately \$96 million) amount to \$426 million over the deferred rebasing period, made up of approximately \$312 million in operating costs and \$114 million in avoided capital costs. The applicants expect that of the reduction in overall operating costs of \$312 million, \$270 million will come from payroll reductions and \$42 million for non-payroll cost reductions.

To improve the economic efficiency of LDC Co., the applicants plan to eliminate redundant positions within the organization, to move to single, common information systems (e.g. customer billing system, geographic information systems), to reduce the number of control rooms and call centres from four of each to two of each, to harmonize engineering

⁴ EB-2016-0025 Application, Exh B/T2/S1/p.2

standards and to adopt best work practices. The applicants argue that these opportunities for improved economic efficiency and cost savings would not have existed in the absence of the proposed consolidation.

The applicants provided a comparison of the status quo versus post consolidation costs over the ten year period (2016-2025) which reflects a lower OM&A cost structure for LDC Co. The applicants have estimated that sustained OM&A savings net of transition costs will be approximately \$42.5 million in year five and beyond. Following the deferred rate rebasing deferral period, the applicants anticipate aggregate gross OM&A savings to continue at a savings rate of approximately 15% annually and aggregate gross capital expenditure savings to continue at a sustained level of \$8 million annually (an estimated \$51 million savings per year).

The applicants assert that ratepayers benefit from a \$195 million reduction in revenues during the ten year deferred rebasing period, simply based on how the entities would otherwise file a rate application in the absence of the merger. The existing Custom IR rate plan for Horizon will continue until its expiry, and rate adjustments will then take place under Price Cap IR through to the first rebasing of LDC Co. In the absence of the proposed consolidation and rebasing deferral, Horizon would have been expected to file an application to rebase rates for 2020. Enersource was scheduled to rebase in 2017 but has received OEB approval to defer the rebasing, while Hydro One Brampton is presently under Price Cap IR. The OEB's recent decision in respect of PowerStream established rates for 2016 on an incentive rate-setting basis and for 2017 on a cost-of-service basis. In accordance with the OEB's policy on consolidation, if the merger is approved, PowerStream's next rebasing must be as a consolidated entity.

In OEB staff's view, it is irrelevant and inappropriate for the applicant to compare revenues under deferred rebasing relative to the rate-setting plans that the unmerged distributors would otherwise follow, since this contrast appears to imply that rebasing is itself a harm to customers. OEB staff submits that rebasing is an opportunity for a distributor to align its rates with its underlying costs in a manner that delivers value to customers - both by

ensuring that a distributor's capital investments are appropriately paced and prioritized, and by establishing an appropriate level of operating costs by which to manage day-to-day business activities.

Nevertheless, OEB staff submits overall that the evidence provided by the applicants supports the claim that the proposed amalgamation transaction can reasonably be expected to result in cost savings and operational efficiencies. OEB staff, however, notes that the degree of certainty regarding forecast savings diminishes over the length forecast period.

In OEB staff's view, the applicants' statements regarding future rates for LDC Co. customers sufficiently addresses the OEB's considerations with respect to price of electricity service in the context of the no harm test. Future rates of LDC Co. customers will be fully considered in subsequent rate applications and will require the approval of the OEB before they are implemented.

Service Quality and Reliability

The applicants submit that they are committed to maintaining the quality, reliability, and adequacy of electricity service for its customers. The applicants state that they currently have a total of six service centres across their service areas which they submit will continue to be used for de-centralized functions such as construction and maintenance, trouble response, logistics, fleet services, and metering.

The applicants expect LDC Co. to maintain and improve upon the five-year average reliability indices and the OEB customer service standard metrics for its customers.

LDC Co. will also, in the applicants' submission, maintain and is expected to improve productivity and raise the quality of service for all customers through implementation of

new technologies and adoption of best work practices (e.g., customer management functions, call centre service, and billing) of the four predecessor utilities across LDC Co.

In response to questions from the Panel at the hearing, the applicants submit that LDC Co. will have accountability for meeting performance metrics relating to service quality and reliability, as well as compliance with all of its licence conditions in relation to the individual rate zones of each of the amalgamating distributors that the applicants intend to continue with.

Based on the evidence provided by the applicants, OEB staff submits that LDC Co. can reasonably be expected to maintain the service quality and reliability standards currently provided by each of the amalgamating utilities. OEB staff also submits that the OEB is able to monitor the performance of LDC Co. on an ongoing basis through performance scorecards as well as the OEB's Electricity Reporting and Record Keeping Requirements (RRRs) which constitute the OEB's requirements to maintain and file information under the licence conditions.

Financial Viability

The applicants submit that they have modelled the proposed consolidation, including the sources and amount of acquisition financing to purchase Hydro One Brampton, to target a long-term A-range credit rating, which is consistent with the Canadian utility practice for rate-regulated utilities.

Share Acquisition

With respect to the acquisition of Hydro One Brampton, the applicants submit that of the \$607 million purchase price payable for the shares of Hydro One Brampton, a premium of \$202 million is being paid. The applicants acknowledge that the rate base portion of the

consideration payable is recoverable from ratepayers whereas the premium is not recoverable from ratepayers.

The applicants have proposed to finance the share acquisition through debt financing of \$424.9 million while the remaining \$182.1 million will be financed by shareholder contributions. The applicants anticipate maintaining a capital structure of approximately 60% debt as a result of the acquisition of Hydro One Brampton. The applicants submit that the financial ratios and indicators will continue to be consistent with an A-range credit rating and therefore the purchase price will not have an adverse effect on the financial viability of LDC Co.

Incremental Transaction Costs

The applicants submit that incremental transaction costs for items such as data and other IT systems integration, regulatory approvals and legal advice will be financed through productivity gains associated with the transaction and are not expected to be recovered through rates.

The applicants submit, however, that while incremental transaction costs are self-financing by the associated savings, there will be timing differences between expense outlays and their recovery. The applicants have arranged a \$500 million commitment for a 364-Day credit facility from two large banks. This facility is expected to be sufficient to finance: i) the temporary shortfall between implementation costs and their recovery through corresponding savings; and ii) the ongoing working capital requirements of LDC Co.

In OEB staff's view, the evidence presented by the applicants regarding the proposed financing of Hydro One Brampton acquisition and the premium paid demonstrates no adverse impact on the applicants' financial viability is anticipated. OEB staff accepts the applicants' assertions that the use of credit facilities as proposed by the applicants will be

adequate to finance timing differences between receivables and payables and to bridge capital expenditure for a period of time.

3.2 Rate-Making Associated With Consolidation

Deferral of Rate Rebasing

The applicants have chosen to defer the rebasing of rates for the four amalgamating utilities for ten years from the date of closing of the last of the proposed transactions.

Enersource and Hydro One Brampton will be on Price Cap IR for the entire ten-year rebasing deferral period. The OEB recently approved rates for PowerStream for 2016 and 2017, after which it will be on Price Cap IR until the end of the deferred rebasing period. Horizon is currently on a Custom IR plan which expires in 2019, following which rate adjustments will take place under Price Cap IR until the rebasing of LDC Co.

OEB staff submits that the deferred rebasing period chosen by the applicants aligns with the OEB's policies.

Earnings Sharing Mechanism

As set out previously, to encourage consolidations, the OEB has introduced policies in its 2007 and 2015 Reports that provide consolidating distributors with an opportunity to offset transaction costs with any achieved savings. The 2015 Report, however, requires consolidating distributors who request a deferred rebasing period of greater than five years to implement an earning sharing mechanism (ESM).

The applicants have proposed an ESM which they assert aligns with the 2015 Report

whereby earnings in excess of 300 basis points above the OEB's established regulatory ROE for the consolidated entity would be shared on a 50:50 basis between LDC Co. and its ratepayers. The applicants submit that in 2023, they expect to file an IRM application in which they would bring forward their detailed ESM proposal for review by the OEB. The applicants submit that they have not finalized what the ESM sharing mechanism will specifically look like across the four rate zones, confirming that the evidence they would put forward in support of their detailed ESM proposal would be fully tested by intervenors and the OEB through discovery at the time.

In response to questions by the Panel, the applicants acknowledge that there are a number of ways to implement the ESM in a manner consistent with the guiding principles of the unanimous shareholders agreement that rates be kept separate and distinct and that the sharing will be equitable, and that not all of these ways have yet been thought through.

The applicants further submit that the decision on how any overearnings are to be shared across the different rate zones will be made on a corporate basis by the LDC Co. board of directors.

The applicants do not intend to harmonize the distribution rates for distribution customers until the differences are immaterial. According to LDC Co. the cost structures of the merging entities do not converge based on the current forecasts in the foreseeable future.

OEB staff submits that the Handbook makes clear that rate setting is generally not a consideration in reviewing a consolidation application. However, OEB staff submits that while rates matters are considered in detail in a rates application, the OEB, in its consideration of a consolidation application, has considered future rates proceeding in previous consolidation applications and has signalled what the OEB's expectations are

when a consolidated entity files its application to rebase its rates⁵.

The Handbook made clear that the OEB will scrutinize the rate-setting aspects of a consolidation transaction in the first cost of service or Custom IR application following a consolidation.

OEB staff submits that the applicants' proposed ESM aligns with the expectations of the OEB as set out in the Handbook. In OEB staff's view, the implementation of the ESM will be of significant importance, insofar as it represents the core measure by which savings due to consolidation will be shared with customers prior to rebasing. OEB staff observes that the \$42.5M in expected annual savings is very close to the 300 basis point threshold level that would trigger earnings sharing⁶; should the value of rate base or deemed equity differ from those assumed in the business plan, this level of savings alone could trigger the need for the ESM. OEB staff notes as well that other revenue-enhancing considerations, such as customer growth, may also contribute to earnings growth, which, when combined with savings, could produce earnings in excess of the deadband. As a consequence, it is important, in staff's view, that these issues receive appropriate consideration. OEB staff recognizes that prior to the sixth deferral year, the applicants are expected to file a detailed ESM proposal. However, OEB staff submits that it would be helpful to the OEB if plans for ESM, rate structures and rate harmonization can be made available by December 31, 2019, the time by which the applicants submit the consolidation will be complete. This would provide sufficient time to plan for any ESM implementation well in advance.

Request for Incremental Capital Module (ICM)

The applicants have stated that during the deferred rebasing period, LDC Co. may apply for rate adjustments using the ICM as may be necessary and in accordance with

⁵ Transcript, Vol. 2, p.93

⁶ K1.2 page 4, Energy Probe Compendium

applicable OEB policies.

OEB staff submits that the OEB will consider any ICM request upon the filing of an application. In OEB staff's view though, the ICM would not be available for investments within the current Horizon service area because an ICM is not available to distributors setting rates under Custom IR.

3.3 LDC Co. Licence Application and Transfer of Licences/Rate Orders

As part of the consolidation application, the applicants requested for the transfer of the electricity distribution licences and rate orders of each of the applicants and Hydro One Brampton to LDC Co.

In response to direction from the Panel at the hearing on September 16, 2016, the applicants amended the relief sought in the consolidation application requesting the OEB's approval for an electricity distributor licence that would allow LDC Co. to own and operate the distribution systems serving the former Enersource, Horizon, PowerStream and Hydro One Brampton service areas.

As part of this licence application, the applicants provided a draft form of licence, containing several proposals:

- An exclusion in the Enersource rate zone that is not in Enersource's current electricity distribution licence
- Deletions relating to certain temporary exemptions previously granted by the OEB to each of the amalgamating distributors and which have now expired
- Additional licence conditions relating to the tracking and reporting of performance on an individual rate zone basis for the first three years following the completion of the consolidation.

The applicants are also seeking exemptions from section 2.6.1A of the *Distribution System Code* (DSC), as the applicants will not be able to bill former Enersource and Horizon Residential and General Service <50kW customers on a monthly basis as required by this section of the DSC which comes into force on December 31, 2016.

OEB staff supports the application for an electricity distribution licence for LDC Co. and submits that the OEB take into account the following considerations on the applicants' proposed exclusions, deletions and conditions relating to this licence.

Proposed exclusion

The applicants have filed a draft form of licence which includes a description of the Enersource Rate Zone in Schedule 1 containing an exclusion that is not in Enersource's current electricity distribution licence. The exclusion pertains to a joint application for the elimination of load transfer arrangements filed with the OEB by Enersource and Oakville Hydro Electricity Distribution Inc.(Oakville) on August 9, 2016. If the application is approved, the subject lands will become part of the Oakville service area.

OEB staff submits that this exclusion can only be added once the OEB has made a decision approving the application to eliminate the load transfer arrangements.

Proposed deletions

The applicants have also proposed that the following Code and RRR exemptions set out in the four amalgamating distributors' licences should be eliminated as they are no longer needed and/or because they have expired:

- The Hydro One Brampton, Enersource and PowerStream licences contain the following exemption:

“1. The Licensee is exempt from the requirements of section 2.5.3 of the

Standard Supply Service Code [the “SSS Code”] with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.”

The applicants submit that section 2.5.3 was removed from the SSS Code, and is no longer applicable. As a result, that exemption is no longer needed and propose that this be deleted from the proposed Schedule 3 (List of Code Exemptions) to the LDC Co. licence

- The Hydro One Brampton licence contains the following exemption:
 2. The Licensee is exempt from the requirements of section 6.5.4 of the Distribution System Code [the “DSC”] until June 30, 2009 in relation to 15 load transfer customers located within the City of Brampton with the following municipal addresses:
 - (a) 2868 Bovaird Drive;
 - (b) 10221, 10231 & 10245 Old Pine Crest; and
 - (c) 10253, 10315, 10333, 10431, 10451, 10475, 10605, 10625, 10827, 11507 and 11511 Winston Churchill Blvd.

The applicants submit that the exemption which expired on June 30, 2009 applied to a version of section 6.5.4 of the DSC that would have required the elimination of long term load transfers by October of 2008. The OEB’s requirements (including the deadlines) related to the elimination of long term load transfers have changed over time, and the deadline for the elimination of those load transfers was extended a number of times. The DSC currently provides (at section 6.5.3) that “All load transfer arrangements shall be eliminated by transferring the load transfer customers to the physical distributor by June 21, 2017.” The applicants submit that they do not require an exemption from this requirement at this time, and the current exemption may be removed.

- The Enersource licence contains the following exemption:
 2. The Licensee is exempt from the requirement to implement time-of-use pricing as of the mandatory date for its RPP customers with eligible time-of-use meters as required under the Standard Supply Service Code for Electricity Distributors. The mandatory time-of-use pricing date exemption expires on May 31, 2012.

The applicants submit that Enersource has implemented time-of-use pricing as of the mandatory date for its RPP customers with eligible time-of-use meters. The applicants further submit that this exemption has expired and is no longer applicable.

- The PowerStream licence contains the following exemption:

The Licensee is exempt from the following sections of the Electricity Reporting and Record Keeping Requirements:

 1. Section 2.1.8, sub-sections, b) ii; c) i, ii, iii, iv, vi, viii, ix, x; d) i, ii, iv; e) ii, iv; f) iii, iv and g). This exemption will expire on June 30, 2014.

The applicants submit that the exemption has expired, and is no longer needed in respect of the PowerStream rate zone in any event and should not be included in the LDC Co. licence. The applicants submit that there are other provisions in the standard form of licence that may be outdated, such as certain provisions in Appendix A related to Market Power Mitigation Rebates. However, the applicants state that they have only proposed to eliminate certain exemptions specific to the four consolidating distributors. They do not propose to remove generic provisions of the licence, as they believe that it would be more appropriate for the OEB to deal with those matters on a generic basis.

OEB staff submits that the elimination of the exemptions specific to each of the amalgamating distributors as set out by the applicants is appropriate. OEB staff submits that many of the other provisions in the standard form of licence that may be outdated

were incorporated as a result of ministerial directives and it is more appropriate for the OEB to consider the removal of these provisions on a generic basis.

Request for Exemptions

The applicants are requesting exemptions from section 2.6.1A of the DSC, as the applicants will not be able to bill former Enersource and Horizon Residential and General Service <50kW customers on a monthly basis as required by this section of Code which comes into force on December 31, 2016. The applicants submit that as Enersource and Horizon will be migrating to the PowerStream customer information system (CIS), it will be necessary to complete that migration for a rate zone before monthly billing can be implemented; and because that migration will be staggered, the applicants do not expect to be able to bill Residential and GS < 50 kW customers in the Enersource rate zone and Horizon rate zone on a monthly basis until later in 2018 (for Enersource) and until later in 2019 (for Horizon). The applicants submit that they are requesting these exemptions so as to not strand assets or to make unnecessary investments in the predecessor companies' existing systems.

The applicants request that the OEB approve exemptions from section 2.6.1A that would expire December 31, 2018 in the case of the Enersource rate zone and December 31, 2019 in the case of the Horizon rate zone, as part of its disposition of the licence application for LDC Co. The applicants have proposed that the requested exemptions be included in the new Schedule 3 to the LDC Co. licence.

OEB staff submits that the OEB should only approve the exemptions for monthly billing requested by the applicants for a limited period of time – three to six months from the closing of the transaction. The OEB's notice of its intent to implement monthly billing was issued on April 15, 2015. At that time, the merger had only

recently been announced by the parties. While the notice indicated that distributors would be able to seek exemptions if they were unable to meet this timeline, OEB staff submits that there is no reason to withhold the benefit of monthly billing to customers as a result of the merger for the length of time that the exemptions have been requested. OEB staff further submits that the applicants have not demonstrated the harm to the utility by quantifying the costs associated with the implementation of monthly billing by the OEB's prescribed implementation date, which was announced more than 20 months in advance.

OEB staff recognizes that the applicants' shareholders chose to undertake a strategic decision that is expected to have long-term benefits for customers. OEB staff further acknowledges that there may be technical challenges with implementation, especially with regard to the integration of billing systems, but those are the risks and obligations that distributors are expected to be able to manage as part of their service delivery commitments within the regulatory environment in which they operate. Consequently, in OEB staff's view, the implementation of the merger should not exempt the applicants from implementing broad OEB policy in a timely manner – especially one that will assist customers in managing their bills, in receiving timely feedback about their consumption habits and electricity costs, and in supporting households and small businesses in their deliberation and potential adoption of conservation and demand management investments.

Proposed conditions

The applicants have proposed three conditions that they submit would allow the OEB to consider the operations of the consolidated utility in the context of the OEB's statutory objectives related to adequacy, reliability and quality of electricity service, as that service is provided to customers in each of the four proposed rate zones:

1. LDC Co. shall track its operations in four separate rate zones (equivalent to the

service areas of the former Enersource Hydro Mississauga Inc., Horizon Utilities Corporation, PowerStream Inc. and Hydro One Brampton Networks Inc.) until the end of the third year following the completion of the consolidation of the four predecessor utilities. The end of the third year following the completion of the consolidation is expected to be December 31, 2019.

2. LDC Co. shall report to the OEB on Electricity Service Quality Requirements

(ESQRs) and other reportable financial metrics as set out in the OEB's Reporting and Record-Keeping Requirements (RRR) separately for each of the four rate zones for that three-year period.

3. LDC Co. may, at its option, report to the OEB under the RRR on a consolidated basis, instead of separately for the four rate zones, after the end of the third year following the completion of the consolidation of the four predecessor utilities.

The applicants suggest that it would be of interest to the OEB to be able to view what is going on in the individual rate zones in the early years. The applicants submit that continuing to track data on its operations separately for each of the rate zones during the first three years enables LDC Co. to comply with Horizon's settlement proposal, including factors such as reporting requirements on its capital variance account, ESM and efficiency adjustment under Horizon's custom IR culminating at the end of 2019. The applicants also submit that between year 1 and year 3, the integration of systems will be taking place, the most complex being the CIS migration to the PowerStream system as the new company forms. The applicants submit that RRR and scorecard metrics will be easily trackable and reportable for the first three years but state that by year 4, LDC Co. may no longer be able to report on some of the metrics by individual rate zone and the applicants submit that they would be reporting more on a consolidated basis as a merged company. The applicants' proposed third condition, however, suggests that reporting on a consolidated basis, instead of separately for the four rate zones after the third year is at the option of LDC Co.

OEB staff is supportive of conditions 1 and 2 as proposed by the applicants and for

the reasons given by the applicants. OEB staff submits that the OEB should revise the applicants' proposed condition 3 to clarify what happens going forward from year four. The applicants have stated that in the case of reporting on reliability, if a decision is made to report on a consolidated basis, they would still be capable of reporting on a zone basis to the end of the deferred rebasing period. In OEB staff's view, while the consolidation will be complete at the end of year 3, the OEB may wish to consider whether the reporting of certain metrics like reliability on an individual rate zone basis is still required.

Transfer of Licences and Rate Orders

OEB staff submits that if the OEB approves the licence application for LDC Co., the requested transfer of the licences of each of the applicants and Hydro One Brampton to LDC Co. is not necessary as the licence granted to LDC Co. permits LDC Co. to own and operate the distribution systems serving the former Enersource, Horizon, PowerStream and Hydro One Brampton service areas.

OEB staff supports the applicants' request for the transfer of the rate orders of each of the amalgamating distributors to LDC Co.

3.4 Other Requested Approvals

As part of the consolidation applications, the applicants request OEB approval to continue to track costs to the regulatory asset accounts (or deferral and variance accounts or DVAs) currently approved by the OEB for each of Enersource, Horizon, Powerstream and Hydro One Brampton and to seek disposition of their balances at a future date.

In their interrogatory responses, the applicants confirmed that they plan to request the Group 1 DVAs for disposition consistent with the *Report of the Board on Electricity*

Distributor's Deferral and Variance Account Review and also stated their intention to seek disposition of Group 2 accounts in Annual Custom IR Updates or in IRM applications should the balances in these accounts become material. At the technical conference, the applicants indicated that they will have the capability to track all DVAs separately going forward, even though they have not decided whether or not to track the DVAs separately or on a consolidated basis post-consolidation.

OEB staff submits that approval to track costs to the DVAs should be granted. Similar requests were filed as part of other previous consolidation applications and were granted by the OEB. With regards to the disposition of Group 2 accounts, OEB staff submits that the determination of whether these accounts can be disposed in a future application should be consistent with the OEB's policy on disposition of Group 2 DVAs. However, OEB staff recognizes that 10 years is a long time for Group 2 accounts not to be disposed. These accounts can be either credits or debits to customers. Therefore, OEB staff would agree that Group 2 accounts should be cleared at least every five years, as would be the case for a non consolidating distributor on the Price Cap IR rate-setting option. This could be done in a stand-alone application.

OEB staff submits that though the applicants haven't decided whether or not to track the DVA balances separately or on a consolidated basis going forward, the applicants should continue to maintain the capability to track the DVAs separately so as to enable the appropriate disposition of the DVAs should the OEB decide that the DVAs are to be disposed separately to each rate zone in a future rates proceeding.

4 CONCLUSION

OEB staff concludes that the evidence provided by applicants reasonably demonstrates that the proposed transactions to effect the amalgamation of Enersource, Horizon, PowerStream and Hydro One Brampton meet the no harm test. Accordingly, OEB staff submits that the proposed transactions to effect the amalgamation and the electricity distribution licence application made for LDC Co. should be approved.

All of which is respectfully submitted.