Ontario

Ontario Energy Board
Commission de l’énergie de l’Ontario

DECISION AND ORDER

EB-2018-0124 AND EB-2018-0233

THUNDER BAY HYDRO ELECTRICITY DISTRIBUTION INC. AND KENORA HYDRO ELECTRIC CORPORATION LTD.

Application for approvals to amalgamate and continue operations as a single electricity distribution company

BEFORE: **Ken Quesnelle**
Presiding Member

Christine Long
Member

Cathy Spoel
Member

November 15, 2018

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1 INTRODUCTION AND SUMMARY

This is the Decision and Order of the Ontario Energy Board (OEB) regarding an application filed by Thunder Bay Hydro Electricity Distribution Inc. (Thunder Bay Hydro) and Kenora Hydro Electric Corporation Ltd. (Kenora Hydro) (collectively, the Applicants). The Applicants requested that the OEB approve their proposed transaction that would allow Thunder Bay Hydro and Kenora Hydro to amalgamate and continue as one corporation under a name to be determined (referred to herein as LDC Mergeco). If approved, the amalgamated entity will service over 56,000 customers with a combined rate base of approximately $120 million.[1]

The application was made pursuant to Section 86 of the *Ontario Energy Board Act, 1998*[2] (the Act) which requires a transmitter or distributor to obtain leave of the OEB before disposing of its distribution or transmission system or amalgamating with another corporation.

The Applicants also seek OEB approval for Thunder Bay Hydro and Kenora Hydro to transfer their distribution licenses and rate orders to LDC Mergeco.

Additionally, the Applicants requested the issuance of a new electricity distribution licence for LDC Mergeco and the cancellation of the distribution licenses of Thunder Bay Hydro and Kenora Hydro immediately following the issuance of LDC Mergeco's new electricity distribution licence. The Applicants stated that they intended to file the licence application separately from the amalgamation application.[3] The licence application, filed on July 20, 2018, was assigned OEB File No. EB-2018-0233 and combined with the amalgamation proceeding.

The application proposes to defer rate rebasing for five years following the completion of the transaction. Lastly, the application requests approval to continue to track costs to the regulatory asset accounts currently approved by the OEB for each of Thunder Bay Hydro and Kenora Hydro, and to seek disposition of their balances at a future date.

The OEB has applied the "no harm" test in assessing this application and has concluded that the proposed transaction meets that test. The OEB therefore approves the application as filed. The OEB also approves the additional requests made by the Applicants as further described in this Decision.

[1] Application, p. 51
[2] S.O. 1998, c. 15 Schedule B
[3] Application, p. 25

2 THE APPLICATION

Thunder Bay Hydro, a wholly owned subsidiary of Thunder Bay Hydro Corporation (TBHC), has a distribution system that serves over 50,700 residential, commercial, and industrial customers in the City of Thunder Bay and Fort William First Nation Reserve. Currently, TBHC is wholly owned by the Corporation of the City of Thunder Bay.

Kenora Hydro, a wholly owned subsidiary of the Corporation of the City of Kenora, has a distribution system that serves approximately 5,600 residential, commercial, and industrial customers in the City of Kenora.

To facilitate the proposed transaction, an exchange of shares will take place resulting in the City of Kenora owning 9,100 common shares of LDC Mergeco and TBHC owning 90,900 common shares of LDC Mergeco – subject to a valuation adjustment. For this transaction, the Applicants seek OEB approval under Section 86 of the Act.

The Applicants also seek OEB approval of the following:

- Leave for Thunder Bay Hydro and Kenora Hydro to transfer their distribution licences and rate orders to LDC Mergeco, under Section 18 of the Act.
- Issuance of a new Electricity Distribution Licence for LDC Mergeco, under Section 60 of the Act.
- Cancellation of the distribution licences of Thunder Bay Hydro and Kenora Hydro immediately following the issuance of LDC Mergeco's new Electricity Distribution Licence, under Section 77(5) of the Act.
- To defer rate rebasing for five years following the completion of the transaction.
- To continue to track costs to the regulatory asset accounts currently approved by the OEB for each of Thunder Bay Hydro and Kenora Hydro and to seek disposition of their balances at a future date.

The Applicants have selected a five year deferred rebasing period. During this period, the Applicants state that the rates of customers of Thunder Bay Hydro will be adjusted using the Price Cap Incentive Rate-Setting (Price Cap IR) option while the rates of customers of Kenora Hydro will be adjusted using the Annual Incentive Rate-Setting Index (Annual IR Index) option. As the Applicants have selected a five year deferred rebasing period, an Earnings Sharing Mechanism (ESM) is not required.

2.1 Process

The OEB determined that the amalgamation application would be subject to a public hearing and issued a Notice of Application and Hearing on June 22, 2018 inviting interested parties to register as intervenors or file a letter of comment with the OEB. No applications for intervenor status were received.

On July 20, 2018, the Applicants filed a licence application for LDC Mergeco[4] (distribution licence application) with the OEB.

In Procedural Order No. 1, issued July 23, 2018, the OEB provided for interrogatories on the application to be filed by August 3, 2018 and responses to be filed by August 17, 2018. The Applicants' responses were filed with the OEB on August 16, 2018. On September 11, 2018, the Applicants filed additional evidence to clarify responses to OEB Staff Interrogatory No. 6 and No. 11.

Procedural Order No. 2 was issued by the OEB on September 13, 2018. In this procedural order, a schedule was set for the filing of submissions and reply submissions. Further, the OEB determined that the amalgamation application[5] would be combined and adjudicated concurrently with the distribution licence application.

In accordance with Procedural Order No. 2, submissions on the combined applications were filed by OEB staff on September 27, 2018 while the Applicants provided a reply submission on October 11, 2018.

[4] EB-2018-0233
[5] EB-2018-0124

3 REGULATORY PRINCIPLES

3.1 The "No Harm" Test

The OEB applies the "no harm" test in its assessment of merger, acquisition, amalgamation and divestiture (MAAD) applications.[6] 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 expansion or reinforcement of transmission systems and distribution systems to accommodate the connection of renewable energy generation facilities.

[6] The OEB adopted the "no harm" test in a combined proceeding (RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257) as the relevant test for determining applications for leave to acquire shares or amalgamate under Section 86 of the Act and it has been subsequently applied in applications for consolidation. As prescribed by the OEB's *Handbook to Electricity Distributor and Transmitter Consolidations*, the OEB has, and will continue to apply its "no harm" test in reviewing consolidation transactions.

While the OEB has broad statutory objectives, in applying the “no harm” test the OEB has focused on the objectives that are most directly relevant to the impact of the proposed transaction, namely, price, reliability and quality of electricity service to customers, as well as the cost effectiveness, economic efficiency and 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.

3.2 OEB Policy on Rate-Making Associated with Consolidations

To encourage consolidations, the OEB has put in place policies on rate-making that provide consolidating distributors with an opportunity to offset transaction costs with savings achieved as a result of the consolidation. The OEB’s *Report of the Board on Rate-Making Associated with Distributor Consolidation*, issued on March 26, 2015 (2015 Report)[7] permits consolidating distributors to defer rebasing for up to ten years from the closing of the transaction.

The OEB’s *Handbook to Electricity Distributor and Transmitter Consolidations* (the Handbook)[8] provides that the extent of the deferred rebasing period is at the option of the 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. This is to allow the OEB to assess any proposed departure from this stated plan. The Handbook states that when a consolidated entity has opted for a deferred rebasing period, it has committed to a plan based on the circumstances of the consolidation and that if it seeks to amend the deferred rebasing period, the OEB will need to understand whether any change to the proposed rebasing timeframe is in the best interest of customers.

The 2015 Report sets out the rate-setting mechanisms during the deferred rebasing period, requiring consolidating entities that propose to defer rebasing beyond five years to implement an ESM for the period beyond five years to protect customers and ensure that they share in increased benefits from consolidation.

The Handbook clarifies that rate-setting following a consolidation will not be addressed in an application for approval of a consolidation transaction unless there is a rate

[7] EB-2014-0138
[8] Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, pp. 12-13.

proposal that is an integral aspect of the consolidation, such as 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.

4 DECISION ON THE ISSUES

4.1 Application of the "No Harm" Test

Price, Economic Efficiency and Cost Effectiveness

In order to demonstrate "no harm," applicants are required to show that there is a reasonable expectation based on underlying cost structures that the costs to serve customers following a consolidation will be no higher than they would otherwise have been.[9] In its review of consolidation proposals, the OEB reviews the underlying cost structures of the consolidating utilities. As distribution rates are based on a distributor's current and projected costs, the OEB has stated that it is important for the OEB to consider the impact of a transaction on the cost structures of consolidating entities both now and in the future, particularly if there appear to be significant differences in the size or demographics of consolidating distributors.[10]

The Applicants stated that "LDC Mergeco expects to provide distribution rates upon the next rebasing (subsequent to the proposed five year deferral period) that will be lower than they would have been, had the Parties remained as status quo independent LDC's."[11] Further, the Applicants stated that financial benefits are expected to occur in both the near- and longer-term. According to the application, potential synergies will result from combining the operations of Thunder Bay Hydro and Kenora Hydro and streamlining processes – specifically in the process areas of Administration and Customer Service as well as Regulatory and Finance.[12]

The Applicants provided a comparison of Operation, Maintenance and Administration (OM&A) costs for a scenario where there is no amalgamation (i.e., the *status quo*) versus the post-amalgamation scenario over the proposed five year deferred rebasing period (2019 to 2023 inclusive). This comparison provided by the Applicants demonstrated that the amalgamation will result in lower costs for the amalgamated entity when compared to the *status quo* costs of both Thunder Bay Hydro and Kenora Hydro.

The Applicants noted negligible capital savings arising from the proposed amalgamation.[13] As a result, capital savings were not included in the cost comparison

[9] Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, p. 7.
[10] *Ibid*, p. 6.
[11] Application, p. 27
[12] *Ibid*, p. 37
[13] Applicant IR Response. OEB Staff IR #16.

between *status quo* and post-amalgamation scenarios. When the Applicants were asked by OEB staff to describe any capital savings anticipated from the proposed amalgamation following the deferred rebasing period, the Applicants stated that capital expenditures or savings could not be predicted. The Applicants noted that LDC Mergeco will need to review and work on incorporating the Kenora Hydro distribution system assets into the existing Thunder Bay Distribution System Plan. Until this thorough review is undertaken, capital expenditures or savings cannot be predicted.[14]

The Applicants estimate OM&A synergies over the five year deferral period to total $3.8 million with transaction and transition costs totaling $1.4 million. Transition and transaction costs, which are anticipated to be incurred from 2018 to 2020,[15] are associated with systems, process, legal, regulatory requirements, and human resource integration costs.[16] OM&A synergies are anticipated to largely arise as a result of administrative cost reductions as well as the consolidation of billing, corporate IT, regulatory, and financial functions.[17] OEB staff accepted the Applicants' claim that the amalgamation will offset the need for sizable OM&A expenditures that will, in turn, benefit customers through reduced cost structures. Based on the evidence on record, OEB staff submitted that the amalgamation will not result in customers of Thunder Bay Hydro or Kenora Hydro experiencing negative price implications in the near-term.

The Applicants submit that OM&A savings, as identified in the application, are expected to result in lower cost structures for LDC Mergeco at the time of first rebasing relative to the *status quo* and the savings – approximately $900,000 per year – will continue in perpetuity following amalgamation. In the application, the Applicants also stated that LDC Mergeco will continue to strive to improve its efficiency ranking into a higher cohort and expect that with the efficiencies gained from the proposed amalgamation, progress will be made in this regard.[18] OEB staff submitted that, based on evidence filed in the application and responses to interrogatories, the level of savings would likely continue in perpetuity following the deferred rebasing period. OEB staff anticipates that in the first cost of service application following the deferred rebasing period, the Applicants will be in a position to demonstrate the savings and efficiencies that have resulted from the amalgamation.

[14] Applicant IR Response. OEB Staff IR #16.
[15] Application, Figure 10, p. 37; p. 39
[16] Application, p. 38
[17] Application, p. 37
[18] Application, p. 29

Findings

The OEB has determined that the Applicants have satisfied the "no harm" test with respect to price, cost effectiveness and economic efficiency. The evidence shows that the underlying cost structures to serve customers following the proposed amalgamation are expected to be no higher than they otherwise would have been under the *status quo* scenario.

Reliability and Quality of Electricity Service

The Handbook requires consolidating utilities to indicate the impact that the proposed transaction will have on customers with respect to quality and reliability of electricity service. In considering the impact of a proposed transaction on the quality and reliability of electricity service, and whether the "no harm" test has been met, among other things, the OEB is informed by the metrics provided by the distributor in its annual reporting to the OEB and published in its annual scorecard.[19] In the application, the Applicants provided System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) statistics for Thunder Bay Hydro and Kenora Hydro from 2012 to 2016.

Following review of the Applicants' 2012 to 2016 SAIDI and SAIFI statistics, OEB staff identified that, although the Applicants' System Reliability Metrics did meet OEB targets, both utilities appeared to have an increasing (worsening) trend in SAIFI statistics. As a result of the observed trend, the Applicants were requested to provide SAIDI and SAIFI statistics of both utilities for 2017.[20] In addition, the Applicants were asked to update average SAIDI and SAIFI values for the 2012 to 2017 period. The Applicants provided updated SAIDI and SAIFI statistics as well as an explanation of the observed trend over the five year time period. Further, the Applicants highlighted that when examining SAIFI statistics from 2008 to 2017, there is a decreasing (improving) trend for both Thunder Bay Hydro and Kenora Hydro.

The Applicants' response also revealed, however, that SAIDI and SAIFI statistics for Kenora Hydro alone meaningfully increased from 2016 to 2017. On September 11, 2018, the Applicants provided supplementary information to explain the increase. The information provided identified that the increase was attributable to two events:

[19] Handbook, p. 4.
[20] SAIDI and SAIFI statistics exclude incidents related to loss of supply and major outages.

"***<u>Outage Event #1</u>****: In 2017 Kenora Hydro experienced a larger than average Scheduled Outage* ***(Code 1)*** *to its substation. Through regular patrols Kenora Hydro discovered there was a cracked insulator on the 115 kV side of the substation. Unfortunately due to safety concern Hydro One could not isolate the particular feed to allow quick repair without customer interruption, as a result Kenora Hydro determined that it was necessary to repair and scheduled a city-wide outage. In this particular instance Kenora Hydro hired a company out of Thunder Bay to remove the cracked insulator from service. The full city outage lasted approximately 45 minutes and contributed to SAIDI by approximately 0.7 and SAIFI by approximately 1.0.*

<u>Outage Event #2</u>*: The second event contributing to the 2017 increase in Kenora Hydro's reliability statistics occurred in April as a result of very wet weather and a tracking cutout, Kenora Hydro experienced a pole fire. The location was in an isolated area in the bush and the outage occurred very late at night categorizing this particular outage as Adverse Environment* ***(Code 7)****. Due to the challenges Kenora Hydro employees took longer than regularly required to discover the location and problem of the outage. This outage was a complicated double circuit structure that was very badly damaged and required a large amount of reconstruction. This outage occurrence contributed approximately 2.48 to SAIDI and SAIFI by approximately 0.45.*"[21]

As described by the Applicants, both outage events appear anomalous; they appear to be the result of one-time events. OEB staff was satisfied with the Applicants' explanation.

Due to the geographic separation between the cities of Thunder Bay and Kenora, OEB Staff questioned the Applicants about the challenges that LDC Mergeco will face in terms of best servicing customers. The Applicants responded that LDC Mergeco does not predict the manner and level of service to customers to change as service centres will remain in both Thunder Bay and Kenora. The Applicants further stated that operations will be reviewed with regard to control of the distribution system assets and a best practices approach to the operation of the amalgamated utility will be taken. The Applicants noted in the application that front line operations staff that currently respond to outages and power quality issues will be expected to continue to serve the communities that they currently serve.[22]

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[21] Applicant Supplementary IR Response. OEB Staff IR #11.
[22] Application, p. 28

OEB staff submitted that LDC Mergeco can reasonably be expected to maintain the service quality and reliability standards currently provided to customers of Thunder Bay Hydro and Kenora Hydro. OEB staff also submitted that the OEB is able to monitor the performance of LDC Mergeco on an ongoing basis through performance scorecards as well as the OEB's Electricity Reporting and Record Keeping Requirements (RRRs).

Findings

The OEB is satisfied that the way in which the Applicants propose to provide service in the areas currently served by Thunder Bay Hydro and Kenora Hydro will be effective in continuing existing levels of service. Based on the information on the record, the OEB has determined that the Applicants have met the "no harm" test with respect to reliability and quality of electricity service.

Financial Viability

The Handbook indicates that the impact of a proposed transaction on the acquiring utility's financial viability for an acquisition, or on the financial viability of the consolidated entity in the case of a merger will be assessed. The OEB's primary considerations in this regard are:

- The effect of the purchase price, including any premium paid above historic (book) value of the assets involved.
- The financing of incremental costs (transaction and integration costs) to implement the consolidation transaction.[23]

The transaction between the parties is non-cash in nature. In order to effect the amalgamation, Thunder Bay Hydro and Kenora Hydro will carry out a share exchange. The Applicants included financial statements and *pro forma* financial statements in the application which illustrate that the financial viability of LDC Mergeco will not be adversely affected by the proposed transaction. OEB staff submitted that based on its review of the Applicants' financial statements, the financial viability of the amalgamated entity will not be adversely affected by the transaction.

[23] Handbook to Electricity Distributor and Transmitter Consolidations, January 19, 2016, p. 8.

Findings

The OEB has reviewed the financial information provided by the Applicants and is satisfied that the transaction will not have an adverse impact on the financial viability of the Applicants, so the “no harm” test is satisfied.

LDC Mergeco Distribution Licence Application

The Applicants filed an electricity distribution licence application for the proposed amalgamated entity, LDC Mergeco, on July 20, 2018. This licence will allow LDC Mergeco to own and operate both the current Thunder Bay Hydro[24] and Kenora Hydro[25] distribution systems following the completion of the proposed transaction. OEB staff submitted that based on its review of the distribution licence application, the application was complete and did not contain any requests for licence conditions that were atypical.

The distribution licence application also confirmed that, if approved, LDC Mergeco will continue to provide the same distribution services to customers of the existing Thunder Bay Hydro and Kenora Hydro service areas. Further, the Applicants noted that the establishment of LDC Mergeco will not adversely affect competition, access to transmission/distribution services, or the level of service currently provided to customers of Thunder Bay Hydro and Kenora Hydro. Therefore, OEB staff supported the Applicants’ request for approval of a new Electricity Distribution Licence for LDC Mergeco.

Findings

The OEB grants approval of the Applicants’ request for a new Electricity Distribution Licence for LDC Mergeco. The Applicants must promptly notify the OEB of the completion of the transaction so that the requested licence changes can be fulfilled.

Other Matters

Through interrogatories, OEB staff questioned the accounting policies that would be adopted in the amalgamated entity. The Applicants’ response highlighted that a complete and thorough review of each utility’s accounting policies had not been

[24] ED-2002-0529
[25] ED-2003-0030

undertaken. However, the Applicants suggested that there are aspects of Kenora Hydro's current accounting policies that may differ from those used by Thunder Bay Hydro and will need to be aligned upon amalgamation.[26] The Applicants noted that accounting policies currently used by Thunder Bay Hydro will likely be adopted by LDC Mergeco.[27]

OEB staff submitted that the revenue requirement over the deferred rebasing period is underpinned by the pre-amalgamation accounting policies of each utility. In its submission, OEB staff noted that accounting policy changes in areas such as capitalization and depreciation can have a material impact on the revenue requirement approved over the deferred rebasing period. Further, OEB staff submitted that the Applicants should be ordered to establish a deferral account that would capture the annual difference over the deferred rebasing period between the revenue requirement calculated using the pre-amalgamation accounting policies and the revenue requirement calculated using the new accounting policies. OEB staff submitted that the proposed account could be approved as part of the current amalgamation proceeding.

In their reply submission, the Applicants expressed that this is a reasonable request. However, the Applicants submitted that should the OEB order the establishment of the deferral account, tracking and deferral should be restricted to annual material differences only over the deferred rebasing period.[28] The Applicants further requested in their reply submission that the deferred amount be paid to or collected from Kenora Hydro customers.

Findings

The OEB will require the Applicants to establish a deferral account in order to track the annual differences in revenue requirement arising from Kenora Hydro's transition to Thunder Bay Hydro's accounting policies. The established account will be brought forward by the Applicants at a future date for purposes of disposition.

[26] Applicant IR Response. OEB Staff IR #25.
[27] Applicant IR Response. OEB Staff IR #25.
[28] Materiality would be in accordance with the OEB's Chapter 2 Filing Requirements which would be $50,000 as distribution revenue for Kenora Hydro is less than $10 million.

4.2 Rate-making Considerations

Deferred Rate Rebasing

As explained in the Handbook, the 2015 Report permits consolidating distributors to defer rebasing for up to ten years from the closing of the transaction and OEB approval is not required for the selected deferral period. However, as set out in the Handbook, consolidating distributors are required to identify in their consolidation application the specific number of years for which they choose to defer as this allows the OEB to assess any proposed departure from this stated plan.

The Applicants selected a five year deferred rebasing period from the closing of the proposed transaction, consistent with the Handbook and 2015 Report. The Applicants indicated that during the deferred rebasing period, the pre-existing rate plans for Thunder Bay Hydro[29] (Price Cap Incentive Rate Mechanism, referred to below as Price Cap IR) and Kenora Hydro (Annual Incentive Rate Index, referred to as Annual IR),[30] both effective May 1, 2018, would remain in effect until their expiry. The Applicants also stated that Thunder Bay Hydro and Kenora Hydro would continue to have rates adjusted under Price Cap IR and Annual IR, respectively, until the end of the five year rebasing deferral period.

Findings

The OEB is satisfied that the Applicants' intended approach to rate adjustments is consistent with the Handbook

4.3 Other Requests

The Applicants have requested the OEB's approval to:

- Cancel the distribution licences of Thunder Bay Hydro and Kenora Hydro immediately following the issuance of LDC Mergeco's new Electricity Distribution Licence, under Section 77(5) of the Act.

[29] Thunder Bay Hydro's May 1, 2018 rates, set in accordance with the Price Cap Incentive Rate Index option, were approved by the OEB through EB-2017-0075.
[30] Kenora Hydro's May 1, 2018 rates, set in accordance with the Annual Incentive Rate Index option, were approved by the OEB through EB-2017-0054.

- Continue to track costs to the regulatory asset accounts currently approved by the OEB for each of Thunder Bay Hydro and Kenora Hydro and to seek disposition of their balances at a future date.

OEB staff supported these requests.

Findings

The OEB grants approval of these ancillary requests intended to complete the proposed overall transaction and facilitate the creation of LDC Mergeco.

The OEB will include a condition of approval requiring the Applicants to promptly notify the OEB of the completion of the amalgamation. Once this notice is provided to the OEB, the OEB will transfer the rate orders of Thunder Bay Hydro and Kenora Hydro to LDC Mergeco and cancel the electricity distribution licences of Thunder Bay Hydro and Kenora Hydro.

5 CONCLUSION

The OEB is satisfied that the proposed amalgamation of Thunder Bay Hydro and Kenora Hydro, including the Applicants' five year deferral rate rebasing proposal, meets the "no harm" test. The OEB therefore approves the transaction.

The OEB also approves the Applicants' additional requests as set out in this Decision and Order relating to:

- Issuance of a new Electricity Distribution Licence for LDC Mergeco.
- Cancellation of the distribution licence of Thunder Bay Hydro
- Cancellation of the distribution licence of Kenora Hydro.
- Continued tracking of costs to the existing deferral and variance accounts.

6 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. Thunder Bay Hydro Electricity Distribution Inc. and Kenora Hydro Electric Corporation Ltd. are granted leave to amalgamate and continue as LDC Mergeco.

2. The leave granted in paragraph 1 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 will be required in order for the transaction to proceed.

3. The Applicants shall promptly notify the OEB of the completion of the transactions referred to in paragraph 1 above.

4. Once the notice referred to in paragraph 4 has been provided to the OEB, the OEB will transfer the rate orders of Thunder Bay Hydro Electricity Distribution Inc. and Kenora Hydro Electric Corporation Ltd. to LDC Mergeco.

5. Once the notice referred to in paragraph 4 has been provided to the OEB, the OEB will issue the new Electricity Distribution Licence to LDC Mergeco to include the services areas formerly served by Thunder Bay Hydro Electricity Distribution Inc. and Kenora Hydro Electric Corporation Ltd.

6. When the OEB issues the new Electricity Distribution Licence to LDC Mergeco, it will cancel the Electricity Distribution Licences of Thunder Bay Hydro Electricity Distribution Inc. (ED-2002-0529) and Kenora Hydro Electric Corporation Ltd (ED-2003-0030).

7. The Applicants are granted approval to continue, after the amalgamation, to track costs to the deferral and variance accounts currently approved by the OEB for each of the Applicants.

8. The Applicants are required to establish a deferral account to capture the annual difference over the deferred rebasing period between Kenora Hydro’s revenue requirement calculated using the pre-amalgamation accounting policies and the revenue requirement calculated using the new accounting policies. The balances of the deferral account will be disposed of during a future proceeding.

9. The Applicants shall pay the OEB's costs of and incidental to, this proceeding immediately upon receipt of the OEB's invoice.

DATED at Toronto November 15, 2018

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary