Niagara On-The-Lake HYDRO

February 28, 2024

Ms. Nancy Marconi,
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Re: EB-2023-0188 Evaluation of Policy on Utility Consolidations
Niagara-on-the-Lake Hydro comments

Dear Ms. Marconi:

Niagara-on-the-Lake Hydro (NOTL Hydro) has no comments on the recommendations by Ontario Energy Board (OEB) staff in the OEB Staff Discussion Paper on the Evaluation of Policy on Utility Consolidations other than it supports the recommendation to provide a revenue requirement analysis.

NOTL Hydro is commenting on the OEB staff's view that "enhancing utility capabilities may be better addressed through the economies of scale resulting from further consolidation in the electricity sector".

NOTL Hydro is concerned that, while recognizing that the staff statement is nuanced, it reflects a prevailing view amongst the central legislative and regulatory bodies that further consolidation is a positive direction that should be encouraged.

NOTL Hydro notes that the Ministry of Energy has clearly indicated its support for further consolidation. NOTL Hydro also recognizes that the OEB must follow the directions provided to it by the Minister of Energy.

However, NOTL Hydro also firmly believes that this industry should act in a manner that is in the best interests of its customers. While some consolidations will be in the customers best interest, others will not. While NOTL Hydro could provide a number of arguments as to why consolidations are not always in the customers best interest, NOTL Hydro believes this fact was best articulated by the Auditor General of Ontario in their Value for Money audit report, *Ontario Energy Board: Electricity Oversight and Consumer Protection* of November 2022. The relevant section is provided below:

4.8.3 Consolidations Do Not Necessarily Translate to Reduced Electricity Rates or Improved Efficiency

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In its mandate letter to the OEB in November 2021 (publicly available on the OEB website), the Ministry of Energy asked the OEB to have small LDCs (that is, LDCs with fewer than 30,000 customers) report in their COS rate applications on the extent to which they have investigated potential opportunities for consolidation or collaboration, as the Ministry noted that efficiencies were found in the past through consolidations and innovative partnerships between LDCs. However, as discussed in Section 4.8.1, Hydro One's acquisition of three LDCs—Norfolk, Haldimand and Woodstock— shows that consolidation may not lead to lower cost structures that translate to reduced electricity rates or efficiency gains.

Furthermore, the 2021 Cost Benchmarking Report, prepared for the OEB by a third-party consultant, showed a greater percentage of small-sized LDCs received higher efficiency ratings in comparison with the larger LDCs, suggesting that smaller LDCs tend to be more efficient (see Figure 24).

In addition to the above-mentioned requirements for smaller LDCs to comment on their consolidation investigations in their COS rate applications, there are a number of other instances whereby the OEB appears to support consolidations in an unqualified manner:

- Consolidation was promoted by the OEB as a solution to improved resiliency without any supporting evidence to this effect;
- Consolidations are encouraged with ten-year respites from having to file a COS rate application; and
- Some OEB thresholds for cost recovery or materiality are set as absolute values rather than proportional which can discriminate against smaller LDCs.

NOTL Hydro encourages OEB staff to take an evidence-based approach when considering a position, however nuanced, on consolidation.

Yours truly,

Tim Curtis
President
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