



EB-2005-0256

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 Veridian
Connections Inc. and Scugog Hydro Energy Corporation
under section 86 of the *Ontario Energy Board Act, 1998*
seeking an order granting Veridian Connections Inc. leave
to acquire all outstanding shares in and subsequently to
amalgamate with Scugog Hydro Energy Corporation;

AND IN THE MATTER OF an application by Veridian
Connections Inc. and Scugog Hydro Energy Corporation
under section 60 of the *Ontario Energy Board Act, 1998*
seeking the issuance of a new electricity distribution licence
to the amalgamated corporation.

BEFORE: Gordon Kaiser
Vice Chair and Presiding Member

Bob Betts
Member

George Dominy
Member

DECISION AND ORDER

On March 24, 2005, Veridian Connections Inc. (“VCI”) and Scugog Hydro Energy Corporation (“SHEC”) (collectively, the “Applicants”) filed an application with the Ontario Energy Board (the “Board”) seeking leave for VCI to acquire all outstanding shares in and subsequently to amalgamate with SHEC, and for related orders (the “Application”). Both VCI and SHEC are licensed electricity distributors.

VCI owns, operates and manages assets associated with the distribution of electricity within the geographic territory and municipal boundaries as outlined in Schedule 1 of its electricity distribution licence ED-2002-0503. VCI's service area covers all or a portion of the Town of Ajax, the City of Belleville and the City of Pickering. VCI is wholly owned by Veridian Corporation, which in turn is wholly owned by the City of Pickering, the Municipality of Clarington, the City of Belleville, and the Town of Ajax.

SHEC owns, operates and manages assets associated with the distribution of electricity within the geographic territory of the Village of Port Perry as at November 5, 1979, now the Town of Port Perry in the Township of Scugog. SHEC is wholly owned by the Township of Scugog.

The Township of Scugog and Veridian Corporation and its owners have all approved the proposed transactions.

Following the amalgamation, VCI would serve approximately 95,983 customers in the service territories currently served by VCI and SHEC.

VCI anticipates that rate harmonization would take place in 2007 and has confirmed that it would occur in accordance with the appropriate process contained in the Board's "Electricity Distribution Rate Handbook".

A Notice of Application and Written Hearing was published as directed by the Board. No interventions were filed in response to the Notice, and the Board has proceeded by way of a written hearing.

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.

Board Findings

The acquisition of certain interests in electricity distributors is governed by the *Ontario Energy Board Act, 1998* (the "Act"). Section 86 of the Act provides, among other things, that leave of the Board is required before a distributor can amalgamate with any other

corporation. In addition, under that section no person may acquire voting shares in an electricity distributor without leave of the Board if, as a result of the acquisition, the person would hold more than 20 percent of the voting securities of the distributor.

Section 1 of the Act states that the Board, in carrying out its responsibilities under the Act in relation to electricity, shall be guided by the following objectives:

1. To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service.
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.

With respect to consumer protection, the Board notes that a typical SHEC residential customer is charged \$3.33 (3.9%) a month less than a VCI customer, based on 2005 approved rates. However, the Applicants submit that the current distribution rate benefit that SHEC customers enjoy cannot be maintained, and that a SHEC distribution rate increase will be required in 2006 to increase SHEC revenues to an acceptable market based revenue requirement. In this regard, the Applicants indicate that SHEC has to date not earned a return on equity. A net loss of \$23,500 is projected for 2004. A net loss of \$46,300 is projected for 2005.

Based on the projected net losses for SHEC, the Applicants state that the residents of the Township of Scugog will, at the time of rate harmonization in 2007, benefit from VCI's rates, which are some of the lowest in the province. The Applicants estimate that if there were no amalgamation and rate harmonization, the typical SHEC residential customer that pays \$3.33 per month less than a comparable VCI customer in 2005 would pay \$2.78 more per month than a comparable VCI customer, after the 2006 rate adjustment.

The Applicants also submit that VCI will provide SHEC customers with enhanced service for power restoration and reliability, and that VCI has the financial capacity to extend SHEC's capital program to a level that is higher than the amounts currently being invested in capital.

The Board accepts the uncontested evidence of the Applicants and concludes that the proposed transactions are consistent with the Board's objectives.

THE BOARD ORDERS THAT:

1. Veridian Connections Inc. is granted leave to acquire all outstanding shares in, and subsequently to amalgamate with, Scugog Hydro Energy Corporation.
2. Notice of completion of the amalgamation shall be promptly given to the Board.
3. The Board's leave to amalgamate shall expire 18 months from the date of this Decision and Order. If the amalgamation has not been completed by that date, a new application for leave will be required in order for the amalgamation to proceed.

Pursuant to section 6(1) of the Act, the Management Committee of the Board has delegated to Mark Garner, an employee of the Board, the powers and duties of the Board with respect to the determination of applications under section 60 of the Act. Accordingly, the Board refers to Mark Garner the application to issue a new electricity distribution licence to the amalgamated corporation.

ISSUED at Toronto, June 20, 2005.

ONTARIO ENERGY BOARD

Peter H. O'Dell
Assistant Board Secretary