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## VIA E-MAIL AND WEB POSTING

March 26, 2015

To: All Licensed Electricity Distributors  
All Participants in Consultation Process EB-2014-0138  
All Other Interested Parties

**Re: Report of the Board: Rate-Making Associated with Distributor Consolidation**  
**Board File No.: EB-2014-0138**

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The OEB today issued its Report setting out policies relating to rate-making associated with electricity distributor consolidation.

### 1. Background

On February 11, 2013, the OEB issued a [letter](#) announcing an initiative to assess how the OEB's regulatory requirements for electricity distributors may affect the ability of distributors to realize operational or organizational efficiencies (EB-2012-0397).

Consultations with stakeholders took place throughout 2013 to review potential changes to the OEB's regulatory requirements that may facilitate efficiency improvements. On November 4, 2013, the OEB [announced](#) that it would proceed with a further review of its policies related to service area amendments and rate-making associated with merger, amalgamation, acquisition and divestiture ("MAADs") transactions. On March 31, 2014, the OEB issued a [Staff Discussion Paper](#) setting out questions for stakeholder comment with respect to potential changes to those policies. (EB-2014-0138)

The report of the Ontario Distribution Sector Review Panel, issued in December 2012, set out a vision for consolidation resulting in the less costly and more efficient delivery of electricity. The Minister of Energy responded to the Panel's report, indicating that he expected that the sector would find ways to achieve savings through more efficient service delivery, including negotiated consolidations. This view was carried forward in the Long Term Energy Plan, where it is stated that the government expects electricity distributors to pursue innovative partnerships and transformative initiatives that will result in savings for electricity ratepayers. When the Advisory Council on Government Assets issued its findings in November 2014, they also included the view that consolidation was needed to encourage modernization of the electricity distribution system.

After considering the results of the consultations, the government's policy expectations, and the OEB's own expectations that the distribution sector should continue to seek out efficiencies, especially through consolidation, **the OEB has concluded that it will proceed with amendments to its rate-making policy associated with electricity distributor consolidation.**

The policy changes outlined in the attached Report are intended to encourage efficient and beneficial consolidation transactions within the electricity distribution sector. The OEB has made changes that reflect concerns of the industry with the current policy while ensuring consumers will benefit through earlier rebasing or sharing of savings.

Further consideration of issues related to the OEB's consultation on distributor efficiency including addressing issues regarding SAAs will be announced at a future date.

## **2. Amended Policies**

The OEB's initial policy with regards to rate issues associated with MAADs transactions was developed in 2007, and is found in its [\*Report of the Board regarding Rate-making Policies Associated with Distributor Consolidation\*](#) (the "2007 Policy").

In the case of the policy statements that have been made in the attached Report, these are summarized below and are considered amendments to the 2007 Policy.

1. Allow consolidating entities to choose a deferred rebasing period of up to 10 years after the closing of the transaction. Those consolidating entities that elect a re-basing period of only up to five years may do so as set out under the current policy.
2. Those consolidating entities requesting a deferred re-basing period of greater than five years will be required to present the OEB with an ESM plan that would be implemented if the consolidated entity's ROE was greater than 300 basis points above the allowed ROE as set out under the incentive regulation policy. The ESM will be based on a 50:50 sharing of excess earnings with consumers.
3. Distributors who are party to a MAADs transaction, and are operating under an Annual IR plan have the option to use the Incremental Capital Module during the deferred rebasing period.
4. Distributors who are party to a MAADs transaction that are on the Price Cap IR at the time of consolidation will continue to have their rates adjusted under the same mechanism until rebasing. In the case of distributors on the Annual IR the consolidated distributor would continue to operate under the Annual Index option unless and until it selects a different option. Distributors whose Custom IR plan expires during the deferred rebasing period will move to the Price Cap IR.

All material related to this consultation will be posted on the "Policy Initiatives & Consultations" portion of the Board's website at [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca). The material will also be available for public inspection at the Board's office during normal business hours.

If you have questions regarding this Report, please contact Paul Gasparatto at [paul.gasparatto@ontarioenergyboard.ca](mailto:paul.gasparatto@ontarioenergyboard.ca) or at 416-440-7724. The Board's toll free number is 1-888-632-6273.

Yours truly,

*Original Signed by*

Kirsten Walli  
Board Secretary