

March 17, 2022

The Ontario Energy Board approves Brantford Power and Energy+ merger request: new utility will serve over 108,000 customers

On March 17, 2022, the Ontario Energy Board (OEB) approved an application from Brantford Power Inc.¹ (Brantford Power) and Energy+ Inc.² (Energy+) to amalgamate into a single local electricity distribution company, referred to as LDC Amalco until a name is established for the amalgamated company.

Following the amalgamation, LDC Amalco will be indirectly owned by the City of Brantford (41%), the City of Cambridge (54%), and the Township of North Dumfries (4.7%). LDC Amalco will serve over 108,000 customers and maintain operations in Brantford and Cambridge.

Background

Brantford Power is a licenced electricity distribution company that serves approximately 40,700 customers in the City of Brantford.

Energy+ is a licenced electricity distribution company that serves approximately 67,300 customers in the City of Cambridge, Township of North Dumfries, and parts of the City of Brantford.

On September 1, 2021, the municipalities, Brantford Power, Energy+, and the parent holding companies and affiliates of Brantford Power and Energy+, entered into a Merger Participation Agreement. An application seeking OEB approval of the amalgamation and related transactions was filed on November 1, 2021.

Assessing the Application

The OEB will not approve an application for utility consolidation unless it is satisfied that the proposed transaction will have a positive or neutral effect on the attainment of the OEB's objectives under the *Ontario Energy Board Act, 1998* (OEB Act). The OEB refers to this as the “no harm” test.

The Ontario electricity sector has several dozen electricity distributors ranging in size from just over one thousand customers to well over one million customers. To encourage consolidations, the OEB introduced policies on rate-making that provide consolidating distributors with an opportunity to offset transaction costs with savings achieved as a result.³ Consolidating distributors are allowed to defer rebasing (setting new base rates) for up to ten years from the closing of the transaction.⁴ Brantford Power and Energy+ selected to defer rate rebasing for ten years following completion of the amalgamation transaction.

Decision

The OEB applied the “no harm” test in assessing the application and concluded that the proposed transaction meets that test.

¹ Brantford Power is a wholly-owned subsidiary of Brantford Energy Corporation (BEC). BEC is owned by the Corporation of the City of Brantford.

² Energy+ is a wholly-owned subsidiary of Cambridge and North Dumfries Energy Plus Inc. (Energy Plus). Energy Plus is owned by the Corporation of the City of Cambridge and the Corporation of the Township of North Dumfries.

³ [Handbook to Electricity Distributor and Transmitter Consolidations](#)

⁴ EB-2014-0138, [Report of the Board on Rate-Making Associated with Distributor Consolidation](#), March 26, 2015

The OEB found that the utilities put forward detailed information which incorporates reasonable assumptions and shows that the transaction satisfies the OEB's "no harm" test.

In applying the "no harm" test, the OEB assessed the cumulative effect of the transaction in attaining the following objectives set out in the OEB Act: price, economic efficiency, cost effectiveness, reliability and quality of electricity service, and financial viability. The key aspects of the OEB's findings are outlined in the table below.

Issue	Application/Applicant Submissions	OEB Findings
<p>4.1.1</p> <p>Price, Economic Efficiency and Cost Effectiveness</p> <p><i>(Decision, pp. 7-8)</i></p>	<ul style="list-style-type: none"> Total operating, maintenance and administrative (OM&A) savings of \$30.5 million over the ten-year deferred rebasing period (Years 1-10), as a result of merger-related efficiency gains. Expected lower costs for customers by approximately 2.4% through the rebasing deferral period, and by 8.3% following the transfer of the merger benefits to customers in year 11. 	<p>The OEB is satisfied that the amalgamation will not result in the customers of Brantford Hydro or Energy+ experiencing negative price implications.</p> <p>While it is unnecessary to prove that efficiency gains will result in rates being lower than they otherwise would have been without the merger, the Applicants have provided evidence that additional efficiencies will be achieved with the new company.</p>
<p>4.1.2</p> <p>Reliability and Quality of Electricity Service</p> <p><i>(Decision, pp. 8-9)</i></p>	<ul style="list-style-type: none"> A key objective of the transaction will be to ensure customer service, safety and reliability meets or exceeds existing levels in each of the Brantford Power and Energy+ service areas. As a larger, amalgamated entity, LDC Amalco will have the capacity to modernize and adapt to future changes in Ontario's electricity sector and will have more resources to invest in innovation and new technologies that address the needs of customers. 	<p>The OEB is satisfied that the amalgamated company can reasonably be expected to maintain the service quality and reliability standards currently provided by each of the amalgamating utilities.</p> <p>While the test is "no harm", the OEB expects that the merged company will be able to improve service quality and reliability through the expansion of 24/7 control room support for Brantford Power customers, and the ability to plan and operate the system on a consolidated basis.</p>
<p>4.1.3</p> <p>Financial Viability</p> <p><i>(Decision, pp. 9-10)</i></p>	<ul style="list-style-type: none"> Except for post-closing adjustments, the proposed transaction is a non-cash transaction and as such, there is no adverse effect on the financial viability of the Applicants. The cash transactions expected from post-closing adjustments are not expected to be material. Both Brantford Power and Energy+ currently operate at a level of debt below the OEB's deemed debt structure. Brantford Power will convert its promissory note to the City of Brantford into equity. The Applicants are in the process of establishing a \$70M line of credit with a financial institution to provide LDC Amalco with short-term liquidity access, if necessary. 	<p>The OEB accepts the assurance of the Applicants that there will be no adverse effect on the financial viability of either the Applicants or the amalgamated company upon completion of the amalgamation.</p> <p>The new company has forecast the debt to capital ratio for LDC Amalco to be 54%, which is lower than the 60% debt level deemed by the OEB for rate-setting. This will provide the merged company flexibility to manage extraordinary events.</p>

Also of note were the OEB's findings related to the following.

4.2.1 Earnings Sharing Mechanism (ESM) (Decision, pp. 10-12)

Consolidating utilities that propose to defer rebasing beyond a five-year period are required to implement an ESM for the period beyond five years. Under this ESM, excess earnings above 300 basis points of the consolidated entity's annual return on equity (ROE) are shared 50:50 with customers.

The OEB approved the Applicants' proposal for:

- An ESM to be implemented for years six through ten of the deferred rebasing period following the amalgamation.
- Excess earnings will be shared with customers annually. Adjustments to revenue and expenses will be reviewed at the time of disposition of shared savings.

The approved ROE on which to base the ESM is 8.86%.

About the OEB

The OEB is the independent regulator of Ontario's electricity and natural gas sectors. It protects the interests of consumers and supports the collective advancement of the people of Ontario. Its goal is to deliver public value through prudent regulation and independent adjudicative decision-making which contributes to Ontario's economic, social and environmental development.

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Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decisions and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for the decision; those may be found in the Decision and Order issued today, which is the official OEB document.