

OEB approves the acquisition of Chapleau Public Utilities by Hydro One Networks Inc.

Today, the Ontario Energy Board (OEB) issued its [Decision and Order](#) on a joint application filed November 20, 2023 by Hydro One Networks Inc. (Hydro One) and Chapleau Public Utilities Corporation (Chapleau PUC) (collectively, the Applicants) that sought approval for Hydro One to acquire the distribution system assets of Chapleau Public Utilities (the Transaction).

The OEB found that the proposed Transaction met the 'no harm' test regarding its impact on price, reliability and quality of electricity service to customers. As well, the Transaction is consistent and in keeping with the objectives pertaining to electricity as set out in the [Ontario Energy Board Act, 1998](#) (the Act).¹

The OEB found the acquisition to be in the public interest and approved the application.

In its Decision, the OEB noted:

- the vast resources and expertise Hydro One can bring to Chapleau PUC and its customers
- that Hydro One has a long record of accommodating small and rural utilities into their operations and brings valued rural operating experience
- that Hydro One is familiar with Chapleau PUC and has been handling their operations, with success since May 2023²

The OEB found that Hydro One's ability to access capital will help ensure the current backlog in infrastructure needs is addressed. In addition, Hydro One will also be able to readily address capital for future infrastructure needs associated with an expected increase in demand for electricity for a variety of new applications for consumer and local industry needs.

Background

Hydro One is a corporation incorporated pursuant to the Ontario *Business Corporations Act* and a licensed distributor regulated by the OEB, serving approximately 1.5M customers including Indigenous communities and businesses on the outskirts of the Township of Chapleau.

The Township of Chapleau is the sole shareholder of Chapleau PUC. Chapleau PUC's distribution system serves approximately 1,200 mostly residential and commercial customers. Its distribution service area is bounded by Panet, the Town of Cochrane, and the Township of Chapleau, and is an embedded utility within Hydro One's service area.

On May 9, 2023, Chapleau PUC advised the OEB that it had been experiencing difficulty managing day-to-day operations of the utility and would not be able to continue providing reliable electricity distribution service due to financial and staffing issues.

¹ Pursuant to section 86(1)(a) of the OEB Act

² EB-2023-0144

In response, the OEB issued an order on May 23, 2023³, requiring Chapleau PUC to surrender possession and control of the electricity distribution system in the Township of Chapleau to Hydro One and appointed Hydro One as an interim licensee for the Chapleau PUC service area for a period of six months.

On November 6, 2023, Chapleau PUC and Hydro One entered into an Agreement of Purchase and Sale (the Agreement) for the business of distributing electricity to consumers within the Township of Chapleau. The purchase price is \$2.3M, subject to adjustments as specified in the Agreement.

Assessing the Application

The OEB will not approve an application for utility consolidation (which includes the sale of the distribution system, as in the current case) unless it is satisfied that the proposed transaction meets its “no harm” test.

The Ontario electricity sector has several dozen electricity distributors ranging in size from just over 1,000 customers to well over one million . 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.⁴ Consolidating distributors are allowed to defer setting new base rates for up to 10 years from the closing of the transaction.⁵

Decision

The key aspects of the OEB’s findings are outlined in the table below.

Issue	Application/Applicant Submissions	OEB Findings
<p>Price, Economic Efficiency and Cost Effectiveness <i>(Section 4.1.1, pp. 10-12)</i></p>	<ul style="list-style-type: none"> For the forecast period (2024-2027) Hydro One expects total operating, maintenance and administrative savings of \$400k annually. These savings are primarily generated through cost reductions in administrative and back-office functions such as finance, regulatory, legal, information technology and board of directors. Hydro One anticipated spending more on capital expenditures that are necessary to sustain reliable service and meet regulatory requirements and include the replacement of submarine cable and PCB-contaminated transformers. After these measures are completed, Hydro One expects capital costs to level at a steady state of approximately \$209k per year. 	<p>The OEB found that the Applicants have demonstrated that the Transaction will generate economic efficiencies and will likely deliver operating cost savings through reduced administrative functions.</p> <p>The OEB is of the view that in the next rebasing application following the Transaction, Hydro One should demonstrate how this Transaction was of benefit to the customers in this service area.</p>
<p>Reliability and Quality of Electricity Service <i>(Section 4.1.2, pp. 12-14)</i></p>	<ul style="list-style-type: none"> The forecasted capital plan addresses deficiencies and assets that are in poor condition through line maintenance and refurbishment, wood pole replacement, station investment, the replacement of submarine feeder, and the replacement of oil-filled equipment contaminated with PCBs. Expected customer service benefits for Chapleau PUC customers include access to: 	<p>The OEB was satisfied that the Transaction can reasonably expect to have the current service quality and reliability standards maintained, and likely improved given Hydro One’s ability to plan and operate a rural system with greater resources. While the test is ‘no harm’, the OEB expects the Transaction will also allow opportunity for major capital</p>

³ EB-2023-0144

⁴ [Handbook to Electricity Distributor and Transmitter Consolidations](#)

⁵ EB-2014-0138, [Report of the Board on Rate-Making Associated with Distributor Consolidation](#), March 26, 2015

Issue	Application/Applicant Submissions	OEB Findings
	<ul style="list-style-type: none"> ○ Hydro One’s contact centres and interactive voice response system ○ Online outage system details, including restoration times ○ Initiatives to help customers manage their bills ○ New services such as Green Button and Ultra-low Overnight rates. 	<p>projects to more immediately be addressed, and in keeping with a recommendation from the Vulnerable Energy Consumers Coalition, would expect Hydro One to catalogue any such capital projects taking place in the Chapleau PUC service area for presentation in a future rebasing application.</p>
<p>Financial Viability <i>(Section 4.1.3, pp. 14-15)</i></p>	<ul style="list-style-type: none"> ● The premium paid over the assets’ book value will not have a material impact on Hydro One’s financial viability nor will it be included in the revenue requirement and hence will not be funded by ratepayers. The transaction price accounts for less than 0.1% of Hydro One’s distribution net fixed assets. ● Total incremental costs will be financed through the anticipated productivity gains associated with the Transaction. Hydro One noted that incremental transaction costs are estimated to be \$18k and incremental integration costs are expected to be \$350k. Integration costs include the up-front costs of integrating Chapleau PUC customers into Hydro One’s customer and outage management system. Hydro One does not expect to incur any ongoing transition costs. 	<p>The OEB found that the Transaction will have no adverse effect on the financial viability of Hydro One, given the transaction price accounts for less than 0.1% of Hydro One’s distribution net fixed assets.</p> <p>The OEB noted that the financial resources of Hydro One will provide significant flexibility to manage any possible extraordinary events in the Chapleau PUC service area.</p>
<p>Customer Integration Proposal <i>(Section 4.2, pp. 15-18)</i></p>	<ul style="list-style-type: none"> ● Hydro One requested that the OEB approve the transition of Chapleau PUC’s customers to Hydro One’s existing OEB approved distribution rates, including specific charges, at the time of integration, and noted that deferred rebasing would not be a viable option given the small number of customers and the unique circumstances challenging the current operations of the utility. Establishing a separate rate class for such a small group would be cost prohibitive and could take several years to recuperate the costs. ● Post-integration, former Chapleau PUC residential customers will have total bill impacts of less than 10% due to the applicable Distribution Rate Protection (DRP) credit. ● For all non-residential customers, Hydro One proposed to freeze distribution charges at the proposed Chapleau PUC May 1, 2024 rates for the period between September 1 and December 31, 2024. As a result of the frozen distribution charges for non-residential customers, the total bill impact for all will be below 10%. ● Hydro One’s applicable distribution charges will be in effect for all former Chapleau PUC customers starting January 1, 2025. Following this transition to Hydro One’s charges, bill impacts will remain under 10% for both residential (because of DRP) 	<p>The OEB approved Hydro One’s request to transition Chapleau PUC customers to Hydro One’s existing OEB-approved distribution rates, including specific charges, at the time of integration.</p> <p>The OEB accepted that deferred rebasing is not a viable option for Hydro One given the small number of customers of Chapleau PUC and that establishing a separate rate class for such a small group of customers in Hydro One’s billing systems would be a cost prohibitive exercise.</p> <p>The recoverability of the tracked costs arising from bill impact mitigation shall be determined at the time of Hydro One’s next rebasing.</p>

Issue	Application/Applicant Submissions	OEB Findings
	<p>and non-residential customers (as a result of Hydro One's bill impact mitigation proposal).</p> <ul style="list-style-type: none"> Hydro One's existing rate riders in its current Tariff of Rates and Charges (i.e., those effective until December 31, 2025) will not be applicable to former Chapleau PUC customers. 	

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.

Contact Us

Media Inquiries

Phone: 416-544-5171
 Email: oebmedia@oeb.ca

Consumer Inquiries

416-314-2455/1-877-632-272

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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.