

## Consolidation coming to electricity distribution sector

January 20, 2016

QP Briefing

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Ontario is bracing for a round of consolidation in the province's electricity distribution sector this year, starting with the sale of Hydro One Brampton to a group of municipally-owned utilities.

"That alone is a major development," said Ontario Energy Association chairman **David McFadden** in an interview with *QP Briefing*. "But my understanding is that other discussions are going on among other utilities as well."

The Liberal government has been trying to sweeten potential deals among local electricity distribution companies by bringing in some timely tax breaks and rejiggering the regulatory process. The Ontario Energy Board, the provincial overseer of the electricity and natural gas sectors, has also put out [a new primer](#) on the approval process for mergers and acquisitions.

The largest consolidation coming is the merger of Enersource, Horizon Utilities and PowerStream (all of which are members of the [OEA](#), an advocacy group). The consortium has also committed to purchasing Hydro One Brampton from the province, a transaction that would create the second-largest distribution company in Ontario.

If the deal goes through, the province will be paid \$607 million for Hydro One Brampton. The net proceeds\* from the sale will be funneled into the Trillium Trust, an account the government will use to fund infrastructure projects.

"That is the biggest single consolidation that has happened in Ontario," McFadden said.

The Hydro One Brampton deal could also be an icebreaker for Ontario's balkanized electricity distribution system, which is made up of about 70 different companies.

"I think this is going to be a big incentive for a lot of other municipal governments and the LDCs to be saying: 'Gee, if they're doing it, maybe we should be doing it,' " said McFadden.

The Liberal government has opted against forced marriages in the electricity sector, and is instead offering a new tax incentive for distribution companies to unite. The transfer tax on electricity assets is being reduced to 22 per cent from 33 per cent, effective Jan. 1. The rate reduction is time-sensitive, and will expire at the end of 2018.

Smaller municipally-owned electricity companies - those with fewer than 30,000 customers - will be completely exempt from the transfer tax over that same period.

McFadden said the local distribution companies have other good reasons to merge, including competitive pressures from small-scale electricity generators and microgrids.

The utilities are also "starved" for capital, McFadden said, and are carrying a lot of debt. The LDCs will soon have to start paying to replace their aging assets as well. [According to Ontario's auditor general](#), Hydro One, the province's largest electricity distribution company, is due to replace 202,000 wood poles – at a cost of \$1.76 billion.

In the meantime, the Hydro One Brampton deal has received approval from all the municipal stakeholders involved. The consortium must now file an application to the Ontario Energy Board.

OEB approval is required for a variety of transactions, including the sale of any electricity assets that serve the public, or even if someone buys a voting stake in an LDC. The OEB published a handbook on Tuesday that outlines its role in approving (or not approving) mergers and acquisitions by electricity distribution and transmission companies.

"The OEB recognizes that there is a growing interest in and support for consolidation," the primer states. "The OEB has a statutory obligation to review and approve consolidation transactions where they are in the public interest. In discharging its mandate, the OEB is committed to reducing regulatory barriers to consolidation."

Part of the OEB's review process is applying a "no harm test" that judges whether a proposed transaction would protect the consumer interest and promote cost effectiveness in the electricity system, among other criteria.

The Liberal government also tweaked the OEB hearing process when [Bill 112](#), the *Strengthening Consumer Protection and Electricity System Oversight Act*, became law in December. Whereas any ratepayer or organization can currently apply to intervene in an OEB hearing, Bill 112 allows the OEB set up a designated process for voicing consumer concerns.

*\*This sentence was changed from "proceeds" to "net proceeds."*

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