

Hon. Bill Morneau  
Ministry of Finance  
90 Elgin St.  
Ottawa, ON  
K1A 0G5

February 2016

Dear Minister Morneau,

**Re: 2016 Federal Budget Consultation**

I am writing to you on behalf of the Ontario Energy Association, an association representing Ontario's energy leaders that span the full diversity of the energy industry. The OEA aspires to be the most credible and trusted voice of the energy sector. We earn our reputation by being an integral and influential part of energy policy development and decision making in Ontario.

My comments here are meant to provide you with information on a key priority for the OEA and its members as you prepare Canada's 2016 budget. As you may know, efforts have been underway for some time in Ontario to encourage consolidation of Ontario's electric utilities (also known as local distribution companies (LDCs)). The OEA believes that this process will create new investment opportunities for energy companies, generate savings for Ontario families and businesses, and continue repositioning the energy sector to support economic growth.

In recent years Ontario's electricity LDCs have been given new obligations in addition to their core distribution business functions (e.g. delivering conservation programs) and are simultaneously facing increasing capital demands owing to population growth, densification of urban centres, and ageing infrastructure. **However, municipally-owned LDCs in Ontario have limited financial resources with which to invest in critical infrastructure and thus many would benefit from an infusion of private capital or from voluntary mergers with private entities.**

Unfortunately, certain tax policy instruments at both the federal and provincial levels continue to deter Ontario LDCs from seeking such arrangements with private-sector partners. The Income Tax Act (Canada) contains provisions that exempt LDCs that are at least 90% owned by a province or municipality from paying federal income tax, while parallel provincial laws direct such LDCs to instead make equivalent payments in lieu of taxes to the Ontario Electricity Financial Corporation. However, should an LDC cease being exempt from paying federal income tax (for example, because a private corporation acquires more than 10% of the LDC) Ontario law levies both a departure



tax and a transfer tax on the transaction, **in part to make up for the revenue that would no longer flow to the Ontario Electricity Financial Corporation.** These taxes have effectively prevented the private sector from investing in Ontario's LDCs, and so the OEA is asking for the federal government's assistance in addressing this problem.

Until its repeal in 1999, the federal Public Utilities Income Tax Transfer Act (PUITTA) put privately-owned and publicly owned utilities on the same footing by mandating that the federal government remit to the provinces 95% of the federal corporate income tax paid by privately-held utilities. In other words, **the Government of Canada agreed to forego collection of nearly all income taxes for a period of time from provincially- or municipally-owned public utilities which changed hands, thereby making provinces indifferent to whether utilities were privately or publicly-owned.** The OEA strongly supports the renewal of such an arrangement, to be applied on a going-forward basis to new utility privatization transactions. The OEA has urged the Government of Ontario to seek this type of accommodation from the federal government, and also makes this request of the federal government directly.

**Cooperation between the Government of Canada and the Government of Ontario is crucial to the successful management of the tax impediment to consolidation of the Ontario distribution sector.** The OEA is encouraged by the improved federal-Ontario relations following your government's recent election, and we hope that this will make federal-provincial cooperation on this file more likely.

The OEA looks forward to continuing the dialogue with your government on how broadening the ownership of Ontario LDCs can help create new investment opportunities in Ontario, generate savings for Ontario families and businesses, and continue repositioning the energy sector to support economic growth. If you have questions regarding any of the matters discussed here please contact me or the OEA's Vice President of Government Relations and Communications, Tina Arvanitis at 647.920.3269 or [tina@energyontario.ca](mailto:tina@energyontario.ca).

Let's unravel the most complex energy challenges, together.

Best regards,

A handwritten signature in black ink that reads "Bob Huggard". The signature is written in a cursive, slightly stylized font.

Bob Huggard  
President & CEO  
Ontario Energy Association