

March 17, 2022

The Ontario Energy Board approves North Bay Hydro and Espanola Hydro merger request: new utility will serve over 27,000 customers

On March 17, 2022, the Ontario Energy Board (OEB) approved an application from Espanola Regional Hydro Distribution Corporation (Espanola Hydro) and North Bay Hydro Distribution Ltd. (North Bay Hydro) to amalgamate into a single electricity distribution company. The new utility will operate as North Bay Hydro Distribution Ltd. (New NBH).

In an earlier Decision dated August 22, 2019, the OEB approved the first phase of the amalgamation under which Espanola Hydro came under common ownership with North Bay Hydro.¹

This OEB Decision relates to the second phase of the amalgamation whereby the two utilities, which have continued to operate as separate companies, will be amalgamated into New NBH (Phase 2 Transaction).

Background

Espanola Hydro is a licenced electricity distribution company that serves approximately 3,328 customers in the Town of Espanola and the Township of Sables-Spanish Rivers (specifically the Towns of Espanola, Webbwood and Massey).

North Bay Hydro is a licenced electricity distribution company that provides service to approximately 24,290 mostly residential and commercial customers in the City of North Bay.

The application for approval of the Phase 2 Transaction to amalgamate Espanola Hydro and North Bay Hydro and related approvals was filed on November 24, 2021. After completion of the amalgamation, New NBH will serve over 27,000 customers.

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 OEB put in place policies on rate-making that provide consolidating distributors with an opportunity to offset transaction costs with savings achieved as a result of the consolidation.² Consolidating distributors are allowed to defer rebasing (setting new base rates) for up to ten years from the closing of the transaction.³ Espanola Hydro and North Bay Hydro selected to defer rate rebasing for five years following completion of the Phase 2 Transaction.

¹ [EB-2019-0015](#)

² [Handbook to Electricity Distributor and Transmitter Consolidations](#)

³ EB-2014-0138, [Report of the Board on Rate-Making Associated with Distributor Consolidation](#), March 26, 2015

Decision

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

In applying the “no harm” test, the OEB assessed the cumulative effect of the Phase 2 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 in the Decision 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. 7-10)</i></p> | <ul style="list-style-type: none"> The incremental costs associated with the Phase 2 Transaction are estimated at \$300K, with \$215K being for transition costs and \$85K for transaction costs. <p>These costs will not be recovered from ratepayers but will be recovered by New NBH and its shareholders from the expected cost savings resulting from the amalgamation.</p> <ul style="list-style-type: none"> 30% of these expected synergies would be a direct result of the proposed amalgamation, primarily in terms of savings of operating, maintenance and administration (OM&A) costs, although savings in capital costs are expected in the longer term. Forecasted synergies and savings are expected to amount to \$657K in 2023 and increase to \$686K by 2026. The increased staffing at North Bay Hydro and associated costs, which were considered and approved by the OEB in North Bay Hydro’s last cost of service proceeding, are unrelated to the Phase 2 Transaction. The increased staffing was needed for operational purposes, regardless of whether or not the amalgamation occurs. | <p>The OEB found that the cost to customers of North Bay Hydro or Espanola Hydro will be no higher as a result of the amalgamation. The OEB accepted the evidence that the amalgamation is likely to result in efficiency gains by the amalgamated utility that should produce lower rates than would have been charged without the merger.</p> <p>The OEB noted that staffing costs were addressed and approved in North Bay Hydro’s last cost of service proceeding and were not an issue for consideration in this application for approval of the Phase 2 Transaction.</p> |
| <p>4.1.2</p> <p>Reliability and Quality of Electricity Service</p> <p><i>(Decision, pp. 10-11)</i></p> | <ul style="list-style-type: none"> Similarities in the nature of the service territories in terms of weather and terrain, and similar mixes of the customers in the two areas, should ease the task of operating as one merged utility. | <p>The OEB was satisfied that New NBH will maintain the service quality and reliability standards currently provided by each of the amalgamating utilities.</p> <p>The OEB also expects that New NBH will be able to improve service quality and</p> |

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| | <ul style="list-style-type: none"> The operations centre in Espanola will remain functional to provide service to customers in the Espanola Hydro service territory. North Bay Hydro plans to extend its Supervisory Control and Data Acquisition (SCADA) system to the Espanola Hydro service territory. | <p>reliability for both service territories through the planned continuance of operations centre for Espanola Hydro and extension of North Bay Hydro's SCADA system to the Espanola Hydro service territory.</p> |
| <p>4.1.3 Financial Viability <i>(Decision, pp. 11-13)</i></p> | <ul style="list-style-type: none"> Since North Bay Hydro and Espanola Hydro are both subsidiary corporations of the same holding company, the amalgamation is simpler under the <i>Ontario Business Corporations Act</i>. Further, as a result of the existing common ownership, there is <ul style="list-style-type: none"> no change in control that would result from the proposed amalgamation no purchase price, or associated premium, involved in the Phase 2 Transaction | <p>The OEB found that there will be no adverse effects on the financial viability of either North Bay Hydro, Espanola Hydro or the amalgamated company, New NBH, upon completion of the Phase 2 Transaction.</p> <p>The OEB did not accept the argument put forward by an intervenor that the financing of the debt for the purchase of Espanola Hydro would produce additional cost for North Bay Hydro customers that would be greater than any efficiency gains from the merger.</p> |

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

4.4.1 Earnings Sharing Mechanism (ESM) (Decision, pp. 16-17)

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.

While North Bay Hydro and Espanola Hydro have elected a five-year deferred rebasing period, the start of the ESM is determined from when the Phase 1 Transaction was completed on October 1, 2019. The OEB approved the proposal for:

- An ESM to be implemented starting October 1, 2024, corresponding with the start of the sixth year following the completion of the Phase 1 Transaction in 2019. The ESM will continue until the effective date of rebased distribution rates for New NBH as a result of a cost of service application proposed for 2027.
- Excess earnings will be shared with customers annually. Adjustments to revenue and expenses will be reviewed at the time of disposition of shared savings.

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.