Ontario

BACKGROUNDER

**Ministry of Energy**

# Local Distribution Company Consolidation

April 16, 2015

To catalyze the voluntary consolidation of Local Distribution Companies (LDCs) in Ontario, the province intends to merge Hydro One Brampton Networks Inc. with, Enersource Corporation, Horizon Utilities Corporation and PowerStream Holdings Inc. The province also proposes to provide time-limited relief on taxes pertaining to electricity asset transfers for LDCs, including transfers to the private sector.

**LDC Panel Report (2012)**

The Ontario Distribution Sector Review Panel recommended that LDCs merge to create eight to 12 regional LDCs through mandatory consolidations. The panel suggested that this would result in a net benefit of roughly $1.2 billion over ten years, in present value terms.

After the release of the panel report, the Minister of Energy announced the government would not mandate the consolidation of LDCs, but challenged the sector to find efficiencies through voluntary consolidation and innovative partnerships on commercial basis. Despite the findings of the panel and the challenge issued by the Minister, recent consolidation activity has been limited.

**Hydro One Brampton Merger**

Hydro One Brampton, with Enersource, PowerStream, and Horizon Utilities, have indicated to the government their interest in a merger and the government has agreed. The proposed Hydro One Brampton transaction represents a major step forward in promoting LDC consolidation in Ontario, which will have significant benefits to ratepayers over the long term.

**Supporting LDC Consolidation**

To promote consolidation of the electricity distribution sector for the benefit of ratepayers, the province is proposing time-limited relief on taxes pertaining to electricity asset transfers for LDCs, including transfers to the private sector, for the period beginning January 1, 2016 and ending December 31, 2018, by:

- Reducing the transfer tax rate from 33 to 22 per cent;
- Exempting LDCs with fewer than 30,000 customers from the transfer tax; and
- Exempting from payments-in-lieu of tax (PILs) any capital gains that arise when an LDC ceases to be exempt from federal and Ontario income tax and is deemed to dispose of all of its assets for fair market value.

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