



Newmarket Hydro Ltd

Presentation to Ontario Energy Board

RP-2004-0020

Review of Further Efficiencies in the
Electricity Distribution Sector

- Assumptions based on one-dimensional information require validation
 - Discussion paper's focus is on further efficiencies
 - » No evidence of any progress to date
 - » Paper focuses on number of customers served
 - Are we to evolve into a few inefficient distributors?
 - » If customers served is the efficiency measure, Greece is the best, Luxembourg the worst
 - » Jurisdictions that have pursued efficiency in electricity distribution must also be very technically innovative
 - » Study by the International Telecommunications Union finds internet access best in Sweden, worst in Greece



- Initiatives based on assumptions drawn from one-dimensional information lack the dynamics of a comprehensive set of metrics to fully understand their ultimate results.
- High risk of failing to achieve positive results



- With no effective metrics, perceived gains may be losses
 - ITU study noted focused on development of metrics to define an internet ‘digital access index’
 - Section 3.1 of the discussion paper notes many factors to be considered in the efficiency equation
 - Development of metrics should be the focus of this proceeding
 - Rather than seeing a furthering of efficiency in the electricity distribution sector, we are concerned that it is declining.



- A decline in efficiency?
 - MEA Reciprocal Insurance Exchange costs for claims and claims adjusting increased 52.7% in 2003
 - » Includes largest LDCs in Ontario
 - » No note of a significant event
 - » Relationship between efficiency of a business and its insurance claims record
 - EUSA magazine article stating serious incidents increased at amalgamated LDCs



- You can only improve what you can measure
 - Begin the efficiency exercise by establishing a set of meaningful metrics and applying them
 - Different distributors will exhibit different strengths
 - Strengths can be analyzed and incentives for all to embrace them applied
 - A rational and proven process to achieve ‘best of breed’



- Valid strategy and metrics yield valid results
 - At onset of restructuring, NHL formulated a business plan
 - Focus on core business of electricity distribution
 - Metrics of controllable costs per customer and safety
 - SWOT analysis



- NHLs results to date
 - Controllable costs of \$168 in 1999 in lowest quartile of the then Municipal Electric Utilities
 - Rose by only 9% to \$179 in 2002
 - Still in lowest quartile of new LDCs
 - Receiving EUSA President's Award
 - 3.5 years required to accumulate required man-hours



- A former efficient MEU was transitioned into an efficient LDC efficiently
 - No consolidation
 - Rational strategy with at least minimal metrics key to success
 - Proven methodology that leads to a desired result.
- New approaches taken to the electricity distribution business pertinent to points in discussion paper



- Scale and operational efficiency difficult to distinguish
 - Participation in Upper Canada Energy Alliance providing NHL with wholesale settlement service at 50% of market pricing
 - Service bureau eliminates need for staff, contingency plans and training
 - Not a scale efficiency
 - 10 LDC Presidents, through an examination of the settlement process and a SWOT analysis determined most effective deployment
 - Efficiency is operational



- Business partners represent a wealth of efficiency opportunities
 - NHL has entered into an ASP agreement for its customer information system
 - Real contractual guarantees of a compliant and tested system for Ontario's market
 - Less cost than owning and maintaining a system
 - Community outreach program to reduce utility theft and increase safety awareness launched through an agency
 - Interactive voice response system launched that handled 70% of customer calls in initial month of operation



- ASP, IVR, outreach program successes not NHLs
- Due to business partners that measure their success by ours
- Actively investigating the merits of distributed generation with an Ontario generator and other LDCs
 - Details were given by Northland Power in an earlier presentation
 - Expect results to mirror ones we have enjoyed with our other business partners



- Good contractual relationships with competent business partners a real source of operational and scale efficiencies
- Need to know the willingness of all LDCs to pursue them



- Section 3 of discussion paper is a good and fairly balanced discussion of concepts to consider in the development of a regulatory policy and cohesive metrics to attain balanced efficiency
 - Focus on scale in sections 4 and 6 inconsistent with paper's purpose and section 3
 - As demonstrated by NHLs performance, only through a plan with metrics can improvement be achieved.

- SWOT analysis (con't)
 - Threats - distributors have obligation to sell under Section 29 of ECA that is absent in other sectors such as gas.
 - power procurement risk greatly inflated when procuring entity under a legislated obligation to sell
 - mitigation of procurement risk will result in a default price that is unacceptable to consumers



- If LSEs are to be implemented, LDCs should be the option of last resort
- If default supply changes to LSEs and/or the IMO implements a day-ahead market, LDCs will need to be granted relief from Section 29 of the ECA to maintain their current commodity risk profile.



- Planning in the electricity distribution sector
 - Characterized in discussion paper as seams issues
 - Really three root issues. Two operational and one structural
 - Operational:
 - Sections 6.5.3 and 6.5.4 of the DSC mandating an end to long term load transfers
 - Distributors' responses to requests for access contained in their Offers to Connect
 - Structural:
 - Legislatively forced municipal amalgamations that ignore LDC ownership



- DSC Section 6.5
 - Distributors always collaborated on system planning
 - Efficient plans to supply boundary growth always made
 - Most economic and reliable way to supply new customer was identified and implemented independent of asset ownership
 - New customer connected regardless of service area



- Long Term Load Transfer (LTLT)
 - New customer in one distributor's service area, but supplied by another for efficiency and reliability:
 - Customer could remain with incumbent distributor
 - Reimbursement mechanism (LTLT) established to compensate supplying distributor for costs incurred.
 - A simple, effective and efficient process



- Effect of DSC Section 6.5
 - The incumbent and serving distributor must be one and the same
 - A planning exercise that worked has been transformed into a service area issue
- Return to a proven and operationally efficient method of supplying boundary growth is respectfully suggested



- Access through Offers to Connect
 - Suspect NHL is unique
 - Filed for a service area amendment
 - Not boundary growth
 - No desire to compete for customers in our strategic plan
 - Responding to a formal request from a customer for connection in a community outside our service area
 - NHL Offers to Connect
 - Fair and transparent
 - Board staff using as example for others
 - Customers value them as demonstrated by formal connection request



- Offers to Connect are an operational issue as opposed to structural
 - NHL informally approached by other customers
 - In all cases, incumbent distributor at least 3 times our customer count
 - We conclude some distributors are unresponsive to customer access issues
- Diluting customer access issues using scale does nothing to resolve them



- Legislated municipal amalgamations
 - Examples Chatham-Kent, Greater Sudbury
 - Legislative redrawing of municipal boundaries
 - Merging LDCs without regard to service areas
 - Service area amendment filing only formal process to explore the benefits of rationalizing services in the new municipality
 - Issue arose through a legislated change in municipal structure
 - Weakness in planning the legislation ‘handed off’ to electricity distribution sector to address

- Municipalities amalgamated through legislation are a perfect opportunity to explore the discussion paper’s statement on page 10 “in areas where operational contiguity generates efficiency gains, distributors would be able to restructure their operations so as to exploit the opportunities”



- We take no position on distribution sector consolidation
 - Lacking a validated policy with metrics, it will have to be examined on a case-by-case basis
 - We simply want to remind Stakeholders and the Board of a proven formula for success – plan, do, review.
 - NHL wants Ontario to have an electricity distribution jurisdiction that can prove it's the best rather than simply looking good.