

Review of Further Efficiencies in the Electricity Distribution Sector

Presentation to the
LDC Efficiency Consultation

by

The Ontario Energy Association
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Introduction

- This presentation addresses the OEB Staff's Discussion Paper in the context of principles that guide the OEA in its advocacy.
- The OEA is an organization with a diverse membership representing a broad cross section of the electricity and natural gas sectors, including distribution utilities.

We support:

- The removal of barriers to further efficiencies in the electricity distribution sector.
- Government policies to consolidate the sector.
- Focus on cost, customer value and choice, balanced with the need for recognition of shareholder value.

Scope for further efficiencies

- We agree that efficiencies may be defined as operational, controllable structural, and uncontrollable structural, but there is overlap.
- In some jurisdictions mandatory consolidation as the first stage allowed new larger LDCs to voluntarily pursue further efficiencies.
- In Ontario, LDC consolidation might help the OEB design and implement, in consultation with stakeholders, an effective PBR regime and thus drive efficiencies.

Government policy

- To drive efficiencies, Government policy has encouraged sector consolidation.
- The Municipal Transfer Tax exemption sent an important pro-consolidation signal to the sector.
- The OEB staff paper suggests several reasons why sector consolidation has stalled more recently despite a further tax exemption period.
- The Staff paper notes that today approximately 42 distributors have fewer than 10,000 customers.

Focus on cost and value

- We agree that efficiencies must take into account costs and the impact on customer service and choice.
- The large natural gas distribution utilities have implemented efficiencies while maintaining high levels of customer satisfaction.
- Veridian is one example of successful consolidation in the electricity distribution sector.

Our Key Message

- Consolidation for economies of scale would more quickly drive controllable structural efficiencies.
- Larger sized utilities would be well placed to pursue other efficiencies on a commercial basis.
- Predictable, fair and streamlined regulation, including incentive based PBR that recognizes shareholder value, is the other piece of the puzzle.
- There are unique aspects of natural gas vs. electricity distribution operations, structure and ownership that must be taken fully into account in consultations to avoid forced symmetry that is unwise, unnecessary and counter productive.

Next Steps

- Electric LDC industry consolidation should be part of the sustainable energy vision for Ontario, to be articulated by the Minister.
- Within this policy framework the OEB should work with stakeholders to ensure regulation that encourages further efficiencies while preserving and enhancing customer value/service.
- The power cost implications of the demand/supply gap identified by the ECSTF suggest that greater attention should be paid to all components of the electricity customer bill, including distribution costs.