ATIKOKAN HYDRO INC.

117 Gorrie Street, Box 1480
Atikokan, Ontario P0T 1C0

Telephone (807)597-6600
Fax (807)597-6988
e-mail wilf.thorburn@athydro.com

Paul Pudge
Board Secretary
Ontario Energy Board,
PO Box 2319,
2300 Young Street,
28th Floor,
Toronto, ON
M4P 1E4

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RP 2004-0020

Dear Paul Pudge,

I would like to thank the Ontario Energy Board for the opportunity to participate in RP 2004-0020.

Please accept this brief group of comments as an opening dialogue regarding efficiencies in LDC distribution and appropriate size.

More detailed information can be gathered and compiled should the results of phase one indicate more attention is warranted.

Issues such as meter compliance, and other Ontario Energy Board initiatives will probably dominate the scene for the next 18 to 24 months.

Sincerely

Wilf Thorburn
CEO / Secretary / Treasurer
Atikokan Hydro Inc.

RP 2004-0020 Review of further efficiencies in the electricity distribution sector.

I appreciate the opportunity to make an initial submission on the review of further efficiencies in the electrical distribution sector. This submission must be considered as a starting point only.

The length of time provided for such an important direction would indicate either the Ontario Energy Board in fact recognizes this is only an opening comment, or the Ontario Energy Board is not interested in LDC input to its direction.

One must start by considering the word "efficiencies". Does it mean the same service for less commodity cost, or does it mean low commodity cost regardless to effect on reliability and service? Could it be interpreted to mean that unless a particular portion of the LDC distribution sector must make a specific return, or be able to be removed? Is the OEB prepared to adjust other codes to ensure such efficiencies [whatever they may be] are achieved?

For reasons of evolvement, Atikokan Hydro Inc. has a sub station with 5 customers on it. Two are seasonal uses, and the other three will never be upset with a five and one half cent per Kwh rate criteria [they are under 750 Kwh per month consumption]. Obviously this facet of the operation will be difficult to ever make money on, or achieve efficiency without simply removing the substation and denying service to those five customers.

This may seem at first glance to be an exaggerated example without merit. Let us examine further who would benefit and who would not by simply removing this expense. When we head towards efficiencies, we must identify or target areas to best give the efficiency, assuming that efficiency is a lower cost operation. The Standard Supply Code would indicate that not only consumers with power before deregulation who had power would continue to have power; it also stated that the power must be reliable. The only commodity an LDC has to lower its bottom line with is labour. This would mean in this example, that unless removing the under utilized distribution portion from our system resulted in fewer paid positions, the overall savings to pass on to customers, or the overall reduction in operating costs may be minimal at best.

It should be noted that in Figure 1 of the discussion paper, the printer used some efficiencies of scale in printing the graphical representation of Ontario. While Hydro One serves the areas not shaded, it would appear that areas not having any service have been omitted. One could ask, why would we be interested in areas not being served? It certainly is a factor when one considers level of service, and proximity to a service centre.

Another factor that is of interest is the minimum number of customers to be able to survive. Should one be able to conclude that an LDC with 51,000 customers in an area that stretches from Sudbury to the Manitoba border and from the US board to the top of

Ontario should be able to operate as efficiently and at the same delivery cost as an LDC with 48,000 customers that occupies 381 square kilometers?

Atikokan Hydro Inc. operates with 1,700 customers in 380 square kilometers. The nearest LDC to combine with would be a smattering of Hydro One clusters [50 to 100 customers each], or Fort Frances [145 km away] or Thunder Bay [200 km away]. For a moment, let us assume that we rationalize with both of the above. It would seem reasonable that Thunder Bay having a ratio of 126 customers per square km would have a lower per customer operating cost than Atikokan Hydro Inc. with 4.5 customers per square kilometer. Again at first cut, this should only be a minor rate increase for the residents and businesses of Thunder Bay, and a major decrease in costs to residents and businesses in Atikokan. Of course, the customer will not have personal access to billing and collecting, but that is not important in large centers, so why should it be important in small communities? Neighboring Hydro One customers are complacent about 24 to 48 hour power outages, and 100 or so customers without power for 48 hours really will not make much of a dent on service quality factors when figured in with 51,000 customers. Is it fair to impose or encourage entities with large numbers of customers [high customer density], to subsidize areas of low customer density?

Another concern would be that the entity owning the high density, thus better service area could attract even further economic development at the expense of the lower density area, just on service alone.

When one contemplates outsourcing billing and collecting, what precisely are the savings? Billing involves someone reading a meter, someone inputting that data, having a computer program compute the data and arrange for a bill print. There is still a physical action [labour cost to gather the data], there is still a physical cost to process the data from read to bill, it just moves the payment for that labour to another source, probably outside the community. These figures are often overstated in favour of efficiency. Again if the billing and collection portion of a customers bill moves from $96.00 per year, to $84.00 per year, does the customer really benefit from the $1.00 per month savings on a $200.00 bill? Most consumers would probably sooner be able to speak to someone they know, should they have a problem than save such a small amount.

While only a couple of scenarios have been considered so far, it would appear that this elusive efficiency may not be merely an academic exercise in areas where shoulder to shoulder Distribution companies actually exist. Could it be that the Ontario Energy Board would sooner have fewer entities to give guidance to?

When contemplating the number of gas or electricity customers necessary to make an efficient operation, would it not make sense to consider the other municipal services at the same time? Would it not make the same sense to encourage municipalities to rationalize? Perhaps 10 municipalities for the Province of Ontario would make more sense from a regulatory perspective than the 800 or so that are rumored to exist today.

While fewer entities to regulate may make more sense, and fewer municipalities may be the answer, we are not there at this point in time. Let us consider other alternatives. The following will certainly not make life at the Ontario Energy Board more active than less.

As opposed to looking at efficiencies within the industry [resulting in fewer entities to be regulated], it may be interesting if we were to consider what a small LDC could lever or do within its geographical if not municipal boundaries.

If the shareholder deemed it appropriate for the LDC to create an affiliate, and abide as closely as possible to the affiliate relationship code, completely in principal, there may be opportunities that would benefit the original owner of the LDC [the residents of a municipality].

A case in point is to have the affiliate work in contracting services and communications opportunities. These are areas where no amount of in depth LDC knowledge would be of any benefit to the affiliate. One must ensure that all services provided to the affiliate are done so at market value, and very concise records must be kept. The above scenario allows an LDC to market its natural skills and create a revenue stream for the shareholder. If the traditional LDC operations can earn a rate of return, then the shareholder wins twice.

From a shareholder perspective, making a huge rate of return may be less important than being able to control its destiny in terms of service [not succumbing to 48 hour outages], and to be able to show that control when putting forth its resume to attract more investment within the community.

Simply put, in Atikokan, residents have cell phones because the affiliate was able to partner with an affiliate from a neighboring LDC, and a municipal telephone company from another Municipality to provide an investment where the Bell Mobility's and Rogers / AT&T conglomerates felt the service area was not dense enough to attract their investment. This is clearly an example of a municipality looking at the opportunities provided by keeping their LDC even though size did not fit the OEB minimum recommended model. This entity will provide a revenue stream for the municipality forever.

A major employer in the woods industry hires the affiliate, who in turn hires Atikokan Hydro Inc. people and equipment to assist in various maintenance functions. Our isolation means the woods industry employer is not paying more in travel time than work time [any other entity offering these skills and equipment would be 3 to 5 hours one way of travel time away. We are 40 minutes].

As long as the distribution code will not allow terminating service to existing customers because they are not a good investment, PBR will not work well with small LDC's. Most small LDC's are more efficient than their larger counterparts. In the early 1990's when LDC's were considered broad public sector, and subject to a social contract, large LDC equivalents found many areas to increase efficiency. The small LDC could cut not further, so had to resort to rotating lay offs.

A comparison to other countries and jurisdictions is a good academic exercise, but I do not believe the chosen comparators have either the low density of most of the geographical area of Ontario or the extreme weather.

You will be hearing further in another venue from Atikokan Hydro Inc. regarding risk with one customer. Load serving entities will not fit well with small LDC's of our size. I am not sure how secure large LDC's like Hamilton feels about the risk mitigation available to LDCs'. We had one customer that was 40% of our load, and they went into receivership. The company had a 25-year perfect payment record, but failed due to resource based export decisions by higher levels of government.

If the LDC is to be the salvation to the government as a load bearing entity, the effect is to artificially force the price of energy higher. Before Bill 210 effectively closed the electricity market, the hue and cry for choice had peaked. The people who wanted to play had done so, and the remaining customers either did not have any interest in the freedom of choice, or did not have credit worthiness to allow them to participate. In the data presented to date on a load bearing entity, if an LDC purchases based on past history, and a client fails, ultimately the over purchase will result in higher rates to all served by the load bearing entity, or the entity goes bankrupt. If the load bearing entity is cautious and does not purchase enough power, the market forces will again be allowed to work. Penalties to the load bearing entity will again either cause bankruptcy or impose delayed volatile pricing. This hardly seems fair to the consumer entering the market after the catch up in volatility occurs. This situation could be made worse by having the LDC in charge of conservation and DSM. A failure in either would tip the balance or cause the LDC to once again either float a volatile price to the consumer or seek protection from the government.

It appears interesting that given last August 14, that the OEB is considering changes and asking for time involved comment when the real crisis is a lack of electrons to distribute. If the panic is because the transfer tax holiday is about to expire, then extend it indefinitely for Municipally owned LDCs. If a municipality is forced to dispose of its LDC in the future, and does not see full value because there was not a tax holiday, the municipality will probably need to make up that difference in other transfer payments from the government.

In conclusion, if the OEB is serious about setting direction and tasks so that only LDCs of greater than 20,000 or 40,000 customers can exist, it will have done a huge disfavor to the Province of Ontario. If the OEB realizes that LDCs can serve their communities well, and choose regulate in a manner that allows the flexibility for LDCs to work as their shareholder sees fit, then Ontario can still prosper.

A model that makes sense in areas where there are no gaps in service will not necessarily make sense for every area of the province. Any ability to earn high rates of return will come from the ratepayer, not some academic study on a proper size or a proper workload for a regulating body. In all likelihood LDC boards and managers will make decisions that will give best rates of return to their shareholders that will be balanced with service to the

customer at a reasonable cost to the customer. If Municipalities are forced to give up their independence and ability to serve and attract new customers, we will have all failed.

The notion of rationalization driven by the regulator will result in a loss of service to many areas as well as further subsidization of sparsely populated areas by denser areas. This will not create a robust economy, or help with supply issues.

As stated in the beginning, my opening example may seem an exaggeration, but I think the analogy fits. Taking something apart because it does not seem to fit will not necessarily result in low cost high level of service. A small LDC may never achieve PBR regulation, but it may result in a successful economy, or avoid further Municipal subsidy by the Government.

If the OEB decides to continue with this direction, and needs more data to support the above points, I would suggest an 18 to 24 month preparation time. If that means extending the taxation holiday, or eliminating the transfer tax completely, then so be it.

Respectfully submitted

Wilf Thorburn
CEO, Atikokan Hydro Inc.