



February 20, 2004

by fax and e-mail - original by courier

Ontario Energy Board
26th Floor/ P.O. Box 2319
2300 Yonge Street
Toronto, Ontario M4P 1E4

Attention: Board Secretary

Subject: RP-2004-0020 - Consultation to Review Further Efficiencies in the Distribution Sector

We welcome the opportunity to participate in the Review of Further Efficiencies in the Electricity Distribution Sector and present our views to the Board.

The time frame within which the Board announced and initiated the process is unusually compressed. This makes it very difficult to provide good recommendations. In fact this process lends no time for good in-depth discussion of any proposals. As history has shown, implementation of restructuring of the electrical market in a hurried fashion only leads to disaster. It is essential that a much better understanding of the structure and nature of the electrical distribution utilities be obtained, and we feel that the time constraints that are placed on this process are too short to allow for all the issues to be brought forward and debated. There needs to be a full debate of all issues, and all sides of the issues need to be heard.

The consultation paper prepared by board staff concentrates on utility size as the only road to gaining efficiencies from electrical utilities. We feel that this is not the case, and that there are other factors. There is no empirical basis to assume that bigger is better, in fact the numbers show that customers pay more for service in many larger utilities. In fact amalgamations of the municipalities of Toronto and Hamilton are active proof that consolidation is costly and complex.

Rather than mandatory mergers, utilities should be benchmarked, and through the process of benchmarking utilities will make the right decision to reduce costs to the ratepayers. Benchmarking is one of the factors that should be used, but in benchmarking there is a need to have groups properly identified to ensure that the comparisons are made with the appropriate utilities. There is a need to look at what a ratepayer pays when looking at consolidation. At the end of the day consolidation should reduce the price the ratepayer pays. If the rate cannot be reduced, then there is no need to advocate the consolidation of the utilities.

Municipal councils must be included in any decision since they are the shareholders of the utilities. Most municipal council retained their utilities in order to maintain control of an asset, which they felt, was important to the community. The Councils wanted to make sure that the utility could participate in promoting development of the community by maintaining low rates, and use the utility profits to maintain services over and above their neighbouring utility to insure that development would be attracted to the community.

We have a concern with regard to the level playing field for distributors. As a case in point, Brantford Power or its predecessors Brantford Hydro reduced rates to customers in 1996 and 1997 to reduce the cash reserves of the utility. Unfortunately the Electricity Act was enacted freezing the rate of the utility. This put the utility where its expenses were \$1 million higher the revenues. For a utility with one of the lower rates, and the highest customer to employee ratio, efficiencies were hard to find. We have been in a catch-up mode since that time and we are still not earning the rate of return that other utilities are enjoying and have been enjoying all these years.

With regard to LSE structure our belief is that risk associated with the commodity procurement should be handled by those with core competencies in the procurement of commodity. LDC's should be kept in the business where they have their core competence, which is in the distribution systems, and be allowed to drive efficiencies from the system. Also in creating LSE's, the OEB should make sure that controls are placed to insure that customers are not exposed to the predatory practices that we have seen in the past and prevent some of the horror stories that have occurred.

We appreciate the opportunity to present our views to the Board and we commend the OEB in their effort to explore and become more informed on the issues that are concerns of the distribution utilities.

We would be happy to answer any questions which you may have on this submission, or any other question which you may ask regarding the issues in this consultation.

Yours truly,

George Mychailenko
Chief Executive Officer