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By Courier; By E-Mail

Mr. Paul Pudge
Ontario Energy Board
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Dear Mr. O'Dell:

Re: Board File No.: RP-2004-0020
Consultation to Review Further Efficiencies in the Electricity Distribution Sector

The Electricity infrastructure in Ontario has truly undergone significant changes over the last three years. In fact, change is not something new to this industry. From the very early days in 1906 when an act was passed by the Ontario Legislature providing for the formation of "The Hydro-Electric Power Commission of Ontario" who's prime responsibility was to supply electric power to the Municipalities, "change" became almost as common a term in the industry as the "Kilowatt Hour".

The industry embraced change...

- We embraced a move from the original 25 cycle power which was a standard in New York and Ontario, to a new 60 cycle standard for Ontario.
- We embraced a move from expensive copper wires to lower cost / more reliable steel core aluminum wire.
- We embraced a change from Glass insulators to higher quality Porcelain and Epoxy Insulators, which reduced outages due to their ability to better withstand the rigors of Ontario climate changes.
- We embraced a change in voltage levels, which increased the efficiency of the overall Transmission and Distribution of electricity across the Province.
- We also embraced the change to help foster a competitive market for Generation in the Province.

One thing that has remained constant in light of all the changes in the electric industry is the drive for continued efficiency and reliability with respect to delivery and the goal of providing the product to our customers at an affordable price.

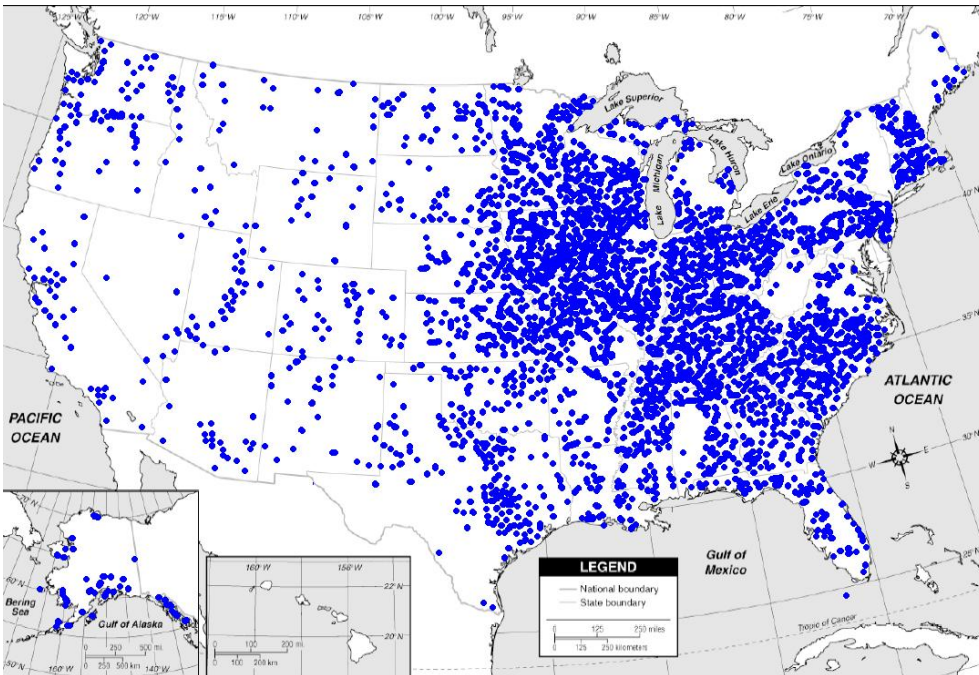
Prior to the restructuring undertaken under Bill 35, the 300+ Municipal Utilities across the Province providing services to the consumers of Ontario, regularly shared ideas, and "best practices". This sharing of information was done through their active membership with the Municipal Electric Association (MEA). Through this association, the Utilities routinely compared their successes and failures. It was also an avenue through which the Municipalities could compare the efficiencies of their local Utility against the balance of the industry participants.

Reflecting back on those activities, Utilities had a competitive market amongst themselves for years before the concept of deregulation spread throughout North America. Constantly sharing best practices, and comparing rates and other performance indicators against those of other Utilities of similar size and geography meant the Utilities had a self-enforced Performance Based Regulatory system.

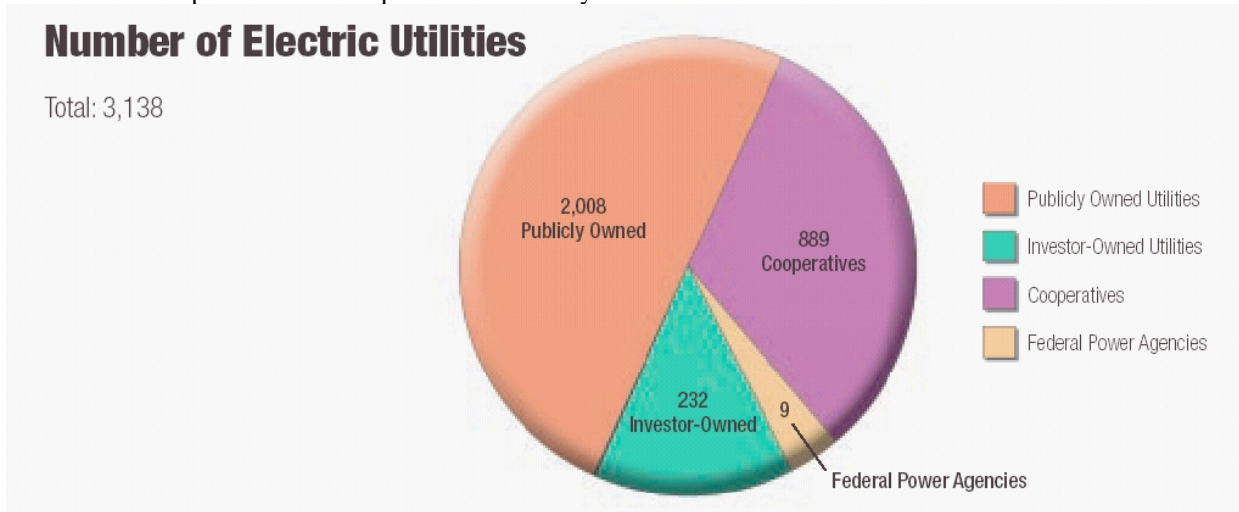
In the Discussion Paper it suggests that a distributor can improve its "Operational Efficiency" if it can reduce its costs while offering the same level of service to its customers. Every Distributor has experienced a significant increase in costs related to Regulatory and Reporting requirements. It is likely that proponents of Utility Mergers and Amalgamations will suggest that having fewer LDC's can reduce regulatory costs. However, it can also be said that regulatory costs can be reduced by simply reducing the level or method of regulation. We propose that the OEB review its current practices with regards to regulation of the Local Distribution Companies, and in doing so take into account the long history of successful self-regulatory practices.

The people of the province are not necessarily better served through additional regulations, nor are the additional costs related to increased regulation always the most efficient use of the consumers' electricity dollar. The Market envisioned by the Macdonald Committee report, the White Paper, and the passing of the original Electricity Act has already undergone significant changes. Adopting a more "light-handed" approach to regulation during these formative years would give the OEB and the Market as a whole, an opportunity to establish new regulations and reporting requirements where, and as required. We firmly believe that the OEB should streamline the PBR reporting process to ensure it captures only what is truly required to operate such a regulatory tool so as to protect the consumers of the province. The OEB should reserve more detailed reporting and a stronger regulatory presence only for those entities that require corrective actions.

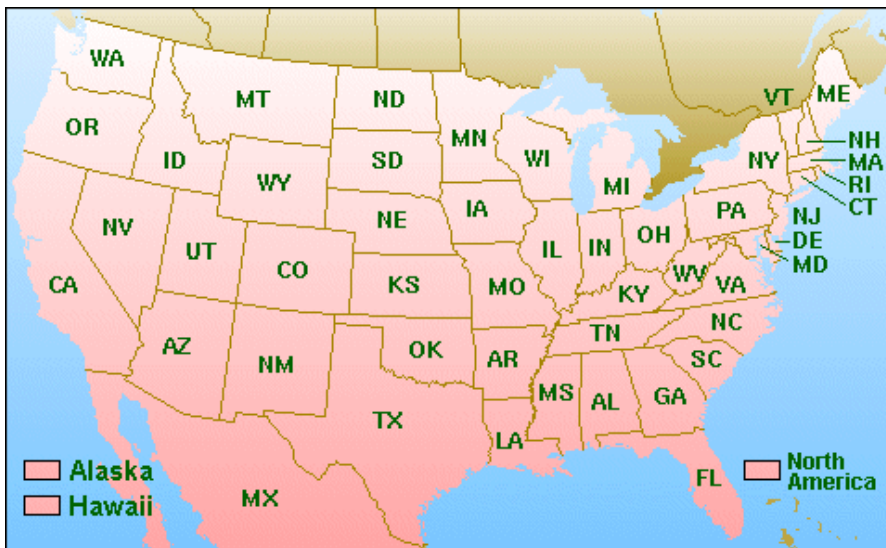
There has been a significant amount of discussion throughout the industry on how many Utilities is the right number, and what is a good measure of the proper size. The discussion paper presents a chart showing numbers of customers per distributor in various locations around the world. The Discussion Paper also displays a map of Ontario marking the locations of the Distribution Companies. Interestingly enough, the discussion paper refers to only one state in the U.S., that being Texas. I would like to expand a little on our neighbors to the south a little more. I draw your attention to the following map:



Each Blue Dot represents a Municipal or Public Utility located in the United States.



In fact, in the 2003 statistical report published by The American Public Power Institute there were over 3,100 Electric Utilities in the United States alone. Of the 2,008 Municipal or Public Power systems 1,400 serviced communities with a population of ten thousand or less, meaning the average customer per Utility count was likely below 6,000.



One of Ontario's Border States - Minnesota (MN) currently boasts 121 Municipal Electric Utilities and 31 Gas Utilities. The largest Municipal Utility in Minnesota services 85,000 customers with the next largest at only 32,000. In fact 45% of the Municipal Electric Utilities in that state service fewer than 1,000 customers.

Records show Wisconsin (WI) with 82 Municipal Utilities with an average population of under 5,300 per Municipality.

Ohio (OH) – has 85 Municipal Electric Utilities, 24 Co-ops, and 5 private Investor Owned Electric Utilities for a total of 114 distribution companies.

In each of these states, the Regulators rely on the local presence and local ownership to provide a significant amount self regulation. If the Distributor fails to meet customer expectations in regards to reliability and supply, the Shareholders will react accordingly and implement corrective action.

The difficulty we face today is the fact that there is a strong belief by many that Bigger is Better. Proponents of that argument often say that economies of scale can optimize costs within a Utility, however with today's instant access to information on the internet, one can quickly find just as many reports supporting smaller Utilities acting alone or in groups as one will find reports supporting fewer large entities. The fact remains that everyone has a different concept of what the "costs" are. A savings in one area can create new costs or inefficiencies in another, and the challenge to us all is to find the proper balance.

An irrefutable fact is that neither the size of a distributor, nor the number of customers alone establishes whether the rates will be high, or low. The chart below demonstrates that fact clearly. For demonstration purposes, 80 Utilities whose rates were readily available on the web were used to calculate residential distribution costs for a consumer using 1,000 kWh's over a one month period.

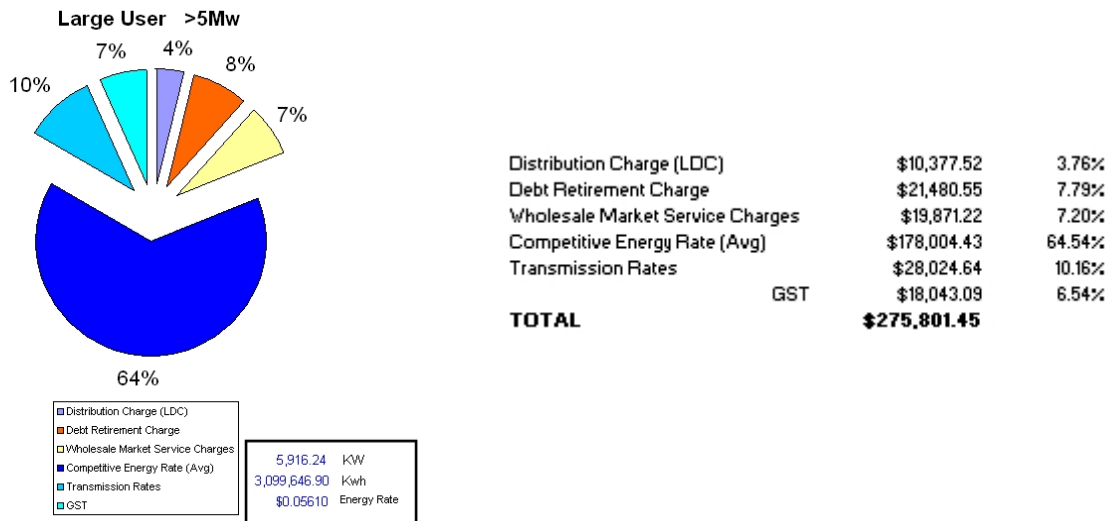
Residential Rate Comparison (Distribution Charges Only)

LDC	Distribution Rates (2002)		Monthly Distribution Charges for 1,000 kWh's	
	Fixed Rate \$'s per Month	Variable Rate \$'s per kWh	Variable Rate X 1,000 kWh's	Total Charge Variable + Fixed
1 PUC Distribution Inc.	\$6.37	0.0095	\$9.50	\$15.87
2 Oshawa PUC Networks	\$7.68	0.0086	\$8.60	\$16.28
3 Espanola Regional Hydro Dist.	\$8.76	0.0091	\$9.10	\$17.86
4 Mississauga	\$11.06	0.0077	\$7.70	\$18.76
5 Parry Sound	\$11.52	0.0074	\$7.40	\$18.92
6 Kingston Hydro	\$10.07	0.0091	\$9.10	\$19.17
7 Port Hope	\$10.71	0.0088	\$8.80	\$19.51
8 COLLUS	\$7.62	0.0121	\$12.10	\$19.72
9 Hydro Ottawa	\$6.85	0.0130	\$13.00	\$19.85
10 Tillsonburg	\$8.75	0.0111	\$11.10	\$19.85
75 Lakefront	\$24.10	0.0094	\$9.40	\$33.50
76 Hydro One Suburban - R1	\$15.95	0.0182	\$18.17	\$34.12
77 Hydro One Suburban Seasonal - R3	\$15.95	0.0182	\$18.17	\$34.12
78 Hydro One Rural Seasonal - R4	\$21.45	0.0128	\$12.79	\$34.24
79 Hydro One Rural Density - R2 - With RRP	\$21.45	0.0128	\$12.79	\$34.24
80 Renfrew	\$28.02	0.0085	\$8.50	\$36.52

The chart clearly demonstrates that across the Province there is a mix of both Large and Small Distributors with either higher or lower rates. Size does NOT matter.

The Discussion paper refers to the fact, and we quote “there is more to furthering efficiency than simply reducing costs.” The section goes on to discuss the impacts of reliability to the end-use consumer and the very fact that they may be willing to pay a little more, in order to secure faster response to outage situations than what may be deemed to be an acceptable “efficient” level of reliability. From the Regulatory perspective, the issue of costs is primarily focused on the end rate paid by the consumer. Allow me to briefly explain what the term “costs” means to one of our local Industrial customers. This particular customer is involved in the Automotive sector, and therefore is highly driven by the just-in-time mode of operations. In the case of an outage, their process is such that a 50 minute outage can be managed without losing a significant portion of their production line. A 60 minute outage however, requires them to completely clear their production line which results in the loss of two full shifts. This represents significant “costs” to the end consumer that are difficult to measure in any PBR or Rate regime.

The chart below shows the impact that the local Distribution charges have on the above customer:



On a total monthly bill of \$275,801.45 the Distribution component is only 3.76% or \$10,377.52. A 10% increase or decrease to this customer for the Distribution charges pales in comparison to not only any other individual component of the customers invoice, but is insignificant when compared to the loss of production from two shifts.

With the local presence, our utility has had the opportunity to understand their operation, and ensure that we react quickly to re-route power flows in order to accommodate their time limitations. This allows the companies to meet their tight profit margins thereby keeping their head offices from moving the companies out of the Province. Keeping these companies in the community helps maintain jobs and the other economic benefits that come with them.

Municipal Utilities work to provide the best, reliable product at the lowest cost possible through many avenues. Through the course of this consultation, you will no doubt have heard from Utilities who established Demand Management Programs and promoted the Wise and Efficient use of electricity across their Territories, to help their customers manage the bottom line. You will have heard of Utilities that merged or expanded their territories to enhance efficiencies long before the passing of Bill 35. You will also likely hear of the efficiencies that many Municipalities gained from forming Public Utilities Commissions in order to reduce overall Operating and Administration costs for their customers.

Unfortunately, you will also hear of the loss of efficiencies the Distribution Sector experienced during the passing of Bill 35, which prompted the separation of the Electricity Sector from the Water Distribution sector. Although not all Municipalities operated under the guise of a PUC, it was a fairly common practice that helped many municipalities reduce the costs imposed on their constituents for the delivery of these two services. Utilities often performed a number of other tasks for their shareholders. Even today, many municipalities work jointly with the local utility sharing trucks, heavy equipment, and even staff, thereby reducing the costs for the rate payer from both the municipal and utility perspective. Another benefit of jointly coordinating services allows the municipality to better plan construction projects to limit the inconveniences to their constituents. A fine example is when a municipality decides to dig up a particular roadway to repair water mains. A locally operated LDC can take advantage of this opportunity to bury underground cable, or place ducts for road crossings in the same trench thereby reducing the costs for both entities. This type of coordination becomes much more difficult the more removed the Distributor is from the local community.

The Discussion Paper specifically references the Affiliate Relationships Code, and asks if there are any policies or measures in these codes that could provide further efficiency incentives. I submit that it would be a valuable exercise to review the sections of the codes that prevent an LDC from being involved in activities not directly involved with the distribution of electricity. Specifically, we refer to the definition of an Energy Service Provider and the requirement for physical separation. Quote:

“energy service provider” means a person, other than a utility, involved in the supply of electricity or gas or related activities, including retailing of electricity, marketing of natural gas, generation of electricity, energy management services, demand-side management programs, and appliance sales, service and rentals;

With the increased reliance the Province is facing on acquiring additional generation and the obvious goals of the Government to increase the propagation of Demand Side- Management and promote Energy Efficiency, the LDC’s of the Province have an opportunity to once again engage themselves in these activities. We understand one of the responsibilities of the OEB is to help promote competition in the retailing of electricity. We also understand the use of the Affiliate Relationships Code to prevent an LDC from gaining an unfair advantage over new entrants in the marketplace. However, if we truly wish to allow the LDC’s to participate in DSM, Demand Response, and contribute to additional Distributed Generation in this Province, we must ensure we remove barriers that were created with the writing of these codes.

The Discussion Paper referred to the potential benefits of increasing “Controllable Structural Efficiency”.

The opening of the new market required LDC’s to take on many new roles and responsibilities such as managing settlements with the IMO; interactions with and billing for Energy Retailers; educating themselves and the consumers on the impacts and idiosyncrasies of the new regime; and possibly – most importantly, working with the Ministry, the IMO, and the OEB in developing the very market we have today. In their normal fashion of working cooperatively to meet the demands put upon them in the most cost effective method possible, many LDC’s banded together forming various alliances. These alliances took many shapes from outright Mergers, to simple partnerships allowing the formation of buying groups.

One group called the “Cornerstone Hydro Electric Concepts Association Inc.” or CHEC was formed through the collaboration of 20 LDC’s from across the Province. As a cooperative, we gained efficiencies in the form of reduced costs for a variety of goods and services. Some suppliers actually offered lower prices to the overall group, than would have been provided to a single LDC with the same overall customer count. The driving factor for the service provider was to obtain a larger market share of LDC’s, thereby establishing themselves in the marketplace as the suppliers of choice. The benefits of participating in this type of group go beyond simply reducing financial costs. The sharing of services for Staff Training and Health and Safety meetings, allows the group to bring a variety of experiences and ideas to the table thereby making the training received much more valuable.

Co-operative ventures such as the CHEC group can also reduce the regulatory burden on the limited staff at the OEB. Upon market opening, the LDC’s were required to file a copy of a new Conditions of Service with the Board. Recognizing the value producing a standardized document would have on the LDC’s, the general public, as well as the OEB, the CHEC group gathered together and drafted a singular document that was filed on behalf of 19 LDC’s.

Participation in the CHEC group has given all the members LDC’s an opportunity to meet regularly to share ideas and purchasing opportunities. Together to date, we have enjoyed discount prices or combined efficiencies for: Interval Meter purchases, Wholesale Settlement services, HUB services, Wholesale Meter Service Provider services, form processing services, varied consultant services, legal fees, market entrance coordination and training, and market preparation billing service cost reductions.

The group is also developing a common set of operating policies that should be available for distribution to our various Boards some time this year.

These participating LDC’s are well positioned to expand services for their customers in a cost effective manner as the Province embarks upon new activities surrounding DSM, Demand Response, and if necessary, the facilitation of Load Serving Entities for Standard Service Supply.

Should you have any questions with regards to our comments, please contact me at your convenience by e-mail at ehoughton@collus.com or by phone at (705) 445-7885 ext. 222 or by Fax at (705) 445-0791.

Respectfully submitted,
COLLUS Power Corp.

Ed Houghton, CET, MAATO
President & CEO