

**SUBMISSION BY THE CONSUMERS COUNCIL OF CANADA
TO THE ONTARIO ENERGY BOARD ON ITS
“REVIEW OF FURTHER EFFICIENCIES IN THE ELECTRICITY
DISTRIBUTION SECTOR”**

I Introduction

1. This presentation is by the Consumers Council of Canada (“CCC”). My colleague, Dr. Peter Dyne, is unable to be here today, so I will present the CCC’s thoughts.

2. Just a brief word about the CCC. We are a not-for-profit organization whose goal is an efficient, equitable and effective marketplace for consumers. The CCC is founded on the belief of the rights of consumers, internationally recognized, in the marketplace. These are the rights to safety, information, education, redress, representation, choice, a healthy environment, and, we would add, privacy. These rights apply to the energy marketplace as they do elsewhere. The CCC gives a voice to residential consumers and helps business and governments to manage today’s consumer issues. We are long-time observers of the electricity marketplace, and have recently participated in the Board’s inquiry into a Demand Side Management and Demand Response Framework for Ontario.

3. Electricity is an essential service. The overriding concerns of residential consumers are with the reliability and price of that service. A corollary of that is a concern with price and service stability. As a result, “economic efficiency”, the main topic of the OEB Staff Discussion Paper, is of little interest to residential consumers unless it is going to produce enhanced reliability, lower rates, and stability in both.

4. The Discussion Paper clearly recognizes that the pursuit of economic efficiency may adversely affect both reliability and customer service. The key policy challenge is how to achieve economic efficiency, and with it rate reductions, in the distribution sector without jeopardizing reliability and customer service.

II The Consolidation of Local Distributors

5. The Discussion Paper suggests that a further consolidation of local distributors may contribute to increases in distribution efficiencies. The Discussion Paper suggests that further consolidation may be pursued, on either a mandatory or voluntary basis.

6. When discussing the question of the costs and benefits of consolidation, or further consolidation, in the distribution sector, it is instructive to remember a number of the observations of the Macdonald Report. That Report noted that consolidation could lead to:

- a loss of responsiveness and accountability to the local community
- an increase in size without corresponding benefits
- high implementation costs

The Report also observed that there is no one size that is appropriate for each community.

7. As the Discussion Paper notes, a substantial electricity industry restructuring followed the passage of the *Energy Competition Act, 1998*. The CCC has yet to see any evidence that these consolidations have resulted, or will result, in reductions in costs, and therefore lower rates, and improvements in service, for residential consumers.

8. CCC believes it would be premature to wholeheartedly embrace further consolidation, whether voluntary or mandatory, until there has been a thorough analysis of the costs associated with the industry restructuring to date, and a corresponding analysis of the benefits associated with those costs.

9. Following this assessment of costs and benefits, the OEB, through a public process, needs to develop guidelines to assess each application for consolidation. Consolidation should only be approved if sustainable benefits, at reasonable costs, can be assured to consumers, with corresponding assurances that there will be no decrease in reliability and customer service.

10. As part of the first wave of restructuring, Hydro One acquired 88 local distributors. There has been no assessment of the costs, direct and indirect, of these acquisitions, and of the impact of the acquisitions on rates and service. CCC believes that a thorough review of the costs and benefits of these acquisitions is a necessary first step in the analysis of whether there should be further consolidation and, if so, what form it should take.

11. The *Electricity Act* also converted LDCs into business corporations. LDCs can now get a return on equity on their investments, something which requires an increase in distribution rates. This increase is, in effect, a tax on electricity. We have seen no evidence that ratepayers have benefited from this change. Another part of the threshold review, therefore, should be a consideration of the costs and benefits of using the private sector model for local distributors.

12. A thorough review of the costs of the operations of local distributors is also required before a further embrace of performance based regulation (PBR). The experience of residential consumers with PBR regimes in the natural gas sector has been largely negative. It remains an open question whether PBR regimes in the electricity sector have been of any value to residential consumers. CCC is not, in principle, opposed to the further development of PBR in the electricity sector, but needs to see credible data that it produces gains for residential consumers.

III The Role of Local Distributors

13. CCC does not believe that local distributors should be in the business of procuring power for their customers. The risks associated with procuring power are very significant. Local distributors should confine themselves to the business of distribution, and should not expose their consumers to the risks involved in procuring power.

14. Similarly, CCC does not believe that local distributors should be in the business of designing and implementing demand side management (DSM) measures. CCC believes that a centralized approach would be the most cost effective.

15. The concept of Load Serving Entities has not, in CCC's view, been developed to the point where CCC can meaningfully comment on it.

16. A critical issue that must be addressed is standard supply, and the corollary issue of the role of local distributors in delivering standard supply.

17. The Discussion Paper refers to "consumer benefits" in terms of "customer value". What is meant by that latter term is unclear. The things that provide value to consumers in their LDC are service reliability and reasonable rates. Consumers also value intelligible bills, a person at the other end of the telephone line who can resolve problems, prompt attention when things go wrong, and high service standards. Any ventures into other business areas must be evaluated on how they will affect these core values, and should only be permitted when it is clear they will not adversely affect the key values of reliability and reasonable rates.

IV Future Direction

18. CCC welcomes the OEB's invitation to comment on the issues related to efficiencies in the electricity distribution sector. However, the issues are framed at such a high level of generality that any comments on them should not serve as the basis for the development of policies. At best, what should come out of this exercise is the further refinement of our understanding of the issues that need to be pursued in detail. In addition, stakeholders need to understand the respective roles of the provincial government and the OEB in designing and implementing policies in the electricity sector.

19. With respect to the issue of further consolidation, it is noted above that consideration of the issue is premature until there has been an assessment of the costs and

benefits of the consolidation that has taken place to date, including the costs and benefits of the acquisition of local distributors by Hydro One. The Discussion Paper invites participants to comment on “the extent to which distributors have already achieved scale efficiencies and those functions with scale economies through the sharing of services, contracting out and other initiatives”. The CCC does not believe that there is sufficient evidence upon which it, or indeed any other stakeholder, can meaningfully comment on that point.

20. With respect to PBR regimes, an essential pre-requisite is a consideration of the cost base of the local distributors. A cost of service review for the local distributors is required before an decision can be made about second generation PBR regimes.

V Conclusion

21. The prospect of further changes in the electricity sector, and in particular in the role of local distributors, offers an important opportunity to address some fundamental questions:

- (i) have the changes that have taken place to date enhanced or detracted from the ability of local distributors to offer reliable service at reasonable rates?
- (ii) in particular, what are the costs of the changes to date, including the consolidations, and have those costs resulted in corresponding benefits?
- (iii) what is the appropriate model for the operations of local distributors?
- (iv) what businesses, if any, should local distributors be in beyond that of simply distributing power to their ratepayers?
- (v) are the existing regulatory tools, including PBR, effective in ensuring the protection and enhancement of consumer interests?

22. These questions, and the issues raised in the Decision Paper, need to be addressed by means of a process that is open and transparent, and that allows residential consumers to participate in an effective way. CCC looks forward to participating in that process.

Dated: February 18, 2004

Consumers Council of Canada
Joan Huzar, President