Grimsby Power Incorporated
231 Roberts Road
Grimsby, Ontario
L3M 5N2
905-945-5437

RP-2004-0020

Review Of Further Efficiencies In The Electricity Distribution Sector

Members of the OEB Hearing panel, my name is Brian Weber and I am the President of Grimsby Power Incorporated. Grimsby has about 9,000 customers and 14 staff. We are growing by about 4% annually over the past 3 years. Personally I have seen many changes to the electric industry in my 34 years experience. Many for the good of the industry but also some that has not been good.

Many customers are confused and upset at recent developments and LDCs have taken the brunt of the criticism and telephone calls. Customers were told that deregulation Bill 35 would reduce costs and offer customer choice. Bill 100 forced LDCs to phase in rates to get to MBRR while others were able to immediately have 9.88%. However, when commodity prices skyrocketed, Bill 210 was introduced and killed the retail market.

Let me tell you what most people know about ‘hydro’. When they flick the switch the lights are supposed to go on and they get an invoice, generally monthly. The customer goes directly to the bottom line. If the total cost is reasonable and within the realms of what customers are willing to pay, they do not seem to care. However, if it is above what they perceive to be reasonable, they call and complain. Most complaints are rationalized and they are caused because a customer has added some new power-consuming appliance or they have compensated for weather by running heating or air conditioning more. However, constant fluctuation in the cost of the commodity was hard to explain and accounts for 50%.

Currently, customers want invoice stability and they are tired of the roller coaster ride they saw just after market opened and then closed with Bill 210. They also do not want to be deferring costs to their children. For the most part the solutions to these problems are squarely in the hands of the government to resolve and customers would see a bigger bang for the buck.

The Ontario Energy Board call for Hearings to Review Further Efficiencies in the Electricity Distribution Sector will only add to the stability issues for customers and is premature. Most local distribution companies (LDCs) were, are and will continue to be efficiently run organizations because of the direct local level accountability that we have with our customers. We can easily be reached and our customers recognize us in the local shops.

Previously, the OEB charted a path of performance-based regulation to encourage LDCs to reduce costs. Phase I was implemented initially in 2000 with Phase II scheduled for implementation three years later, or post 2002. We believe that this remains the logical approach. However, PBR does not take into consideration utilities experiencing growth.

The OEB has collected service quality data from the LDCs in many categories. However, one financial indicator that has not been collected is controllable expense per customer. We believe that the OEB should review the existing data and collect the controllable expense per customer data for the past three years. Then we suggest the OEB should set reasonable benchmarks for small, medium and large LDCs in these areas. Reasonableness must look at existing work to date versus the broad brush approach, which sets 10% for all, which does not consider the efficiencies an LDC may have already implemented. Consideration must be given to customer density when setting the benchmarks. Utilities who fail to meet these benchmarks would serve as better economic indicators to provide the business economics to assist in voluntary mergers, acquisitions, amalgamations divestitures or sales (MAADS).

LDCs want autonomy and the ability to choose their own direction unfettered. Many are opposed to having someone else choose our destiny. Therefore, the introduction of service quality benchmarks should be used to create business economics for any voluntary rationalization of LDCs.

In addition, those utilities that exceed the service quality indicators should be entitled to a higher rate of return (ROR) than the 9.88%. However, the Board should look at setting a maximum ROR whereby if a LDC exceeds the ROR the customers would benefit by seeing a rebate paid to them. If the maximum is not reached, the LDC would be entitled to keep the funds without benefit to the customer or adversely affecting the rates charged. We wish to restate that customers want rate stability. However, if a LDC is constantly achieving this higher rate of return, a rate adjustment might be necessary. However, rates should not be reduced because of a 'one off' situation where the anomaly is for one year but only after many years of constantly exceeding the maximum ROR.

We are encouraging the OEB to review the regulatory requirements and take a truly light-handed approach to regulation. The current regulatory regime is adversely affecting the increased costs being experienced by all LDCs. These costs are reflected in the invoices being paid by customers.

Another regulatory cost increase is the cost of service study that is currently in the works. I can tell you that this study, while expensive to undertake, is going to show that other customer groups subsidize residential customers. Previous rate design programs caused this to happen and the OEB rate models did not change this fact. Rationalization to mitigate the impacts on the residential customer is not the answer. We believe that Residential customers are the group that most benefit by having a local LDC.

A key premise that the OEB appears to be under is that all utilities are basically the same, inefficient. The staff document discusses contracting out for a lower cost, partnering to gain efficiencies and working smarter with fewer resources. Their answer is industry consolidation. We question the methods used to draw such a conclusion. I can tell you that these activities were, are and will continue to happen as long as Grimsby Power remains. Contracting out, partnering and working smarter were started long before deregulation and is continuing today by many of the LDCs. Unfortunately, many have failed to consider any of the efficiencies done by the LDCs and we have been treated with the broad-brush approach.

Let me explain a recent partnership that we have participated in with a neighbouring LDC to construct a new transformer station. Collectively we will save our customers about $8M over 20 years. Unfortunately in the process, we have created a one off scenario. And nobody knows how to deal with this partnership because we are the first. Rather than green lights and assistance to benefit customers, we are faced with roadblocks and obstacles. The Affiliates Relationship Code was a problem and needed to be managed. Then we experienced difficulty in resolving licensing. This joint venture was well known by the OEB going back to August 30, 2002. We rather expected assistance rather than problems. After all $8M over 20 years is considerable, no matter what size LDC you are.

It appears to Grimsby that the main focus behind consolidation is the perceived rate differential between LDCs. There are many key factors, which can be explained simply. The first OEB RUD model was developed on the premise that every LDC should get the same revenue as they were receiving prior to deregulation. Unfortunately, every utility in the province was at a different point in applying the monies to capital or maintenance type work. Rates and ROR was a snap shot in time. Further, every utility was able to apply differing strategies as to whether they wanted to get more revenues through the fixed service charge or through the variable distribution charge. While a LDC was able to collect the same revenues, the OEB placed a 10% contingency on us to minimize the effects on all customers. Since then, LDCs have been prohibited from rebasing, which would take another snapshot, which could either reduce or increase rates to offset future rate shocks.

Further, rates have been set so that customers served by the LDC were used to pay the cost for their infrastructure. There has never been any cross subsidization by another LDC in another area of the province. For example, if Grimsby needed a new pole line, our customers paid for it.

If we reduce the number of LDC's in the province to two, say an east and a west utility; and Grimsby builds a new pole line, then someone in Windsor is helping to pay for a line in Grimsby that they can never benefit from. The quick comeback is that it can be reciprocal next year. But what if the system in Windsor is better than in Grimsby? Then Windsor will have higher costs than necessary to build assets in Grimsby.

In any amalgamation, current rules require rates to be harmonized. If rates were not harmonized, then, rationalization only reduces the number of LDCs. It does nothing to reduce the regulatory burden for the LDC, which would require multiple rate submissions nor does it reduce the workload for the OEB. In a rationalization, how does one justify rate increases to customers in one area with no perceived benefit?

Perhaps the best way to understand rate differentials between LDC is to look at the municipal tax structure. Municipal taxes vary from municipality to municipality based on the needs to sustain adequate infrastructure and service levels. Both of which are decided on locally by the users wants and needs.

Local municipalities <u>that</u> have retained their LDCs, have done so based on their perceived benefit and the fact that they want to have local control and local accountability. The OEB discussion paper perceives these municipal owners as being a burden to rationalization. Why shouldn't owners have the ability to decide their own fate? After all they own it. Why can't owners control their own destiny? Grimsby believes that LDCs should have the ability to choose their own destiny unfettered by outside agencies.

Load Serving Entities whether done independently or aggregation equals costs.

LDCs/customers have seen a reduction in services that were previously in customer rates. Therefore any downward pressure to LDC/customers should result in a responding rate decrease from one service provider to the new provider required to pick up the service equal revenue neutral initially with the long term goal of reducing costs versus reduction in service and an increase in costs. An example is PILs. PILs are to pay for the old Ontario Hydro debt, which was previously in the rates customers paid and is now an add on.

LDC rates accounted for 15% of the customers invoice before Deregulation; however now it has increased to about 20% because of new regulated costs, which also includes funding development. LDCs were always for profit and we invest our profits into infrastructure – poles and wires.

Grimsby Power firmly believes that as a local service provider we offer an excellent service to consumers. We encourage the Ontario Energy Board to

- Provide some stability for the customers and the industry as a whole;
- Stay on the path as originally set as we have not been on this path long enough to know whether it is good or not;
- Set service quality benchmarks for small, medium and large LDCs so that these service quality benchmarks indices could serve as economic indicators to provide the business economics to assist in voluntary MAADS;
- Allow LDCs autonomy and the ability to choose our direction unfettered;
- Recognize that LDCs are opposed to having someone else choose our destiny; and
- Adopt a truly light handed approach to regulation as the current approach has only served to drastically increase costs, which are increasing due to regulatory changes and market rule amendments.

Grimsby Power Incorporated wishes to thank the members of the Board for their time and consideration. We would be pleased to answer any questions that members of the Board may have.