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Consultation of Efficiencies in the LDC Sector

Oral Presentation

Also Submitted

As

Written Presentation

By: Lakeland Power Distribution Ltd.

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INTRODUCTIONS

Chris Litschko
President & CEO
Lakeland Power Distribution Ltd.

Thank-You:

To the Ontario Energy Board for the opportunity to provide our opinion on rationalization and the creation of further efficiencies in the electricity distribution sector.

Introductions:

Bruce Gowan, Chairman, Lakeland Power Distribution Ltd.

John Finley, Economic Development Officer, Municipality of the Town of Huntsville

Al Taylor, Deputy Mayor, Municipality of the Town of Bracebridge

Mr. Litschko's Experience

On January 1, 1998, purchased Ontario Hydro service territory on behalf of Dunnville Hydro-Electric Commission

On April 1, 1998, purchased Ontario Hydro service territory on behalf of Bracebridge Hydro-Electric Commission

On September 1, 2000 merged 5 Hydro-Electric Commissions from Bracebridge, Huntsville, Burks Falls, Sundridge and Magnetawan and incorporated Lakeland Power Distribution Ltd. These communities are experiencing residential, commercial, large automotive & product manufacturing growth.

I (Mr. Litschko) have had unique experience in the Ontario electricity industry with cost savings associated with growing and merging distribution assets.

Lakeland Holding Ltd. was incorporated on September 1, 2000 along with the following subsidiaries:

Lakeland Power Distribution Ltd.: Lakeland Power services a large geographic area and is different than most other distribution companies due to the operational distance (it is approximately 120 kilometers between southerly municipality and northerly municipality), terrain - that is very rocky, hilly and is the most heavily forested part of the province where snowmobiles, all terrain vehicles, boats, barges, etc. must be utilized to complete work.

Bracebridge Generation Ltd.: Provides certified EcoLogo environmentally friendly water power generation from 3 plants on the North Branch of the Muskoka River. Having received final environmental and regulatory approval, our company recently announced the construction of a 4th hydro-electric generation plant, this being the first such announcement in 2004.

Lakeland Energy Ltd.: Its services and products include: hot water tank rentals, fibre optics to bring high speed communications to District of Muskoka, emergency backup generators for municipalities and companies. This company also provides streetlight maintenance for many communities where Hydro One has refused to provide this important service.

PRESENTATIONS

Bruce Gowan
Chairman of the Board
Lakeland Power Distribution Ltd.

Experience:

Former Chief Financial Officer, Magellan Aerospace (a \$600 million dollar company) and has participated in the purchase, sale & merger of many companies world wide.

Mr. Gowan continues to sit on the Board of Directors of Magellan Aerospace as well as provide financial and business advice to a number of other public and private companies.

Mr. Gowan's Comments:

The Lakeland group of companies is guided by an independent Board of Directors whose members provide a wide range of public and private company experience. Since its inception in 2000, Lakeland has been a financial success and accordingly provides a future source of valuable revenues for our 5 current municipal shareholders.

As a career businessperson, I have spent my working life dealing with competition. Competition fosters cost effective, service oriented businesses. The Lakeland group is a lean, efficient, reliable and profitable distributor and generator, and supplier of electrical services throughout the Muskoka and Almaguin Districts of central Ontario.

Since the merger Lakeland Power has realized millions of dollars in savings through efficiencies as follows:

- A reduction of 30% in the workforce,
- 6 operating centres reduced to 2,
- 5 billing systems reduced to 1,
- Elimination of multiple inventories,
- Use of contract workers when required,
- Use of outside cost effective services such as meter reading and tree trimming.

These savings have been accomplished with the cooperation of our bargaining unit. We respect their entitlement to a competitive wage and benefit package as well as safe and agreeable working conditions and in turn our union respects our need to run a cost effective organization.

These factors have produced an organization with service and reliability that is superior and distribution rates that are significantly lower than the other major supplier in our area, Hydro One.

Lakeland Power remains open to further partnering and expanding its service area within the Districts of Parry Sound, Almaguin, and Muskoka through possibly merging with other local municipal distribution companies. It is important however, that further savings due to any rationalization be accomplished without compromising service, reliability, local control and benefits.

Additionally, we strongly believe that there are significant benefits in allowing Lakeland Power to expand into Hydro One territory. Specifically, there are portions in the Town of Huntsville that are currently handled by Hydro One that could benefit from Lakeland Power service. This expansion will enable more consumers to receive Lakeland's better service, reliability and lower rates compared to Hydro One.

I would like to stress that our experience indicates that it is important for the OEB to ensure that any rationalization in the Province does not create distribution companies so geographically large and over-extended that service, reliability

and rates are negatively affected and that local or regional accountability is lost.

John Finley
Economic Development / Grants Officer
Municipality of the Town of Huntsville

Experience:

Mr. Finley is responsible for the continued economic development and retention of commercial and industrial businesses in the Town of Huntsville.

Mr. Finley's Comments:

The Town of Huntsville is the fastest growing municipality in the District of Muskoka. Recent studies have indicated that our population will more than double over the next decade. Presently, the Town's industrial and commercial base is expanding to supplement its current tourist industry. Accordingly, electricity reliability and rates are extremely important to current and prospective enterprises.

The Town of Huntsville is presently serviced by both Lakeland Power and Hydro One.

I have received numerous complaints from consumers and developers regarding Hydro One reliability, service and rates. Recently as reported in the media our local Member of Provincial Parliament was meeting with frustrated Hydro One consumers in Huntsville who were voicing their concerns about service and reliability.

In 2003, the Town of Huntsville undertook an extensive Business Retention & Expansion investigation in which all commercial and industrial businesses in the municipality were interviewed. One of the leading complaints of respondents that is affecting commercial and industrial expansion and retention in Huntsville is the cost and reliability of electrical energy.

It is apparent that Lakeland Power provides better and more responsive service at lower rates. For example: In our Town a multi-million dollar commercial and residential development is being built and out of frustration the developer approached me to see if I could assist him in getting electricity to the new development since he had tried for 8 months to get Hydro One to cooperate. I immediately contacted Mr. Litschko and in just 9 days, Lakeland Power had plans, drawings and contracts ready for the developer. Unfortunately, the time to obtain approvals for Lakeland Power to service this 'green space' from the Ontario Energy Board would have taken the developer past the promised date of energizing his first major commercial customer. Consequently, Lakeland Power could not provide the service. This new development now has Hydro One service with higher rates that may affect its growth. From an Economic Development perspective, this type of singular service availability is unacceptable when there is a municipally owned alternative available.

As a shareholder of Lakeland Power, I would say that a local municipally owned distribution company is extremely important as it provides an annual income stream for cash challenged municipalities such as Huntsville.

My position is that responsiveness, reliability, service and rates are essential to the commercial and industrial growth in the Town of Huntsville. I have concluded that Lakeland Power is the best and most qualified company to provide our community with cost effective and reliable electrical power.

Rationalization is not as important to the Town of Huntsville as service, reliability, competitive rates and an income stream. Accordingly, it is essential that Lakeland Power be allowed to expand into Hydro One territory within Huntsville for the benefit of business development and retention.

Al Taylor
Deputy Mayor
Municipality of the Town of Bracebridge

Experience:

Mr. Taylor is Deputy Mayor of Bracebridge and a successful business person from the automotive industry. He represented the Town of Bracebridge during its merger discussions and played a crucial role in helping to incorporate Lakeland Power.

Mr. Taylor's Comments:

The Town of Bracebridge is presently serviced by both Lakeland Power and Hydro One.

Lakeland Power is very involved in our community and assists the municipality in a number of ways such as: streetlight maintenance, festivals, local donations, engineering, tree trimming, etc.

With the appointment of an Independent Board of Directors, as the Town of Bracebridge's shareholder representative I am very pleased with Lakeland Power's success in reducing costs, providing reliable service as well as increasing its profits. At our last Annual Shareholder meeting, all shareholders, no matter what their size, voiced their satisfaction of being treated equally by Lakeland Power. Those municipalities within our shareholder group, approached by Hydro One to purchase their distribution assets, have since stated that they are very pleased that they did not sell.

Residents of Bracebridge made it loud and clear during both our expansion and merger, under no circumstances were their electricity assets be sold to Ontario Hydro.

In 1998, Bracebridge's former hydro-electric commission was able to purchase Ontario Hydro distribution territory and service more of our citizens with better reliability at lower rates.

I understand Mr. Finley's frustration at Hydro One's prohibitive rates and lack of service quality. It is important to Bracebridge and the other shareholders that Lakeland Power be cost effective and accountable.

As for any rationalization, the Ontario Energy Board must understand how important it is that the municipalities in our large geographic area have the Local Distribution Company remain in a position to be responsive to local interests. It is unacceptable to Bracebridge and the other communities to lose control over such a vital service to our communities.

CONCLUSIONS

Chris Litschko
President & CEO
Lakeland Power

Mr. Litschko's Comments

Lakeland Power has already succeeded in merging and incorporating 5 former municipal hydro-electric commissions for the benefit of shareholders and consumers in Bracebridge, Huntsville, Burks Falls, Sundridge and Magnetawan.

It is hoped that we have brought to the Ontario Energy Board's attention the geographic and environmental realities faced by electricity distributor's and outside the large urban centres. Lakeland Power does not view rationalization or a 'one size fits all' as a priority. More importantly, consumers and municipalities in our part of the province demand better service at lower rates for their growing tourist, commercial and industrial base. Lakeland Power proves every day that we are up to this challenge.

Lakeland Power remains open to limited voluntary rationalization within the Districts of Parry Sound, Almaguin, and Muskoka by merging with other local municipal utilities and by expanding into Hydro One territory, specifically in portions of the Town of Huntsville not presently serviced by Lakeland Power. This will enable more consumers to receive better service and reliability at lower rates.

To summarize our collective opinion, Lakeland Power supports further limited voluntary rationalization coupled with a reduced Hydro One distribution role.

We would like to thank the Ontario Energy Board for this opportunity to provide our expert opinion on rationalization in the electricity distribution sector.

We would be pleased to answer any questions.