



16984 Highway#12 P.O. Box 820
Midland Ontario L4R 4P4

February 11, 2004.

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

To: Peter H. O'Dell, Assistant Secretary

Re: Ontario Energy Board (OEB)
Consultation re: Further Efficiencies in the Electricity Sector
RP-2004-0020

On January 21, 2004 the Ontario Energy Board (OEB) issued a notice of consultation to further review efficiencies in the electricity distribution sector. One of the elements addressed in this notice was the consideration of further consolidation of local distribution companies (LDCs) in the Province of Ontario. There are currently 95 of these.

This letter is a submission by the Midland Power Utility Corporation (MPUC) stating the concerns of the MPUC regarding the potential negative effects of such further consolidation upon the general distribution of electricity, upon the efficiency of LDCs as they currently run and, most importantly, upon the service being provided to the customer to whom services are ultimately delivered. This summary is also intended to highlight some of the existing efficiencies currently realized and enjoyed by MPUC customers as a result of having a local distributor.

1. Existing Efficiencies Realized Through MPUC Operating as a Private Business

1. MPUC expenses have decreased 8 per cent in the year 2003 over 2002 and a further decrease in budget of 2 per cent is anticipated for the year 2004;
2. MPUC has arranged to share inventory with neighbouring LDCs;
3. MPUC has arranged with Barrie Hydro to share on-call services with the Town of Penetanguishene. MPUC provides service work and meter installations for Barrie Hydro. MPUC also provides metering services for the Tay Hydro Electric Corporation. MPUC has arranged to work co-operatively to attain economies of scale with LDCs;

4. MPUC is a member of the Cornerstone Hydro Electric Concepts Association Inc. (CHEC Group), an organization which shares resources and expenses re training and procedures in order to reduce costs per LDC and time spent by each individual LDC on these matters. Co-operative ventures have effectively reduced the administrative burden on the OEB, for example, the joint filing of “ conditions of service”;
 5. MPUC, as a matter of policy, continuously looks for more ways to gain efficiencies and reduce costs for its customers.
2. Ways in Which MPUC is in a Unique Position to Provide Efficient, Effective, Local Service
1. Response time re power outages is immediate because of MPUC's location and particularized knowledge of the residential and industrial needs of its customer base;
 2. Where service layouts and inspections are required, local electricians are able to obtain the same within a maximum of five working days of their original request;
 3. Local contractors and developers typically have new services connected within three days of the issuance of a connection permit from the Electrical Safety Authority;
 4. MPUC provides services to charitable organizations re decorative lighting installations at Christmas, and banner installations for various special occasions and events, all of which maintains, supports and solidifies the business relationship between MPUC and its customer base;
 5. Mutual knowledge of MPUC, its staff and employees of the residential, commercial and industrial communities creates solid lines of communication which are a basic requirement for efficiency during blackouts or other power irregularities;
 6. Large industrial and commercial customers can be notified by e-mail and conference call with respect to possible variations in voltage that could affect their production, ie. during the recent general power blackout in the late summer of 2003, MPUC participated in conference calls with the LDC sector in order to obtain real time information. These valuable updates were then passed along to MPUC’s industrial customers immediately, so that decisions could be made on whether shifts should be brought on or not, the timing for bringing power back on and, over the immediately following week, the process for restoring fullest electricity service.
3. Service Concerns Over Further Consolidation

1. The loss of control over customer base would, in the view of MPUC, constitute the loss of the service attributes set out in article 2 above;
 2. The quick response times referred to in article 2 are not being enjoyed by all electricity customers in the Province of Ontario. MPUC often fields calls from Hydro One customers who cannot reach Hydro One for information with respect to power blackouts or obtain written responses to their correspondence;
 3. The shareholder of MPUC is the Town of Midland, giving the municipal Council a vested interest in the provision of electricity services to voters/customers and creating a synergy between the municipality, MPUC, and customers, all of whom reside in the same municipality, toward the same goal - the efficient and safe provision of electricity. MPUC has a very real concern that any movement of the political base of ownership of the LDC to another location would, of necessity, result in less distributor based service to the users of electricity in Midland than to the users of electricity located closer to the base of ownership of any other entity;
 4. Although it may be considered by some to be a "soft" factor, the consumer desire for a local connection is a very real one and does in fact result in fewer time- consuming customer complaints and collection issues.
4. Concerns of the Shareholder (The Town of Midland)
1. Further consolidation removing MPUC from control in the Town of Midland would constitute the loss of a performing asset by the municipality;
 2. The municipality would lose a significant local employer if the MPUC were removed from the Town of Midland;
 3. A very real concern for the Town of Midland re consolidation would be the ultimate loss of potential manufacturing and industry customers who provide essential local employment to the Town of Midland. Businesses, when assessing location, look to communities which can provide reliable electrical service as one of the essential factors in making their final decision. In the event that there is no local connection between the distributor of electricity and the customers located in the Town of Midland, prospective new businesses will be reluctant to locate in a community that may be the last to be served, not only in the event of crisis, but with respect to ongoing installations, inspections and contracting work. The Town of Midland is a vital community with a broad ranged commercial and industrial sector which requires its own integrated system for the distribution of electricity and which will not effectively function as a satellite to a larger centre which simply does not have the interests of the Town of Midland and its electricity consumers as a priority;

4. Building contractors, developers and commercial electrical contractors look to the infrastructure of any community as a significant factor in making decisions as to whether to undertake significant projects. The presence of a local, informed and responsive power utility corporation is one of these factors.

5. General Considerations

1. The electricity generation and distribution system has undergone massive changes over the last five to six years. MPUC suggests that, as in any industry, for ours to have credibility it must be stable. It is suggested that now is not the time for further wholesale change;
2. The Province of Ontario elected to divest itself of full control of the production and distribution of electricity in order to take advantage of the wisdom of the free market, in other words, to let business decisions be made by businesses. This was, in part, the purpose for the creation of individual LDCs. LDCs have been given several opportunities to consolidate if they saw fit from a business point of view. They continue to be free to do so if they so wish. At this point, to create mandatory regulations compelling independent businesses who are operating on an increasingly efficient basis to consolidate, would be completely contrary to the basic theory of the original deregulation, which was to allow the efficiencies of the market to ultimately benefit all;
3. Part of the OEB's mandate and the philosophy of MPUC is that the efficient provision of electricity and customer service are primary goals. MPUC has striven to create local relationships with local businesses and residents and understand their unique needs on an ongoing basis in order to satisfy and reach these goals. This will not be possible if there are five or six large LDCs in the Province of Ontario, the centres of which are hundreds of miles away from the customers;
4. An MPUC being owned by the Town of Midland to serve the customers/voters of the Town of Midland, is contractually, politically and commercially compelled to provide good service, whereas an absentee owner/distributor would not be so compelled and could, in fact, not help but view the provision of electricity services to Midland as a secondary priority to those customers closer to its centre of operations;
5. The general argument that economies of scale are served by an increase in size is a dangerous generalization which needs to be proven in fact in each and every case before financial decisions are made on this basis. Hydro One, for example, which suffers from service difficulties, the debt retirement charge, and the inefficiencies suffered from having to serve remote locations does, in itself, disprove this case. Contrary to studies that may show that an increase in size creates cost efficiencies, the fact remains that the two largest

LDCs have the highest rates and have yet to prove those efficiencies in the new deregulated market. In fact, the efficiencies provided by an increase in size are lost by organizations and bureaucracies which become too large, creating a scenario wherein it is much more difficult to hold individuals accountable and to keep track of the use/misuse of funds for the benefit of the end users of any service. One of OEB's stated goals is to set "just and reasonable rates". The two largest LDCs in the province have the highest distribution rates;

6. Capital costs have been spent by existing LDCs based on the concept that they would continue to exist and function. It is not appropriate or statistically accurate to assess the efficiency of existing LDCs immediately after having made such capital expenditures;
7. It does not make sense to assess the efficiencies of LDCs without taking into account the bureaucratic aberrations under which they currently function. For example, LDCs are responsible for collecting 100 per cent of the debt to the system for providing electricity to end users, but are only credited with approximately 20 per cent of the revenue from these collection activities and are not credited in any meaningful way economically for this work;
8. Any proposed rationalization should only take place if it can be actually proven to make economic sense, if it can be shown to improve customer value, and if it is made on a voluntary basis by any LDC wishing to do so. This would be in keeping with the original theory of deregulation, being that businesses will make good decisions in their own self-interest. Let the efficiency of the marketplace work. MPUC is aware that there are efficiencies to be attained in the marketplace and through good business practices are working to attain these efficiencies. If rationalization is the ultimate goal, then let the marketplace be the source of those efficiencies;
9. Any change considered by the OEB should clearly be one that leads to further industry stability and does not raise further questions;
10. One of the major reasons for the OEB impetus for further consolidation is that the OEB does not wish to handle the administrative work of dealing with 95 LDCs. One practical solution to this is to simplify deregulation or to use the so-called "light handed" approach. A major efficiency could be achieved by reducing the paper/reporting work required by LDCs for multiple ad hoc (and sometimes overlapping) functions. There is no question that LDCs must be accountable, however, they could, as an alternative, report annually to their customers on important service areas and compare the same to other LDCs with respect, for example, to rates, responses to service interruptions, time to complete locates, and time to respond to information requests. Most customers do not read large compendiums of statistical information in any event, and would receive much more value from this approach.

The foregoing is a general summary of the response of the MPUC to the suggestions by the OEB that further consolidation be considered. MPUC takes the view that consolidation should be rational, and that the decision to further consolidate by any LDC should be a community based decision that in the view of the LDC and its owner will in fact achieve further economies of scale without compromising rates and the quality of the service, the provision of which is its main purpose for being.

Respectfully submitted,

David Winter, President
Midland Power Utility Corporation