

Opening Remarks
Ontario Energy Board Hearings RP-2004-0020
By
North Bay Hydro Distribution Limited

The original purpose in “deregulating” the electrical business in Ontario and many other jurisdictions all over the world was to allow natural local or state owned monolithic monopolies to operate in pseudo open market competition to the true direct and indirect benefit of those we all serve, consumers.

As communities, as a province and as a country we are all today in some way competing globally against the successes we helped build elsewhere over the last two generations. As a result North Bay over the last decade has not succeeded in growing like many of our brethren.

Our shareholder, the City of North Bay, given the opportunity deregulation gave them, created an entity whose purpose was not only to economically serve our consumers, but to do so only on a sustaining profit basis. Thus directly on behalf of our consumers, we have not taken the opportunity to maximize our return compared to many other LDCs.

Our board further perceived and envisioned our LDC and its affiliates to be a small but important economic development tool for our community which would give further direct and indirect benefits to our owners. Deregulation and what it potentially offered could not have come at a better time.

Ironically, at least for myself, is the fact that due to the simultaneous converging demands of consumers for savings in a growing litany of ever rising prices in all product categories, greater accountability within the present governance structure through our councils then when utility boards were elected every three years, and OEB rate controls and revenue freezes against rising operational costs, many LDCs had to take on the task of finding a cheaper way of doing business to not only justify their existence but to survive. Necessity is truly the mother of initiative.

What would have taken hearings, processes and felled trees for the documentation, was instead accomplished in a very short time frame. Our presentation will highlight what we have already done thus far in the spirit of the goal the last provincial government and the OEB have put before us with this new business called deregulation and the goal to provide better service and reduced rates for our consumers.

Closing Remarks

The decision to amalgamate or horizontally integrate has been tried in all other sectors of the economy, including ours. Even though most of the component decisions showed a positive benefit, the single all encompassing to expand has not always translated into greater value or reduced costs to the benefit of the ultimate shareholder, the consumer. This lack of benefit has also been evidenced in a related exercise, deregulation.

Market discipline forces a company to follow through on cost saving measures as the consumer chooses who is more efficient. However, our consumers cannot pick up the phone and ask somebody else to deliver to them electricity as we occupy a natural monopoly. For that reason we will never be exposed to real open market discipline. Through the OEB the provincial government implemented a price control mechanism in an attempt to duplicate the market forces the rest of the electrical industry was about to be at least partially or totally exposed to.

PBR1 was, however, one dimensional as it established an expected economic return on an investment made by a monopoly and an expected annual reduction in costs. It was all without context as it was uniform to all LDCs no matter where they stood relative to each other in costing. With PBR2, the regulatory mechanism is evolving but it only lightly mimics the effort that companies exposed to the open market go through to be competitive: decision making based on an analysis of what they do individually within the context of the industry.

Conditions of service are the foundation of creating such specific analysis tools. By creating detailed economic standards and in turn goals that can be compared across the industry, pseudo market discipline can be implemented and tested without the cost to the consumer of immediately merging. An initiative just illustrated.

There is more for consumers to owning an LDC than making a profit and there is more to rationalization than achieving a targeted rate of return or a ratio. Electricity and its delivery by one's own community owned LDC was one thing that consumers could always depend on. This dependence is just one of the irreducible costs to the consumer that cannot be quantified into a simple ratio or co-efficient.

We also retain our identity as a community. There is an intrinsic value to consumers to not having to call 1-800 somewhere else in the province for other utilities.

There is also value in controlling our community's future economic destiny.

That efficiencies can be expected from amalgamating LDCs is an assumption and not a fact.

By creating only a few LDCs savings will still need to be achieved. In what will in effect be an oligopoly, comparisons will be however fewer and therefore less meaningful. Codes of conduct whether written for 3, 10 or 90 LDCs still need to be written.

As the old axiom goes, there is always somebody smarter out there than you, but if there are only a few of us, that could be dangerous as organizations that become large are left to nothing but numbers to see how they rate. That “man on the street” consumer input is either lost or forgotten. Direct accountability is the most significant force any entity can face in making sure it is doing its job right.

We have been through enough change already and will just because of the new political will. Consumers, and employees need to feel confident that the earth that had moved under them for so long will not do so again any time soon.

Set the goal that needs to be achieved and let us figure out how to get there.