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February 18, 2004

Peter H. O'Dell
Assistant Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street
26th Floor
Toronto, Ontario
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Dear Mr. O'Dell;

**Re: Enersource Corporation Response to OEB Notice of a Consultation to Review Further Efficiencies in the Electricity Distribution Sector
File Number – RP – 2004-0020**

On behalf of Enersource Corporation, I want to thank you for the opportunity to offer our comments with respect to OEB Notice of Consultation to Review Further Efficiencies in the Electricity Distribution Sector.

Enersource is also responding indirectly to the consultation through the Distributor's Electricity Efficiency Policy Group (known as the "DEEP" group) and a separate submission prepared by another like-minded group of Ontario electricity distributors. This latter group including Hydro Vaughan Distribution, Hamilton Hydro, Toronto Hydro, Hydro One, Markham Hydro Distribution, Enwin and others common to the DEEP group comprise over 60% of the customer base in the province. We support fundamental recommendations of this group which include:

- Voluntary consolidation to achieve economies of scale
- Methods to attract private equity in the market
- Customer rate rationalization and performance-based rate reforms.
- Regulatory mechanisms and incentives driving market reform

In view of these related submissions, this response will focus specifically on three subject areas that we regard as essential to achieving desirable size and functionality among Ontario electricity distributions and to build investor confidence in a long-term financially viable sector, namely:

1. Consolidation and LSE functionality

We believe that considerable consolidation must yet take place among Local Distribution Companies ("LDCs") to achieve optimal size for the most cost-effective delivery of services and new responsibilities foreseen for this sector. It is our view that under an appropriate regulatory and legislative framework this can and should occur on a voluntary and commercial basis.

Consolidation is also desirable in a future market that would allow LDCs to take on the scope of responsibility demanded by the Load Serving Entity ("LSE") function. As Enersource and many stakeholders believe, LDCs are the logical and preferred entities to adopt the LSE function. Indeed, it is our view that LDCs should be granted first right of refusal to adopt this LSE role that would give distributors increasing responsibility for default supply procurement in their respective service areas.

In time, this LSE model could be achieved through a staged transition associated with an interim central buyer model for default supply.

In the present Ontario market, we believe that the desired objective to achieve significant further consolidation will not take place without other stimulation.

We therefore recommend that the Board consider actions such as allowing phased-in harmonization of rates upon consolidation, incentives and disincentives such as cost-based OEB charges and priority review of larger LDC submissions, variable productivity factors under performance-based regulation and various other means of stimulating LDC shareholders to rationalize their distribution operations voluntarily.

2. Stimulating private sector investment

For more than a decade, Enersource Corporation has been an active proponent of LDC consolidation. While significant public sector to public sector consolidation has been achieved, we believe that further consolidation can be achieved with private sector investment and this would lead to even greater efficiencies in numerous areas, including operating, administrative, customer service and capital cost savings.

Enersource, through its public and private shareholders, has pursued consolidation strategies vigorously in recent years.. and it is our view that private sector capital needs to be given an equal opportunity to participate in consolidation.

We recommend that the role of the private sector be encouraged and treated equitably with that of the public sector.

3. Clarity of policy and regulation affecting LDC rates, return and investor confidence

In recent years, there has been considerable erosion of confidence among credit rating agencies, and investors in the Ontario distribution sector. Enersource to date has been unable to provide the reasonable business expectation of a dividend to its shareholders, nor has it been permitted rate increases that would allow it to achieve the 9.88% return on equity upon which shareholder investment decisions were premised. Compounding this, those LDCs, including Enersource, which began the initial Performance Based Rate (PBR) regime with low cost structures continue to experience significant inequity.

Action must be taken to restore this confidence through increased clarity and certainty on the expectation of dividends and the regulatory construct permitting a 9.88% return for shareholders of LDC assets. Without clear definitive action on the part of both government and regulators with respect to these issues affecting the financial viability of LDCs further investment in time or money to increase the efficiency of the sector will not materialize. Furthermore, Enersource is concerned that LDCs currently delivering services and achieving reliability at levels exceeding perfomance based criterion may find it necessary to take the regressive step of wittingly reducing service quality in order to fund some amount of dividend for their shareholders.

We therefore recommend that every effort be made by the Board and government to clarify any ambiguities in policy and that the Board accelerate current schedules for distribution rate reform and consider a yardstick approach to the establishment of rates, to provide a greater incentive for high cost LDCs to find operational efficiencies.

Thank you again for an opportunity to provide these recommendations with respect to achieving further efficiencies in the electricity distribution sector. We would welcome an opportunity to provide further information on these points. If at any time I can be of assistance or answer questions please do not hesitate to contact me.

Sincerely,

Christopher Buckler
Vice President
Customer Service and Regulatory Affairs